THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

匯聚科技有限公司

TIME Interconnect Technology Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1729)

(1) EXTREME AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY; (2) PROPOSED CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF EGM

Financial advisers to the Company

財通國際融資有限公司 CAITONG INTERNATIONAL CAPITAL COMPANY LIMITED

FRONTPAGE 富比

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

首控集團 CHINA FIRST CAPITAL GROUP

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 17 to 35 of this circular. The letter from the Independent Board Committee is set out on pages 36 to 37 of this circular. The letter from the Independent Financial Adviser is set out on pages 38 to 57 of this circular, which contains its advice to the Independent Board Committee and Independent Shareholders.

A notice convening the EGM to be held at Salon Room I, L/F, Hyatt Regency Hong Kong, 18 Chak Cheung Street, Sha Tin, New Territories, Hong Kong on Wednesday, 29 April 2020 at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

30 March 2020

CONTENTS

This summary aims to provide you with an overview of the information relating to the Target Group contained in this circular and should be read in conjunction with the full text of this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision as to how you would cast your votes at the EGM in relation to the Acquisition and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed "Risk Factors" of this circular carefully before making a decision on the Acquisition.

OVERVIEW OF THE TARGET GROUP

The Target Group is a long established cable manufacturer with its manufacturing facilities located in the PRC. Founded in 1993, the Target Group has over 26 years of business operation and currently owns three and leases another industrial complexes situated in Shanghai and Kunshan City, Jiangsu Province. As at the Latest Practicable Date, the Target Group focuses on the manufacturing of different networking cables with copper as the transmission media and has an annual production capacity of approximately 4 million kft of networking cables.

The networking cable products of the Target Group are marketed and sold to large enterprises including multinational corporations and which are usually the end users, such as international networking infrastructure companies, which mainly incorporate the Target Group's products in their networking solutions services. While the Target Group sells a small proportion of its products on the Target Group's brand names, 华讯 and LINGXUN 领讯, a majority of the networking cables are sold on the OEM basis. The major suppliers of the Target Group include sellers of copper, plastic materials and cable reels.

For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Target Group recognised revenue of approximately HK$1,328,298,000, HK$1,498,697,000, HK$1,676,557,000 and HK$735,340,000 and profit for the year/period of approximately HK$26,946,000, HK$33,586,000, HK$43,953,000 and HK$22,661,000, respectively.

CUSTOMERS

The Target Group's key customers include network infrastructure providers, communications equipment manufacturers, cable management companies, and cable designers that operate globally or in the PRC.

The following table sets out a breakdown of the Target Group's revenue by geographical regions based on place of delivery:

	Year ended 31 March						Six months ended 30 September			
	2017		2018		2019		2018		2019	
	HK\$'000	*%*	*HK\$'000*	*%*	*HK\$'000*	*%*	*HK\$'000* (unaudited)	*%*	*HK\$'000*	*%*
The PRC	565,716	42.6	714,902	47.7	879,199	52.4	487,198	54.5	384,194	52.2
Singapore	139,953	10.5	167,776	11.2	185,452	11.1	83,924	9.4	72,498	9.9
Hong Kong	135,263	10.2	182,227	12.2	175,334	10.5	92,644	10.4	77,563	10.5
India	104,672	7.9	44,079	2.9	25,547	1.5	14,706	1.6	8,004	1.1
The United States	90,663	6.8	90,812	6.1	85,039	5.1	41,498	4.6	50,505	6.9
The United Kingdom	76,919	5.8	96,266	6.4	129,516	7.7	64,098	7.2	67,350	9.2
Others	215,112	16.2	202,635	13.5	196,470	11.7	110,051	12.3	75,226	10.2
Total	1,328,298	100.0	1,498,697	100.0	1,676,557	100.0	894,119	100.0	735,340	100.0

For further details, please refer to the section headed "Business of the Target Group — Customers" in this circular.

PRODUCTION AND PRODUCTS OF THE TARGET GROUP

The Target Group's principal products are various categories of networking cables, including Cat 5e, Cat 6, Cat 6A, Cat 7, Cat 7A and Cat 8 cables, which may be designed as different twisted-pair cables, such as UTP, F/UTP, S/F/UTP and SFTP. For more details, please refer to the section headed "Business of the Target Group — The Target Group's Products" in this circular. The table below sets forth the breakdown of revenue and volumes of products sold by the Target Group during Track Record Period:

	Year ended 31 March									Six months ended 30 September					
	2017			2018			2019			2018			2019		
	'000 kft	*HK\$'000*	*% of revenue*	*'000 kft*	*HK\$'000*	*% of revenue*	*'000 kft*	*HK\$'000*	*% of revenue*	*'000 kft*	*HK\$'000* (unaudited)	*% of revenue*	*'000 kft*	*HK\$'000*	*% of revenue*
Cat 5/5e cables	929	295,555	22.3	836	310,217	20.7	654	256,605	15.3	339	136,713	15.3	312	120,826	16.4
Cat 6/6A cables	1,915	913,840	68.8	1,869	1,001,464	66.8	1,879	1,035,780	61.8	901	508,009	56.8	880	476,538	64.8
Cat 7/7A cables	46	43,965	3.3	94	91,462	6.1	253	264,176	15.8	173	190,876	21.4	98	88,375	12.0
Others	53	74,938	5.6	84	95,554	6.4	65	119,996	7.1	37	58,521	6.5	26	49,601	6.8
Total	2,943	1,328,298	100.0	2,883	1,498,697	100.0	2,851	1,676,557	100.0	1,450	894,119	100.0	1,316	735,340	100.0

The Target Group has production facilities in owned (with aggregate gross floor area of approximately 68,689.10 sq.m.) and leased premises located in Shanghai and Kunshan City, Jiangsu Province, which are primarily used for production, processing, warehouse, offices, dormitory and ancillary purposes. These premises with production facilities are located at close distances and traveling time by vehicle from one factory to any other factory is usually within an hour under normal traffic condition. The table below sets out the Target Group's designed production capacity, actual production volume and utilisation rate for the periods indicated:

	Year ended 31 March			Six months ended 30 September
	2017	**2018**	**2019**	**2019**
Design annual (half year for the six months ended 30 September 2019) production capacity *(kft)*	3,873,443	4,139,016	4,036,328	2,028,787
Actual production capacity *(kft)*	2,939,819	2,951,739	2,759,508	1,335,619
Utilisation rate *(Note)*	75.9%	71.3%	68.4%	65.8%

Note: The utilisation rate equals the actual production capacity divided by the design annual production capacity.

The Target Group reviews the function and efficiency of its machinery and makes replacements regularly, which caused the slight change in design annual production capacity for the three years ended 31 March 2019 and the six months ended 30 September 2019. In addition, as there was rising trend for the production of Cat 6 and Cat 7 cables, machinery were adjusted and added for this purpose and some machinery for production of Cat 5 cables were replaced. Generally, it takes more time to produce Cat 7 cables than Cat 6 and Cat 5 cables, hence the actual production capacity in terms of length of cables reduced in the year ended 31 March 2019 due to the significantly more production orders for Cat 7 cables. The utilisation rate of the Target Group decreased slightly to 65.8% for the six months ended 30 September 2019 due to the economic uncertainties which significantly affected the sales orders received from the customers. For details of the Target Group's production, please refer to the section headed "Business of the Target Group — Production" in this circular.

SUPPLIERS

Raw materials for the Target Group's products are primarily copper, insulating materials, sheath materials such as PVC and packaging materials including cable reels. For the three years ended 31 March 2019 and the six months ended 30 September 2019, the total cost of raw materials accounted for 86.3%, 86.2%, 86.4% and 85.2% of the total cost of goods sold of the Target Group, respectively. During the Track Record Period, around 66% to 72% of the cost of raw materials was attributable to copper, and around 20% to 23% of cost of raw materials was attributable to plastic materials. Price of copper, as a commodity, was relatively volatile during the Track Record Period, and was relatively higher during the year ended 31 March 2018 and lower during the year ended 31 March 2017.

The Target Group sources its raw materials from over 250 suppliers in the PRC, the United States, Hong Kong and other countries. The Target Group has procedures to select suppliers based on a set of criteria, including but not limited to track record, product quality, past relationship, price of the products, timeliness of delivery, financial strengths, and acceptable after-sales services. The suppliers may be required to source their raw materials from specified vendors.

For further details, please refer to the section headed "Business of the Target Group — Procurement and Suppliers"in this circular.

COMPETITIVE STRENGTHS

The Target Group's competitive strengths include the following:

- established operating history and proven track record
- strong research and development capability and supplies a wide range of networking cables
- experienced and professional management team

BUSINESS STRATEGIES

The Target Group plans to pursue the following strategies:

- expand customer list
- increase product offering

SUMMARY OF FINANCIAL INFORMATION

Highlights of combined statements of profit or loss and other comprehensive income

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	1,328,298	1,498,697	1,676,557	894,119	735,340
Gross profit	196,851	211,515	229,018	122,574	106,593
Profit before taxation *(Note)*	51,887	43,257	56,957	41,348	26,725
Profit for the year/period *(Note)*	26,946	33,586	43,953	30,922	22,661
Profit (loss) for the year/period attributable to owners of the Target Company					
— from continuing operation	40,844	33,159	43,460	30,508	22,384
— from discontinued operation	(14,666)	—	—	—	—
	26,178	33,159	43,460	30,508	22,384
Profit for the year/period attributable to non-controlling interest					
— from continuing operation	768	427	493	414	277
	768	427	493	414	277
	26,946	33,586	43,953	30,922	22,661

Note:

Profit before taxation and profit for the year/period include the financial performance of Linkz Ind Tech as well as certain bank charges and finance costs related to bank borrowings obtained by Linkz International, which were utilised by the Vendor's other subsidiaries not forming part of the Target Group. For details of the adjusted profit before taxation and adjusted profit for the year/period, which exclude the abovementioned items, please refer to the section headed "Letter from the Board — Information on the Parties — Financial Information" in this circular.

Highlights of combined statements of financial position

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	618,866	691,513	595,121	507,725
Current assets	1,087,537	1,415,535	1,611,228	1,953,172
Current liabilities	1,133,367	1,344,269	1,574,930	1,888,994
Net current (liabilities) assets	(45,830)	71,266	36,298	64,178
Non-current liabilities	23,054	215,085	83,455	9,523
Net assets	549,982	547,694	547,964	562,380

Highlights of combined statements of cash flows

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net cash from (used in) operating activities	62,262	(25,385)	148,429	207,386	280,974
Net cash used in investing activities	(69,322)	(220,806)	(234,089)	(327,341)	(652,922)
Net cash (used in) from financing activities	(33,331)	317,056	74,541	23,834	330,824
Net (decrease) increase in cash and cash equivalents	(40,391)	70,865	(11,119)	(96,121)	(41,124)

For details of the financial information of the Target Group and its basis of preparation, please refer to Appendix II to the Accountants' Report on the Target Group in this circular.

Summary of key financial ratios

	As at or for the year ended 31 March			As at or for the six months ended 30 September
	2017	2018	2019	2019
Gross profit margin	14.8%	14.1%	13.7%	14.5%
Net profit margin	2.0%	2.2%	2.6%	3.1%
Current ratio	1.0	1.1	1.0	1.0
Quick ratio	0.8	0.8	0.9	0.9
Gearing ratio	161.1%	236.1%	254.0%	299.0%
Net debt to equity ratio	142.2%	199.2%	223.6%	278.2%
Return on equity	4.8%	6.2%	8.0%	8.1%
Return on total assets	1.6%	1.6%	2.0%	1.8%
Interest coverage	2.7 times	2.0 times	1.9 times	1.8 times

For details on the formula of the key financial ratios, please refer to the section headed "Financial Information of the Target Group — Key financial ratios" in this circular.

RISK FACTORS

There are certain risks involved in the Target Group's operations and in connection with the Acquisition: (i) risks relating to the Acquisition; (ii) risks relating to the business of the Target Group; (iii) risks relating to the industry in which the Target Group operates; (iv) risks relating to conducting business in the countries where the Target Group operates; and (v) risks relating to this circular. A detailed discussion of the risk factors is set forth in the section headed "Risk factors relating to the Target Group" in this circular.

CONTINUING CONNECTED TRANSACTIONS

Upon Completion, sales and purchases of networking cables or cable assemblies between the Group and the Target Group will no longer be subject to the connected transactions requirements under the Listing Rules. On 24 March 2020, the Target Group and the Vendor entered into the Proposed Continuing Connected Transactions, including (i) the office sharing costs paid by the Target Group to the Vendor; and (ii) the provision of office administrative support, information technology support and/or other services to the Target Group by the Vendor, which will be effective upon Completion. After Completion, the Proposed Continuing Connected Transactions carried out by the Target Group (as part of the Enlarged Group) will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will be subject to applicable or exemption of connected transactions requirements under the Listing Rules. For details, please refer to the sections headed "Continuing Connected Transactions" and "Relationship with the Controlling Shareholders" in this circular.

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"2019 June NAV"	the unaudited net assets value of the Target Group as at 30 June 2019 based on the unaudited management accounts of the Target Group, including the net assets value of the Assets and Liabilities as at 30 June 2019
"Acquisition"	the acquisition of the Sale Shares and the Sale Loan as contemplated under the S&P Agreement
"Announcement"	the announcement of the Company dated 24 March 2020 in relation to the Acquisition and the Proposed Continuing Connected Transactions
"Assets and Liabilities"	certain assets and liabilities of Linkz International relating to its business of trading in networking cables, mainly comprised of the property, plant and equipment, trade and other receivables, inventories, trade and other payables, customer lists, supplier lists, business records and intellectual properties to be transferred to the Target Group upon completion of the Reorganisation
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"business day(s)"	any day(s) except Saturday, Sunday or public holiday on which banks are open in Hong Kong to the general public for business
"BVI"	the British Virgin Islands
"Caitong International Capital"	Caitong International Capital Co., Limited (財通國際融資有限公司), a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Chairman"	the chairman of the Board
"Chief Executive Officer"	the chief executive officer of the Company
"Company"	Time Interconnect Technology Limited (匯聚科技有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	the completion of the Acquisition pursuant to the terms and conditions of the S&P Agreement

"Completion Date"	the date of Completion, which shall take place on the tenth business days after the issue of the notice by the Company that the last of the conditions precedent under the S&P Agreement has been satisfied, or any other date as the Vendor and the Company may agree
"Completion NAV"	the aggregate of (i) consolidated net assets value of the Target Group; (ii) the fair value gain of the Properties over their book value; and (iii) the Sale Loan as at the Completion Date
"Completion Valuation Report"	the valuation report to be issued by an independent qualified surveyor acceptable to the Company and the Vendor to report on the market value of the Properties as at the Completion Date
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the purchase price of the entire issued share capital of the Target Company and the Sale Loan initially determined at HK$802,679,700 payable by the Company to the Vendor for the Acquisition, subject to adjustment in accordance with the S&P Agreement
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"CRI"	China Research and Intelligence Co., Ltd (上海元哲信息諮詢有限公司), a company established in China, being an Independent Third Party and a professional market research company
"CRI Report"	the market research report commissioned by the Company and prepared by CRI in relation to the industry development trends, market demand and competitive landscape of the networking cable industry in the PRC, the content of which is disclosed in this circular
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the S&P Agreement, the Acquisition and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition upon Completion
"Financial Adviser(s)"	Caitong International Capital and Frontpage

"Frontpage"	Frontpage Capital Limited (富比資本有限公司), a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"GFA"	gross floor area
"Group"	the Company and its subsidiaries
"HIBOR"	Hong Kong Interbank Offered Rate
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"Hover (Kunshan)"	Hover (Kunshan) Electronic Material Co., Ltd. (豪和(昆山)電子材料有限公司), a company established in the PRC with limited liability and registered and paid-up capital of HK$30,000,000
"Hover Manufacturing"	Hover Manufacturing Company Limited (豪和製造有限公司), a company incorporated in Hong Kong with limited liability and issued and paid-up capital of HK$8,000,000
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Ho Hin Shun, Mr. Luk Wai Shing and Mr. Chan Chung Shun Eric, being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the S&P Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are entitled to attend and vote at the EGM, other than: (i) the Vendor and its associates; and (ii) all other Shareholders (if any) who are involved or interested in the Acquisition
"Independent Financial Adviser"	First Capital International Finance Limited (首控國際金融有限公司), a licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition

"Independent Third Party(ies)"	individual(s) or company(ies) who or which as far as the Directors are aware after having made all reasonable enquiries is/are not connected with the Company and its connected persons
"kft"	kilo-feet
"Kunshan Deqin"	Kunshan Deqin Machinery Limited* (昆山市德勤機械有限公司), a company established in the PRC with limited liability and registered and paid-up capital of RMB10,000,000
"Latest Practicable Date"	24 March 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Linkz (HK)"	Linkz (HK) Limited (華迅香港有限公司), a company incorporated in Hong Kong with limited liability and issued and paid-up share capital of HK$10,000,000
"Linkz (Shanghai)"	Linkz Industries (Shanghai) Limited (領迅電線工業(上海)有限公司), a company established in the PRC with limited liability and registered and paid-up capital of US$15,000,000
"Linkz Ind Tech"	Linkz Industries Technology Limited (華迅工業科技有限公司), a company incorporated in Hong Kong with limited liability and issued and paid-up share capital of HK$10,000
"Linkz Ind (Suzhou)"	Linkz Industries (Suzhou) Limited (華迅工業(蘇州)有限公司), a company established in the PRC with limited liability and registered and paid-up capital of US$30,000,000
"Linkz International"	Linkz International Limited (領先工業國際有限公司), a company incorporated in Hong Kong with limited liability and issued and paid-up share capital of HK$2,000,000
"Linkz Technology"	Linkz Technology Limited (領先工業科技有限公司), a company incorporated in Hong Kong with limited liability and issued and paid-up share capital of HK$10,000
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time

"Long Stop Date"	30 June 2020
"Mr. Paul Lo"	Mr. Lo Chung Wai Paul, a non-executive Director, the Chairman and a Controlling Shareholder of the Company
"NAV"	net assets value
"Nickson Holdings"	Nickson Holdings Limited, a company incorporated under the laws of the BVI with limited liability, a Controlling Shareholder of the Company and is wholly owned by Mr. Paul Lo
"Post Completion Accounts"	the audited consolidated financial statements of the Target Group comprising the audited consolidated profit and loss account for the period from 31 March 2019 to the Completion Date and the audited consolidated balance sheet as at the Completion Date
"PRC" or "China"	the People's Republic of China, which for the purpose of this circular shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Adviser"	Shu Jin Law Firm, the legal adviser as to PRC laws of the Company
"Preliminary Valuation"	the fair market value of the Properties as at 30 June 2019 stated in the preliminary property valuation report of the Properties prepared by an independent firm of qualified surveyors in Hong Kong engaged by the Company
"Properties"	the land use rights of three parcels of industrial land and the properties erected thereon which are legally owned by the Target Group and located at (i) No.5 Luopu Road, Anting Town, Jiading District, Shanghai, the PRC, (ii) No.88 Huaxun Road, Huaqiao Town, Kunshan City, Jiangsu Province, the PRC, and (iii) No.910, Ji Ming Tang Nan Road, Hua Qiao Town, Kunshan City, Jiangsu Province, the PRC
"Proposed Continuing Connected Transactions"	the transactions between the Target Group and the Vendor which will constitute continuing connected transactions of the Company upon Completion
"Reorganisation"	the reorganisation of the Target Group to be implemented before Completion, a summary of which is set out in the section headed "Letter from the Board — Reorganisation" in this circular

"Reorganisation Memorandum"	the reorganisation memorandum setting out the steps involved in restructuring the Group to achieve the corporate structure of the Target Group at Completion
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"S&P Agreement"	the conditional sale and purchase agreement dated 24 March 2020 entered into between the Company and the Vendor in relation to the Acquisition
"Sale Loan"	the shareholder's loan owed by the Target Group to the Vendor at Completion
"Sale Shares"	the entire issued share capital of the Target Company at Completion
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	the ordinary share(s) of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"sq.m."	square metre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	Linkz Cables Limited (華迅電纜有限公司), a company incorporated under the laws of the BVI with limited liability and an issued share capital of US$50,000
"Target Group"	the Target Company and its subsidiaries after the implementation of the Reorganisation, namely Linkz Ind (Suzhou), Linkz Technology, Linkz (Shanghai), Linkz (HK), Hover Manufacturing, Hover (Kunshan) and Kunshan Deqin
"Time Holdings"	Time Interconnect Holdings Limited, a company incorporated in the BVI with limited liability, a Controlling Shareholder of the Company and is wholly owned by the Vendor
"Track Record Period"	the period comprising the three financial years ended 31 March 2019 and the six months ended 30 September 2019
"United States" or "U.S."	the United States of America

"US$"	United States Dollars, the lawful currency of the United States
"Vendor" or "Linkz Industries"	Linkz Industries Limited, a company incorporated under the laws of Hong Kong with limited liability and a Controlling Shareholder of the Company
"WFOE"	Wholly Foreign Owned Enterprise in the PRC
"%"	per cent

*In this circular, if there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC government authorities or the PRC entities and their English translation, the Chinese version shall prevail. English translations of official Chinese names are marked with * and for identification purposes only.*

Unless the context requires otherwise, amounts in RMB in this circular have been translated into HK$ at the rate of RMB1 = HK$1.1. No representation is made that any amounts in HK$ and RMB have been or could be converted at the above rate or at any other rates or at all.

This glossary contains explanations of certain terms used in this circular in connection with the Enlarged Group and its business. These terms and their meanings may not always correspond to standard industry meanings or usage of these terms.

"5G"	an acronym for fifth generation of mobile communication standards
"big data"	a data set that is too large and complex to be processed by traditional database management technologies and tools, and that requires the use of new data processing and management technologies in order to create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informationisation, smart applications and business models of society
"bit"	the basic unit of information in computing and digital communication
"B2B"	business-to-business, a business model where one business makes a commercial transaction with another, in contrast with retailing (business-to-customer)
"CAGR"	compound annual growth rate
"Ethernet"	a family of computer networking technologies commonly used in LANs and WANs
"FTP"	foiled twisted pair cables, designed and constructed with a twisted pair or multiple twisted pairs of cores with an overall foil tape shield wound around the assembly with improved reduction against cross–talk and electromagnetic interference
"GB"	gigabyte, a measure of computer data storage capacity that is roughly equivalent to 1 billion bytes
"Gbps"	gigabits per second, presenting billions of bits per second and commonly used as a measure of bandwidth on a digital data transmission medium such as networking cables
"internet-of-things" or "IOT"	a massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the internet with the aim of connecting all things to the network for easy identification and management

"ISO"	an acronym for a series of quality management and quality assurance standards published by International Organizations for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"LAN(s)"	local area network(s), a group of computers and peripheral devices that share a common communications line or wireless link to a server within a distinct geographic area
"LED"	light-emitting diode, a semi-conductor light sources that is used for lighting and illumination
"Mhz"	megahertz, one million cycles per second, used to measure the transmission speed of the networking cable
"OEM"	original equipment manufacturer, refers to a business model that the manufacturer makes parts or subsystems that are used in another company's products
"UTP"	unshielded twisted pair cable, a type of copper cabling used in telephone wiring and LANs
"WAN(s)"	wide area network(s), a geographically distributed private telecommunications network that interconnects multiple LANs

匯聚科技有限公司
TIME Interconnect Technology Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1729)

Executive Directors:
Mr. Cua Tin Yin Simon *(Chief Executive Officer)*
Mr. Wong Chi Kuen

Non-executive Director:
Mr. Lo Chung Wai Paul *(Chairman)*

Independent non-executive Directors:
Mr. Ho Hin Shun
Mr. Luk Wai Shing
Mr. Chan Chung Shun Eric

Registered office:
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Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 601, Photonics Centre
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Hong Kong Science Park
Shatin, Hong Kong

30 March 2020

To the Shareholders

Dear Sir or Madam,

(1) EXTREME AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY; (2) PROPOSED CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF EGM

INTRODUCTION

References are made to the announcement of the Company dated 5 July 2019 and the Announcement.

On 24 March 2020 (after trading hours), the Company entered into the S&P Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, (i) the Sale Shares, being the entire issued share capital of the Target Company upon completion of the Reorganisation; and (ii) the Sale Loan, at the total initial Consideration of HK$802,679,700, subject to an adjustment mechanism as stipulated in the S&P Agreement.

The Listing Committee has resolved that the Acquisition, and as announced by the Company on 24 March 2020, constitutes an extreme transaction. Accordingly, the Acquisition is subject to the reporting, announcement, circular and shareholders' approval requirements under the Listing Rules and the enhanced disclosure and due diligence requirement applicable to an extreme transaction.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the letter of recommendation of the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) further details of the Proposed Continuing Connected Transactions; (v) further information of the Target Group; (vi) the financial information on the Group and the Target Group; (vii) the unaudited pro forma financial information of the Enlarged Group; (viii) the valuation report in respect of the Properties prepared by RHL Appraisal Limited (an independent professional property valuer) as set out in Appendix IV to this circular; (ix) other information required under the Listing Rules and/or by the Stock Exchange in relation to enhanced disclosure; and (x) the notice to convene the EGM.

THE S&P AGREEMENT

Set out below are the principal terms of the S&P Agreement:

Date: 24 March 2020

Parties:
(i) the Company as purchaser;

(ii) the Vendor as vendor; and

(iii) Nickson Holdings and Mr. Paul Lo (as warrantors).

As at the Latest Practicable Date, the Vendor, which is ultimately and beneficially owned by Mr. Paul Lo as to 59.82% of its effective interest, is a Controlling Shareholder of the Company interested in 63.86% of the Company through Time Holdings. As such, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be acquired

Pursuant to the S&P Agreement, the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, (i) the Sale Shares; and (ii) the Sale Loan, subject to the terms and conditions of the S&P Agreement. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Company. For detailed information on the Target Group, please refer to the paragraph headed "Information on the Target Group" below.

Consideration

The Consideration is initially determined at HK$802,679,700, being a discount of 5% to the sum of (i) approximately HK$713,456,000 for the consideration for the acquisition of the Sale Shares calculated based on (1) 2019 June NAV of approximately HK$419,466,000, which takes into account the net assets value of the Target Group as well as the Assets and Liabilities and excludes any assets and liabilities not relating to the Target Group's networking cable business; and (2) the fair value gain of approximately HK$293,990,000 of the Properties with reference to the difference in the market value of the Properties as at 30 June 2019 given by the Preliminary Valuation and their respective book value as at 30 June 2019 in the respective accounts of the Target Group; and (ii) the Sale Loan of approximately HK$131,470,000 as at 30 June 2019, representing all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor as at 30 June 2019.

The initial Consideration will be payable by the Company to the Vendor in cash 10 business days after the Completion. Based on initial discussion with four leading banks in Hong Kong, HK$700 million of the Consideration will be financed by club deal coordinated among these leading banks and the remaining approximately HK$103 million of the Consideration will be financed by internal resources of the Group and possible equity financing by way of placing of new Shares to not less than six independent investors pursuant to the general mandate granted to the Directors at the Company's annual general meeting on 28 August 2019. According to the latest status of the negotiations with the arranging banks of the club deal and according to the indicative term sheet, a term loan facility in the amount of HK$700 million shall be made available to the Group which will have a maturity of 4 years and carry an interest rate of applicable HIBOR plus an agreed margin per annum with a total estimated finance costs (including the transaction costs) of approximately HK$80.8 million. The term loan, which will be available within three months from the date of signing of the facility agreement, will be guaranteed by the Group and the Target Group jointly and severally. The term loan will be repaid by quarterly instalments throughout the loan period and the Group expects to repay the instalments by self-generated cash of the Enlarged Group. With reference to the unaudited pro forma financial information set out in Appendix III to this circular, assuming the Completion took place on 1 April 2018, the Enlarged Group generated a combined net cash inflow from its operations of approximately HK$268.1 million for the year ended 31 March 2019, which is expected to be sufficient for the repayment of the maximum annual instalments of the club deal during the loan period of approximately HK$216.7 million based on the current interest rate. Hence, the Directors believe the Enlarged Group is able to and it is the plan of the Enlarged Group to generate sufficient funds from operations to repay the club deal after the Completion. The issue of new Shares under the general mandate will not result in a change of control of the Company and save for such issue, the Company will not issue further new Shares for the purpose of settling the Consideration. The Company will negotiate with potential underwriters and/or investors for the issue of new Shares. As at the date of this circular, no binding agreement has been reached as to the price and number of Shares to be issued. The net proceeds from the initial public offering of the Company raised in February 2018 will not be used to finance the Acquisition.

Adjustment to Consideration

Pursuant to the S&P Agreement, the initial Consideration is subject to adjustment. Within two months following Completion, the Company shall deliver the (i) Post Completion Accounts; and (ii) Completion Valuation Report to the Vendor, by reference to which adjustment shall be made to the Consideration. The Company shall appoint its auditors (or other qualified public accountants firm acceptable to or agreed by the Company and the Vendor) as soon as practicable to prepare the Completion NAV within 10 business days from the finalisation of the Post Completion Accounts.

In case 95% of the Completion NAV, which is the aggregate of (a) the consolidated net assets value of the Target Group as at the Completion Date; (b) the fair value gain of the Properties over their book value as at the Completion Date; and (c) the Sale Loan:

(i) shall exceed the initial Consideration, the Company shall pay the excess amount on a dollar-for-dollar basis in cash to the Vendor within 10 business days from the finalisation of the Completion NAV; or

(ii) shall be less than the initial Consideration, the Vendor shall refund the shortfall on a dollar-for-dollar basis in cash to the Company within 10 business days from the finalisation of the Completion NAV.

The final Consideration represents a discount of 5% to the Completion NAV and is determined between the Company and the Vendor after arm's length negotiations, and is based on, among other things, (i) the consolidated net assets value of the Target Group as at the Completion Date; (ii) the market value of the Properties; (iii) the Sale Loan; (iv) business and financial performance of the Target Group in the recent years; and (v) the future prospect of the 5G markets and the telecommunication industry and the benefits that can be brought to the Group by integrating the Target Group's networking cable business.

In determining the Consideration, the price-to-earnings ratio ("**PE ratio**") of the Target Group and the Group was also compared for reference. Given that part of the finance costs were related to bank borrowings which were utilised by the Vendor's other subsidiaries not forming part of the Target Group, the Target Group's PE ratio would be approximately 10.5 times if such finance costs were excluded. Such PE ratio would further be adjusted to approximately 6.7 times as excluded the property valuation of the Target Group, which is similar to the Group's PE ratio of approximately 7.8 times as calculated by using one-year average share price.

Taking into account the above-mentioned, the Directors (including the independent non-executive Directors who express their view after considering the advice from the Independent Financial Adviser) consider that the Consideration is fair and reasonable and on normal commercial terms and the entering into the S&P Agreement is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Unless otherwise agreed by the Vendor and the Company in writing, Completion is conditional upon the following conditions precedent being satisfied on or before the Long Stop Date:

(a) the Company having obtained all necessary corporate authorisations including board resolutions and Independent Shareholder's resolutions approving the S&P Agreement and the transactions contemplated under the S&P Agreement;

(b) the Vendor having obtained all necessary corporate authorisations including board resolutions and shareholder's resolutions approving the S&P Agreement and the transactions contemplated under the S&P Agreement;

(c) the Reorganisation having been completed in accordance with the terms set out in the Reorganisation Memorandum and Schedule 8 to the S&P Agreement, as amended or varied with the express written consent of the Company;

(d) each of the representations and warranties made by the Vendor in the S&P Agreement remaining true and accurate in all material respects at the Completion Date;

(e) the legal and financial due diligence on the business and operations of the Target Group and the Properties by or on behalf of the Company having completed to the satisfaction of the Company;

(f) the Company and the Vendor having obtained all necessary regulatory approvals, consents and certificates required pursuant to all applicable laws, statutes, regulations or ordinances and all necessary approvals, licenses, authorisations, consents, waivers or notifications necessary from third parties, governmental or regulatory authorities in the PRC, Hong Kong, the BVI and the Cayman Islands in connection with the transactions required to be obtained having been granted and in effect;

(g) the Company having obtained a term loan facility made available to the Group with arranging banks of a club deal in connection with the S&P Agreement and the transactions contemplated herein; and

(h) the Company having obtained all necessary regulatory approvals, consents and certificates required under the Listing Rules and the Stock Exchange's approval on and clearance for the S&P Agreement and the transactions contemplated under the S&P Agreement.

If any of the conditions is not satisfied on or before the Long Stop Date, then, unless otherwise agreed in writing between the parties, the S&P Agreement and the terms and conditions hereof will immediately and automatically terminate, in which case, no party to the S&P Agreement shall have any further obligations or liabilities under or arising from the S&P Agreement.

Completion

Completion shall take place on the tenth business day (or on such other day as the Vendor and the Company may agree in writing) following the notice issued by the Company to the Vendor informing the satisfaction of all the conditions precedent in the S&P Agreement. As at the Latest Practicable Date, save for the completion of the deregistration of Linkz Ind Tech on 3 January 2020 as part of the Reorganisation as mentioned in condition (c) above, none of the conditions precedent has been fulfilled.

Continuing connected transactions

Upon Completion, sales and purchases of networking cables or cable assemblies between the Group and the Target Group will no longer be subject to the connected transactions requirements under the Listing Rules. On 24 March 2020, the Target Group and the Vendor entered into the Proposed Continuing Connected Transactions, including (i) the office sharing costs paid by the Target Group to the Vendor (the "**Property Sharing Agreement**"); and (ii) the provision of office administrative support, information technology support and/or other services to the Target Group by the Vendor (the "**Administrative Services Agreement**"), which will be effective upon Completion. After Completion, the Proposed Continuing Connected Transactions carried out by the Target Group (as part of the Enlarged Group) will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will be subject to applicable or exemption of connected transactions requirements under the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Property Sharing Agreement are required to be aggregated with the transactions under the existing property sharing arrangements between the Group and the Vendor contemplated under the existing property sharing agreement (the "**Existing Property Sharing Agreement**") (which are also continuing connected transactions for the Company). As each of the applicable percentage ratios (other than the profits ratio) in respect of the total annual sharing costs under the Property Sharing Agreement and the Existing Property Sharing Agreement will be less than 5%, the transactions contemplated under the Property Sharing Agreement and the Existing Property Sharing Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Administrative Services Agreement are required to be aggregated with the transactions under the existing administrative services agreement between the Group and the Vendor (the "**Existing Administrative Services Agreement**") (which are also continuing connected transactions for the Company). As the administrative fees are identifiable and allocated to the Enlarged Group by the Vendor on a fair and equitable basis, the transactions contemplated under the Administrative Services Agreement and the Existing Administrative Services Agreement will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. THE PROPERTY SHARING AGREEMENT

Date: 24 March 2020

Parties: the Target Company and the Vendor

Principal terms: Pursuant to the Property Sharing Agreement, the Target Group shares a portion of the Vendor's Hong Kong office and continues to pay annual sharing costs to the Vendor, for a term commencing from the Completion Date and ending on 31 March 2023.

Pricing policy: The annual sharing costs were determined after arm's length negotiations between the relevant parties with reference to the prevailing market rates of local properties in the neighbourhood with a similar scale and quality and the Target Group will also obtain listings of other acceptable office premises. The Target Group will compare such information to decide whether the quotation offered by the Vendor is no less favourable than those given by the real estate agent and whether the office sharing terms will continue to be fair and reasonable.

Reasons for the transaction: The Target Group had been sharing a portion of the Hong Kong office of the Vendor for use as headquarter since 1994 and does not have any plan to relocate its present headquarter shared with the Vendor.

Historical amounts:

	HK$'000
Year ended 31 March 2017	2,638
Year ended 31 March 2018	3,000
Year ended 31 March 2019	1,536
Six months ended 30 September 2019	768

Annual caps: Together with the Existing Property Sharing Agreement between the Group and the Vendor, the annual sharing costs payable by the Enlarged Group to the Vendor shall not exceed HK$3,036,000, HK$3,236,000 and HK$3,436,000 for the years ending 31 March 2021, 2022 and 2023, respectively.

Basis of caps: The annual caps were determined based on the historical transaction amounts between the Target Group and the Vendor taking into account the pricing policy of the Target Group as stated above and the prevailing market rates of the same or similar properties in the same locality.

2. THE ADMINISTRATIVE SERVICES AGREEMENT

Date: 24 March 2020

Parties: the Target Company and the Vendor

Principal terms: Pursuant to the Administrative Services Agreement, the Vendor will continue to provide services in ancillary to the office sharing arrangement under the Property Sharing Agreement, which includes office administrative support, information technology support and/or other services to the Target Group for a term commencing from the Completion Date and ending on 31 March 2023.

Pricing policy: The administrative services fees charged were determined on a cost basis whereby the costs are identifiable and are allocated to the parties and calculated based on actual consumption and/or the time spent by the staff on the provision of relevant services.

Reasons for the transaction: Given the Target Group had been sharing a portion of the Hong Kong office of the Vendor under the Property Sharing Agreement, the administrative arrangements between the Target Group and the Vendor as contemplated under the Administrative Services Agreement further enables the Target Group to enjoy cost saving by sharing the administrative costs of the Vendor and enhance operational convenience.

Historical amounts:

	HK$'000
Year ended 31 March 2017	10,710
Year ended 31 March 2018	11,250
Year ended 31 March 2019	5,664
Six months ended 30 September 2019	2,832

The decrease in historical amount for the year ended 31 March 2019 as compared to that for 2018 was due to the discontinuing of the management fee charged by the Vendor as a result of the management restructuring of the Target Group such that wages of the management of the Target Group are borne by itself instead of the Vendor. Previously, the management fee was charged by the Vendor for its central management services provided to the Target Group and other business units of the Vendor.

Annual caps: Together with the Existing Administrative Services Agreement between the Group and the Vendor, the annual administrative services fees payable by the Enlarged Group to the Vendor shall not exceed HK$10,543,000, HK$11,014,000 and HK$11,484,000 for the years ending 31 March 2021, 2022 and 2023, respectively.

Basis of caps: The annual caps were determined based on the historical transaction amounts between the Target Group and the Vendor taking into account the pricing policy of the Target Group as stated above and the estimation of rising costs due to inflation.

Reorganisation

Currently, certain companies owned by the Target Group have little or no operations and the Company does not intend to acquire such companies. Further, Linkz International serves as the Vendor's intra-group treasury function and obtains bank borrowings for the Vendor's other businesses, Linkz International will not be included in the Target Group but its assets and liabilities relating to the networking cable business, which comprised mainly its property, plant and equipment, trade and other receivables, inventories, trade and other payables, customer lists, supplier lists, business records and intellectual properties, will be transferred to the Target Group as part of the Reorganisation. Pursuant to the S&P Agreement, the Vendor and the Target Company shall undertake and complete the Reorganisation in accordance with the terms set out in the Reorganisation Memorandum prior to Completion. The principal steps of the Reorganisation will involve:

1. Deregistration of Linkz Ind Tech by the Target Company;

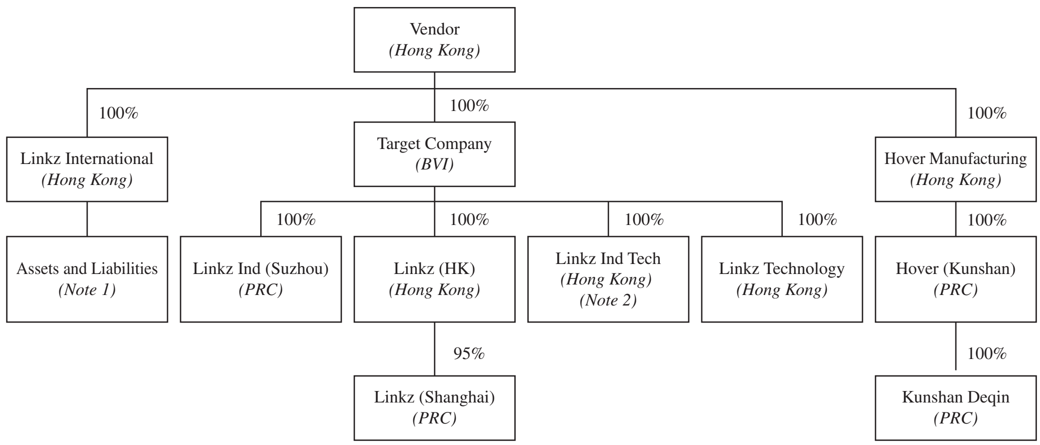
2. Transfer of the entire issued share capital of Hover Manufacturing from the Vendor to the Target Company; and

3. Transfer of the business of trading of networking cables conducted by Linkz International to the Target Group by way of transfer of the Assets and Liabilities to Linkz Technology.

Upon completion of the Reorganisation, the Target Company will become the holding company of the subsidiaries comprising the Target Group.

The following charts illustrate the shareholding structure of the Target Group before and after the Reorganisation and the shareholding structure of the Target Group upon Completion:

(I) Shareholding structure of the Target Group as at the Latest Practicable Date

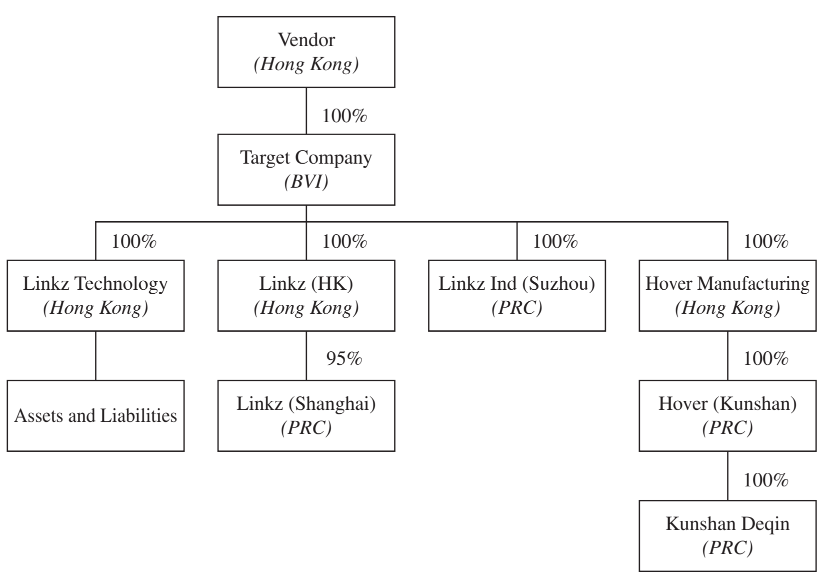


Notes:

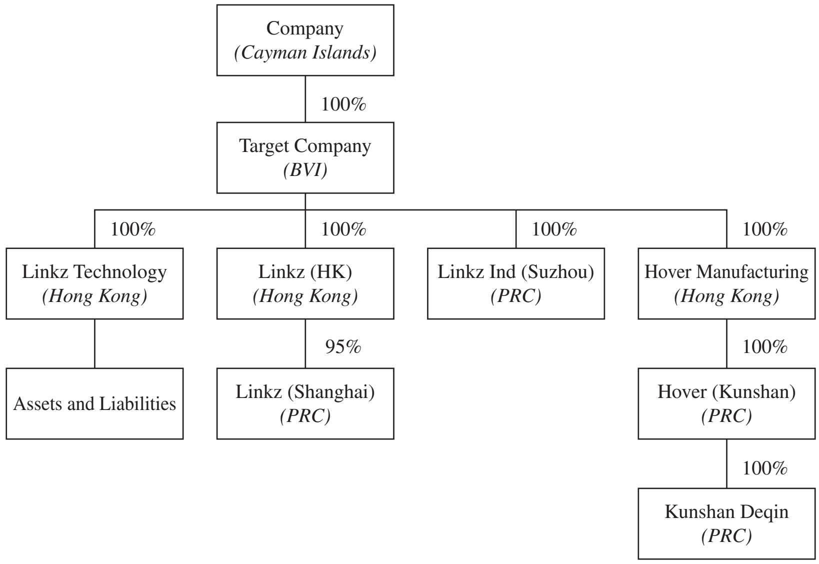
1. The Assets and Liabilities mainly comprise the property, plant and equipment, trade and other receivables, inventories, trade and other payables, customer lists, supplier lists, business records and intellectual properties of Linkz International. According to the Vendor, Linkz International has a subsidiary in the United States which has ceased to have operations.

2. As at the Latest Practicable Date, Linkz Ind Tech has been deregistered.

(II) Shareholding structure of the Target Group immediately upon completion of the Reorganisation but prior to Completion



(III) Shareholding structure of the Target Group immediately upon Completion



INFORMATION ON THE PARTIES

Information on the Group

The Company and its subsidiaries are principally engaged in the manufacturing and sales of cable assembly products.

Information on the Vendor

The Vendor is a limited liability company incorporated in Hong Kong, which, with its group of subsidiaries, are engaged in the manufacturing and sales of a range of products including networking cables, LED video display screens as well as leasing of LED video display screens. The LED business is considered to be clearly delineated from the businesses of the Target Group and the Group as (i) the types of products manufactured are totally different and thus the customer base is clearly distinct; (ii) except for certain cable assembly products as produced by the Group may be applied to the LED products in accordance with the specifications and requirements, different raw materials are used for the production and hence the suppliers are clearly distinct; (iii) different technical know-hows are applied in the production process; and (iv) notwithstanding that Mr. Paul Lo and Mr. Sy Yuk Tsan hold certain directorships in the Target Group, the Group and the LED business, they are only involved in high-level decision making process, the LED business of the Vendor has an independent management team responsible for the daily operations. After the Completion, such LED business will continue to be carried out by the Vendor.

As at the Latest Practicable Date, the shareholding structure of the Vendor is as follows:

Name of shareholder	Approximate shareholding percentage
Mr. Paul Lo	39.68%
GP Industries	38.13%
Nickson Holdings	20.14%
Mr. Cua Tin Yin Simon	1.09%
Mr. Sy Yuk Tsan	0.72%
Mr. Li Ping Kuen	0.09%
Mr. Chan Ting Hei	0.09%
Ms. Lo Ching Yee	0.04%
Mr. Wong Wai Hung	0.02%
Total	100.00%

Information on the Target Group

The Target Company was established by the Vendor under the laws of the BVI with limited liability on 5 December 2006 and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company is a wholly-owned subsidiary of the Vendor. The Vendor owns a group of subsidiaries whose principal businesses are the manufacture and sales of a wide range of products including networking cables, LED video display screens as well as leasing of LED video display screens. The networking cable business of the Vendor is conducted by the Target Company and its operating subsidiaries, together with Hover Manufacturing, which in turn directly and indirectly owns the entire equity interest in Hover (Kunshan) and Kunshan Deqin, respectively. Following the completion of the Reorganisation, all the subsidiaries of the Vendor which carry on manufacturing and sales of networking cables business will become subsidiaries of the Target Company. In addition, the Target Group holds the Properties, which are three major industrial complexes situated in Shanghai and Kunshan City (in Jiangsu Province). The production facilities of the Target Group are located within the Properties.

Financial information

Upon the completion of the Reorganisation, Linkz Ind Tech has been deregistered and the Target Company will become the holding company of the Target Group with the Assets and Liabilities being transferred to the Target Group. As each member of the Target Group, Linkz Ind Tech and Linkz International have been under the common control of the Vendor throughout the Track Record Period and before and after the Reorganisation, the financial statements were prepared on a combined basis as if the Target Company had always been the holding company throughout the Track Record Period in accordance with applicable HKFRSs and the principle of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institution of Certified Public Accountants.

For details of the financial information of the Target Group and its basis of preparation, please refer to Appendix II to the Accountants' Report on the Target Group in this circular.

Based on the audited combined financial statements of the Target Group as extracted from the Accountants' Report on the Target Group in Appendix II of this circular for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the selected financial statements items are as follows:

	As at/for the year ended 31 March 2017	**As at/for the year ended 31 March 2018**	**As at/for the year ended 31 March 2019**	**As at/for the six months ended 30 September 2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,328,298	1,498,697	1,676,557	735,340
Gross profit	196,851	211,515	229,018	106,593
Profit before taxation	51,887	43,257	56,957	26,725
Adjusted profit before taxation*(Note)*	68,337	69,458	99,507	49,222
Profit after taxation from continuing operation	41,612	33,586	43,953	22,661
Adjusted profit after taxation*(Note)*	55,348	55,464	79,482	41,447
Assets				
Property, plant and equipment	479,438	545,552	510,941	488,716
Deposit paid for acquisition of property, plant and equipment	120,710	128,224	67,380	1,225
Inventories	172,274	280,504	241,318	205,320
Trade and other receivables	596,085	651,736	656,481	417,489
Amount due from the Vendor	206,380	278,321	535,364	1,207,655
Bank balances and cash	103,588	202,050	166,870	117,065
Liabilities				
Trade and other payables	261,602	256,885	257,102	204,329
Amount due to the Vendor	283,133	283,231	272,673	217,743
Unsecured bank borrowings				
— Amount due within one year	585,289	802,111	1,044,227	1,463,640
— Amount due after one year	17,500	207,500	75,000	—
Net assets	549,982	547,694	547,964	562,380

Note: The profit before and after taxation have been adjusted to exclude the financial performance of Linkz Ind Tech and add back certain bank charges and finance costs of approximately HK$16,450,000, HK$26,201,000, HK$42,550,000 and HK$22,497,000 less the income tax expected to be charged for the corresponding cost saving of approximately HK$2,714,000, HK$4,323,000, HK$7,021,000 and HK$3,712,000 for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively. These finance costs were related to bank borrowings obtained by Linkz International, which were utilised by the Vendor's other subsidiaries not forming part of the Target Group. Following Completion, those subsidiaries of the Vendor not forming part of the Target Group will not utilise the bank borrowings obtained by the Group or the Target Group.

The Target Group's revenue increased from approximately HK$1,328,298,000 for the year ended 31 March 2017 to approximately HK$1,498,697,000 for the year ended 31 March 2018 mainly because of an increase in average selling price of the products as the average price of copper, one of the major components of the Target Group's products, increased as compared with preceding year. For the year ended 31 March 2019, the Target Group's revenue further increased to approximately HK$1,676,557,000, which was mainly due to the increase in sales demands of Cat 7 cables as a result of the rapid development of 5G cellular network technology in recent years. As driven by the increase in the revenue, the Target Group's gross profit also increased from approximately HK$196,851,000 for the year ended 31 March 2017 to approximately HK$211,515,000 for the year ended 31 March 2018 and further to approximately HK$229,018,000 for the year ended 31 March 2019. The adjusted profit after taxation of the Target Group amounted to approximately HK$55,348,000, HK$55,464,000 and HK$79,482,000 for the years ended 31 March 2017, 2018 and 2019, respectively. A higher profit was attained for the year ended 31 March 2019 primarily due to the streamlining of the Target Group's management structure that the Target Group no longer relied on the central management of the Vendor and thus decreased the management fee payable to the Vendor, which represents the reimbursement of management costs incurred by the Vendor on the Target Group. For a detailed financial analysis of the Target Group, please refer to the section headed "Financial Information of the Target Group" in this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The recent escalation of the trade tensions between the United States and China has brought uncertainties to the global economy. In order to weather any disturbance from a potential trade war, the Group regularly reviews its business and strives to grasp every business opportunity available. Over the past years, a significant portion of the Group's revenue was derived from a limited number of major customers. For the years ended 31 March 2017, 2018 and 2019, the aggregate revenue attributable to the Group's largest customer accounted for 48.5%, 39.4% and 41.5% of the Group's total revenue, respectively, while the aggregate revenue attributable to the Group's five largest customers accounted for 85.8%, 87.9% and 85.2% of the Group's total revenue, respectively. Although the Group has been taking considerable efforts to acquire new customers, the Group will continue to have business relationship with the existing major customers and does not intend to reduce the scale of business dealings. However, it came to the Directors' attention that one of the Group's major customers headquartered in the PRC had its mobile products and telecommunication equipment specifically targeted by the United States ("**Customer A**"). This has concerned the Directors that should the sales to Customer A decline, orders from Customer A may consequently reduce and the Group may not immediately have a new major customer that can sufficiently replace or make up the orders for this existing major customer. Since the Group first delivered 5G related cable assembly products to Customer A in 2018, the Group's sales to Customer A achieved a growth of 19.4% for the year ended 31 March 2019. While it was expected that the growth would be maintained given the rapid development of 5G technology, the Directors noted that the shipment of cable assembly products to Customer A has in fact been decreasing after the inclusion of Customer A in the so-called trade "blacklist" by the United States government, which means that companies from the United States will not be permitted to sell goods or services to Customer A, in the second quarter of 2019. The Directors note that the financial effect was quite immediate. The sales of Customer A decreased by 18.2% from approximately HK$333,132,000 for the six months ended 30 September 2018 to approximately HK$272,668,000 for the six months ended 30 September 2019. In addition, the value of the confirmed orders of Customer A also decreased from approximately HK$116,371,000 as at 30 September 2018 to approximately HK$96,353,000 as at 30 September 2019, representing a drop of 17.2%. The drop in sales to Customer A is an alarming signal to the Directors provided that the Group's revenue had decreased by 4.0% period-on-period for the six months ended 30 September 2019. To the Directors' understanding, the Target Group has distinct customer base as compared with the Group and its major customers are reputable multinational corporations that have presence in the PRC. Although certain major customers of the Target Group are headquartered in the United States, the Target Group directly deals with the local branches in the PRC and Asia Pacific, which have made their decisions for their purchase from the Target Group. The products of the Target Group as ordered by these major customers headquartered in the United States are shipped to the destinations in the PRC or Asia Pacific instead of the United States and are not subject to the tariffs imposed by the United States. Given that the majority of the Target Group's products were sold within the PRC and the sales to the United States only accounted for 5.1% to 6.9% of the total revenue of the Target Group during the Track Record Period, it is unlikely that the Target Group will be materially affected by the additional tariffs to be imposed by the United States. Moreover, the Target Group has a stable income stream that is not prone to significant fluctuation due to deterioration in any single customer's orders because the Target Group has larger customer base out of the United States and Customer A was not a customer of the Target Group. After the Completion, the Group's revenue base will be enlarged and the business risks currently exposed to the Group such as the risk of customer concentration will be mitigated by the diverse customer base of the Target Group. For the year ended 31 March 2019, Customer A's revenue to the Group was approximately HK$545,727,000, or 41.5% of the total revenue of the Group. With reference to the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, assuming Completion took place on 1 April 2018, Customer A's revenue to the Enlarged Group would decrease to 18.4%. The Acquisition thus strategically improves the Group's defence position amid the global economic uncertainties.

The Target Group's revenue decreased by 17.8% from approximately HK$894,119,000 for the six months ended 30 September 2018 to approximately HK$735,340,000 for the same period in 2019. The Target Group's performance was affected by the negotiations of trade deals between the PRC and the United States. Given the profound impacts that may possibly be brought, customers in the PRC and other countries had been wary of any breakdown of negotiation or failure to reach a trade agreement and hence withheld or postponed their orders and negatively affected the demand of the Target Group's products. The Directors expect that the signing of the first phase of the trade deal between the PRC and the United States in January 2020 would help foster the confidence of customers of the Target Group about the upcoming state of the economy.

As disclosed in the paragraph headed "Information on the Target Group" in this section, the Target Group is principally engaged in the manufacturing and sales of networking cables. In the past, the Target Group was a supplier of networking cables to the Group. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Group mainly purchased networking cables, including Cat 5, Cat 6 and Cat 7 cables, from the Target Group, which amounted to approximately HK$8,876,000, HK$15,191,000, HK$19,277,000 and HK$13,189,000, representing 1.3%, 1.6%, 1.9% and 2.1% of the total cost of sales of the Group as well as 0.7%, 1.0%, 1.1% and 1.8% of the total revenue of the Target Group for the corresponding periods, respectively. The Group also sold certain cable assemblies products to the Target Group to accommodate the occasional demand of some Target Group's customers, which amounted to approximately HK$414,000, HK$80,000, HK$168,000 and HK$128,000 for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, representing 0.05%, 0.01%, 0.01% and 0.02% of the total revenue of the Group as well as 0.04%, 0.01%, 0.01% and 0.02% of the total cost of sales of the Target Group for the corresponding periods, respectively. Before January 2018 when the Group was preparing the Listing, 5G technology was under testing without a clear and known launch date and many things on the road to 5G were uncertain. The Directors believed that mobile operators may not invest huge capital in 5G infrastructures as the then technology was still sufficient to support the increased traffic for a few years throughout 2020 to 2025. With the faster than expected introduction of the 5G cellular network technology and the announced deployment by different operators in the second half of 2019, the Directors changed their view and noted that there will be gradual and large scale replacement by 5G devices and equipment and foresee that the Group's cable assembly products in the telecommunication sector and the Target Group's networking cables will be in ample demand. In this regard, the Directors believe that the Acquisition can better position the Group and the Target Group to capture the opportunities expectedly brought by the rapid development of 5G technology by (i) integrating the research and development resources to produce new products that can meet the highest standards and specifications capable for the 5G era; and (ii) combining sales and marketing efforts and network to introduce both the Group's and the Target Group's products to the enlarged customer base. At present, the Target Group has technical know-how in the next-generation networking cables, such as Cat 8 cables, PoE, hybrid cables and compatibility with the HDBaseT standard, which the Group has its strategy to increase its cable assembly product mix by increasing the intragroup purchase from the Target Group after the Completion and when these new cables have a wider use. The Directors are of the view that this strategy will be effective given that individual customer of either the Group or the Target Group should require both groups' products.

The Target Group is a supplier of networking cables and certain cable assembly materials of the Group and the Target Group's products have so far satisfied the Company's quality standard. The Directors understand that the Target Group has efficient, reliable and highly automated production lines that implement stringent quality requirements and have high production capacity. Upon Completion, transactions between the Group and the Target Group will no longer be subject to the connected transaction requirements under the Listing Rules. Accordingly, the Enlarged Group will be able to (i) achieve better inventory management in response to fast changing demand; (ii) formulate the production schedule in a more flexible manner; (iii) ensure the quality of raw materials that meets the specifications and standards through the stringent production and quality control procedures; and (iv) enhance the ability in managing the fluctuations in procurement costs of raw materials.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 100%, the Acquisition shall constitute a very substantial acquisition of the Company under the Listing Rules. In addition, as the Acquisition may have the effect of achieving a listing of the Target Group, the Listing Committee has resolved that the Acquisition is an extreme transaction under Rule 14.06C of the Listing Rules and the reverse takeover rules do not apply. The Acquisition is therefore subject to the notification, announcement, circular, Shareholders' approval and accountants' report requirements under Chapter 14 of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard and Caitong International Capital has been appointed as the financial adviser of the Company to conduct due diligence on the Target Group.

As at the Latest Practicable Date, the Vendor, which is ultimately and beneficially owned by Mr. Paul Lo as to 59.82% of its effective interest, is a Controlling Shareholder of the Company interested in 63.86% of the Company through Time Holdings. As such, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Paul Lo and his associates are regarded as having a material interest in the Acquisition and therefore they are required to abstain from voting on the resolution proposed to be passed at the EGM for approving the S&P Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Time Holdings, an associate of Mr. Paul Lo, held 1,175,070,000 Shares, representing approximately 63.86% of the issued share capital of the Company. Accordingly, Time Holdings will abstain from voting at the EGM in respect of the resolution proposed to be passed for approving the S&P Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no other Shareholders are required to abstain from voting at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the S&P Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

EGM

The EGM will be convened and held at Salon Room I, L/F, Hyatt Regency Hong Kong, 18 Chak Cheung Street, Sha Tin, New Territories, Hong Kong on Wednesday, 29 April 2020 at 2:30 p.m. to consider and, if thought fit, approve the S&P Agreement and the transactions contemplated thereunder. In compliance with the Listing Rules, the resolution will be voted on by way of poll at the EGM.

A notice convening the EGM to be held at Salon Room I, L/F, Hyatt Regency Hong Kong, 18 Chak Cheung Street, Sha Tin, New Territories, Hong Kong on Wednesday, 29 April 2020 at 2:30 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 24 April 2020 to Wednesday, 29 April 2020, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant Share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 23 April 2020.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the S&P Agreement and the transactions contemplated thereunder set out on pages 36 to 37 of this circular; and (ii) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the S&P Agreement and the transactions contemplated thereunder set out on pages 38 to 57 of this circular.

The Directors (including members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) consider that the S&P Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) recommend that the Independent Shareholders vote in favour of the resolution approving the Acquisition at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
Time Interconnect Technology Limited
Cua Tin Yin Simon
Executive Director and Chief Executive Officer

匯聚科技有限公司
TIME Interconnect Technology Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1729)

30 March 2020

To the Independent Shareholders

Dear Sir or Madam,

EXTREME AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

We refer to the circular dated 30 March 2020 issued by the Company (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" contained in the Circular. First Capital International Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. We wish to draw your attention to the letter from the Board set out on pages 17 to 35 of the Circular and the letter from the Independent Financial Adviser set out on pages 38 to 57 of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation to the Acquisition as stated in its letter, we consider that the terms of the Acquisition and the transactions contemplated under the S&P Agreement are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms, in the ordinary and usual course of the Company's business, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Acquisition.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Ho Hin Shun	**Mr. Luk Wai Shing**	**Mr. Chan Chung Shun Eric**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of a letter of advice from First Capital International Finance Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement and the transactions contemplated thereunder.

首控集團
CHINA FIRST CAPITAL GROUP

FIRST CAPITAL INTERNATIONAL FINANCE LIMITED
Unit 4511, 45th Floor
The Center
99 Queen's Road
Central Hong Kong

30 March 2020

To the Independent Board Committee and
the Indepdendent Shareholders of
Time Interconnect Technology Limited

Dear Sirs,

EXTREME AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY

INRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of Company in relation to the Acquisition. Details of the Acquisition are disclosed in the Announcement and in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to its shareholders dated 30 March 2020 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise defined.

On 24 March 2020 (after trading hours), the Company entered into the S&P Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, (i) the Sale Shares, being the entire issued share capital of the Target Company upon completion of the Reorganisation; and (ii) the Sale Loan, at the total initial Consideration of HK$802,679,700, subject to an adjustment mechanism as stipulated in the S&P Agreement. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Company.

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 100%, the Acquisition shall constitute a very substantial acquisition for the Company under the Listing Rules. In addition, as the Acquisition may have the effect of achieving a Listing of the Target Group, the Listing Committee has resolved that the Acquisition is an extreme transaction under Rule 14.06C of the Listing Rules and the reverse takeover rules do not apply. The Acquisition is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard and Caitong International Capital has been appointed as the financial adviser of the Company to conduct due diligence on the Target Group.

As at the Latest Practicable Date, the Vendor, which is ultimately and beneficially owned by Mr. Paul Lo as to 59.82% of its effective interest, is a Controlling Shareholder of the Company interested in 63.86% of the Company through Time Holdings. Therefore, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules

Mr. Paul Lo and his associates are regarded as having a material interest in the Acquisition and therefore they are required to abstain from voting on the resolution proposed to be passed at the EGM for approving the S&P Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Time Holdings, an associate of Mr. Paul Lo, held 1,175,070,000 Shares, representing approximately 63.86% of the issued share capital of the Company. Accordingly, Time Holdings will abstain from voting at the EGM in respect of the resolution proposed to be passed for approving the S&P Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no other Shareholders are required to abstain from voting at the EGM.

The Independent Board Committee comprising three independent non-executive Directors have been established to advise the Independent Shareholders as to whether the terms and conditions of the S&P Agreement and transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. None of the members of the Independent Board Committee has any direct or indirect interest in the Acquisition. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with Company, Vendor, and Target Group and/or their respective substantial shareholders, directors or chief executive, or any of their respective associates any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for any transaction.

With regard to our independence from the Company, it is noted that, apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapter 14A of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular 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 the Circular or the Circular as a whole misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Acquisition or their respective subsidiaries or associates. We also have not considered the taxation implication on the Group or the shareholders of the Company as a result of the Acquisition. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaim any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter. Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

1. Business and financial information of the Group

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of cable assembly products. A summary of (i) the audited financial information of the Group for the financial years ended 31 March 2017 ("**FY2017**"), 31 March 2018 ("**FY2018**") and 31 March 2019 ("**FY2019**"), as extracted from the 2018 and 2019 Annual Report; and (ii) the unaudited financial information of the Group for the six months ended 30 September 2018 ("**1H2019**") and 30 September 2019 ("**1H2020**") as extracted from 2019 interim report, is set out as below:

Table 1: Consolidated statement of profit or loss and other comprehensive income of the Group

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	864,571	1,238,374	1,314,389	835,570	801,882
Gross Profit	156,644	272,995	279,348	184,436	174,807
Profit before taxation	97,344	171,014	145,980	106,910	98,078
Profit for the year/period attributable to owners of the Group	81,684	132,120	122,934	88,400	77,356

Table 2: Consolidated statement of financial position of the Group

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	101,188	112,664	261,886	283,267
Current assets	400,859	770,242	628,690	733,038
Current (liabilities)	(380,514)	(423,713)	(340,681)	(411,078)
Non-current (liabilities)	(271)	(471)	(817)	(36,681)
Net asset	121,262	458,722	549,078	568,546

(i) 1H2020 VS 1H2019

Total revenue in 1H2020 was approximately HK$801.9 million, representing a decrease of approximately 4.0% from approximately HK$835.6 million in 1H2019, such decrease was mainly attributable to the RMB depreciation impact, during the 1H2020 the average foreign currency exchange rate from converting Renminbi into Hong Kong dollars was 4.8% lower than the same period last year. The Renminbi revenue converted in Hong Kong dollars decreased HK$18.9 million which represented 2.4% of the Group's revenue. Telecommunication, medical equipment and industrial equipment sectors were also affected by this impact and reduced revenue. Meanwhile, the trade and tariff disputes between the United States and China caused the overall slowdown of global macro-economy. It created different degree of impact on the telecommunication and industrial equipment sector.

Total profit in 1H2020 of the Company was HK$77.4 million, a decrease of HK$11.0 million or 12.5% as compared to the last financial period. Such decrease was mainly due to the decrease in gross profit.

As at 30 September 2019, the Group had total assets of approximately HK$1,016.3 million and total liabilities of approximately HK$447.8 million. Bank balances and cash of the Group as at 30 September 2019 amounted to approximately HK$233.4 million. The Group recorded net assets of approximately HK$568.5 million as at 30 September 2019.

(ii) FY2019 vs FY2018

Total revenue in FY2019 was approximately HK$1,314.4 million, representing an increase of approximately 6.1% from approximately HK$1,238.4 million in FY2018. The growth was mainly driven by higher sales in telecommunication and medical equipment sectors. The Group recorded a 2.3% increase in gross profit to HK$279.3 million in FY2019 compared to HK$273.0 million in FY2018. Gross profit margin slightly decreased from 22.0% in FY2018 to 21.2% in FY2019, mainly attributable to the change in product mix.

Profit for the year amounted to approximately HK$122.9 million in FY2019, representing a decrease of approximately 7.0% from approximately HK132.1 million in FY2018. Such decrease in FY2019 was mainly due to (i) the foreign exchange loss of approximately HK$9.8 million in FY2019; (ii) the increase in other staff costs in FY2019; and (iii) no imputed financial guarantee income was generated in FY2019.

As at 31 March 2019, the Group had total assets of approximately HK$890.6 million and total liabilities of approximately HK$341.5 million. Bank balances and cash of the Group as at 31 March 2019 amounted to approximately HK$223.8 million. The Group recorded net assets of approximately HK$549.1 million as at 31 March 2019.

(iii) FY2018 vs FY2017

Total revenue in FY2018 was approximately HK$1,238.4 million, representing an increase of approximately 43.2% from approximately HK$864.6 million in FY2017, such increase was mainly attributable to the strong revenue increase from the data centre, telecommunication and medical equipment sectors. Gross profit for FY2018 was HK$273.0 million, an increase of HK$116.4 million or 74.3% compared to the HK$156.6 million recorded in FY2017. Gross profit margin also increased from 18.1% in FY2017 to 22.0% in FY2018. The increase in gross profit and gross profit margin was mainly attributable to the change in product mix to products with relatively higher selling price, including those sold to data centre and medical equipment sectors.

Total profit for the year of the Group for FY2018 was HK$132.1 million, a substantial increase of HK$50.5 million or 61.9% as compared to the last financial year. Such increase in FY2018 was mainly due to (i) the significant increase in gross profit in FY2018; and (ii) foreign exchange gain and gain on disposal of property and equipment of approximately HK$10.2 million in FY2018.

As at 31 March 2018, the Group had total assets of approximately HK$882.9 million and total liabilities of approximately HK$424.2 million. Bank balances and cash of the Group as at 31 March 2018 amounted to approximately HK$279.6 million. The Group recorded net assets of approximately HK$458.7 million as at 31 March 2018.

2. Information of the Vendor

The Vendor is a limited liability company incorporated in Hong Kong, which, with its group of subsidiaries, are engaged in the manufacturing and sales of a range of products including networking cables, LED video display screens as well as leasing of LED video display screens. As at the Latest Practicable Date, the Vendor, which is ultimately and beneficially owned by Mr. Paul Lo as to 59.82% of its effective interest, is a Controlling Shareholder of the Company interested in 63.86% of the Company through Time Holdings. As such, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules.

3. Information of the Target Group

The Target Company was established by the Vendor under the laws of the BVI with limited liability on 5 December 2006 and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company is a wholly-owned subsidiary of the Vendor. The networking cable business of the Vendor is conducted by the Target Company and its operating subsidiaries, together with Hover Manufacturing, which in turn directly and indirectly owns the entire equity interest in Hover (Kunshan) and Kunshan Deqin, respectively. Following the completion of the Reorganisation, all the subsidiaries of the Vendor which carry on manufacturing and sales of networking cables business will become subsidiaries of the Target Company. In addition, the Target Group holds the Properties, which are three major industrial complexes situated in Shanghai and Kunshan City (in Jiangsu Province). The production facilities of the Target Group are located within the Properties.

A. Financial information of the Target Group

A summary of the audited financial information of the Target Group for the financial years ended 31 March 2017 ("**FY2017**"), 31 March 2018 ("**FY2018**") and 31 March 2019 ("**FY2019**"), and for the six months ended 30 September 2018 ("**1H2019**") and 30 September 2019 ("**1H2020**") as extracted from Appendix II to the Circular is set out below:

Table 3: Statement of profit or loss and other comprehensive income of the Target Group

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	1,328,298	1,498,697	1,676,557	894,119	735,340
Gross Profit	196,851	211,515	229,018	122,574	106,593
Profit before taxation	51,887	43,257	56,957	41,348	26,725
Profit for the year/ period attributable to owners of the Target Group	26,178	33,159	43,460	30,508	22,384

Table 4: Statement of financial position of the Target Group

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	618,866	691,513	595,121	507,725
Current assets	1,087,537	1,415,535	1,611,228	1,953,172
Current (liabilities)	(1,133,367)	(1,344,269)	(1,574,930)	(1,888,994)
Non-current (liabilities)	(23,054)	(215,085)	(83,455)	(9,523)
Net asset	549,982	547,694	547,964	562,380

(i) 1H2020 vs 1H2019

The Target Group's revenue decreased by 17.8% from approximately HK$894.1 million for the six months ended 30 September 2018 to HK$735.3 million for the same period of 2019. The decrease is mainly due to the decrease in sales demand of products, especially, Cat 7 cables (including Cat 7A cables) which the revenue decreased by 53.7% from approximately HK$190.9 million for the six months ended 30 September 2018 to HK$88.4 million for the six months ended 30 September

2019. The management of the Target Group is of the view that the sales demand of the six months ended 30 September 2019 was negatively affected by the uncertainties arising from the progress of the US-China trade deal negotiation.

As at 30 September 2019, current assets of the Target Group amounted to approximately HK$1,953.1 million, among which, trade and other receivable amounted to approximately HK$417.5 million, amount due from ultimate holding company amounted to approximately HK$1,207.7 million and bank balances and cash amounted to approximately HK$117.1 million. As at 30 September 2019, net current assets of the Target Group increased to approximately HK$64.2 million, as an increase in amount due from ultimate holding company.

(ii) FY2019 vs FY2018

In FY2019, the revenue generated from the Target Group increased by approximately 11.9% from approximately HK$1,498.7 million to HK$1,676.6 million. Such increase was mainly due to the significant increase in sales demands of Cat 7 cables (including Cat 7A cables) as a result of the rapid development of 5G cellular network technology in recent years and Cat 7 and Cat 7A cables have higher signal transmission speed than Cat 6 and Cat 5 cables in general. Regarding Cat 7 cables, the revenue increased by 188.8% from approximately HK$91.5 million for the year ended 31 March 2018 to approximately HK$264.2 million for the year ended 31 March 2019.

As at 31 March 2019, current assets of the Target Group amounted to approximately HK$1,611.2 million, among which, trade and other receivable amounted to approximately HK$656.5 million, amount due from ultimate holding company amounted to approximately HK$535.4 million and bank balances and cash amounted to approximately HK$166.9 million. As at 31 March 2019, net current assets of the Target Group decreased to approximately HK$36.3 million, as certain of the bank borrowing became due within one year according to the repayment schedule, which increased the balance of bank borrowing as classified in current liabilities.

(iii) FY2018 vs FY2017

In FY2018, the revenue generated from the Target Group increased by approximately 12.8% from approximately HK$1,328.3 million to HK$1,498.7 million. Such increase was mainly due to an increase in average selling price of the products as the average price of copper, one of the major components of the Target Group's products, increased as compared with preceding year.

The financial position of the Target Group improved from net current liabilities position of approximately HK$45.8 million as at 31 March 2017 to net current assets of approximately HK$71.3 million as at 31 March 2018, which was primarily attributable (i) the profitable operation which enhanced the overall assets base of the Target Group; and (ii) the increase in bank and cash balance as financed by bank borrowings granted by the financial institution.

4. Industry

According to the CRI Report, in 2018, the global market size of LAN cables reached US$6.79 billion, representing a CAGR of 10.7% from 2014 to 2018.

Market size of global LAN cables 2014–2018

	Market size (US$ billion)					
	2014	2015	2016	2017	2018	2014–2018 CAGR
Fixed broadband	2.19	2.54	2.74	2.89	3.07	8.8%
Consumer electronics	0.91	1.10	1.30	1.55	1.92	20.4%
Personal computers	0.90	0.87	0.84	0.82	0.88	-0.3%
Others	0.53	0.60	0.70	0.80	0.92	15.0%
Total	4.52	5.12	5.57	6.05	6.79	10.7%

Source: CRI Report

The global market size of LAN cables for fixed broadband, a major part of the global LAN cable market, reached US$3.07 billion, representing a CAGR of 8.8% from 2014 to 2018. The global market size of LAN cables for consumer electronics, another major part of the global LAN cable market, reached US$1.92 billion, representing a CAGR of 20.4% from 2014 to 2018. As the global sales of personal computers have been declining in recent years, the global demand for LAN cables from personal computers is shrinking. In 2018, the global market size of LAN cables for personal computers reached US$0.88 billion, representing a negative CAGR of 0.3% from 2014 to 2018. The decline in personal computer market has been offset by other new products which have processing power and require networking usage. Other industries such as the blockchain (including distributed ledgers and cryptocurrencies) applications, cloud computing and network attached storage (NAS) also have an increasing demand for LAN cables. In 2018, the global market size of LAN cables for the blockchain applications, NAS, etc. reached US$920 million, representing a CAGR of 15.0% from 2014 to 2018.

In 2018, the market size of LAN cables in China reached RMB18.10 billion, representing a CAGR of 11.9% from 2014 to 2018. The structure of China's LAN cable market was similar to that of the global LAN cable market.

Market size of the PRC's LAN cables industry from 2014–2018

	Market size (RMB billion)					
	2014	**2015**	**2016**	**2017**	**2018**	**2014–2018 CAGR**
Fixed broadband	4.01	4.27	5.94	6.98	7.73	17.8%
Consumer electronics	1.91	2.46	3.07	3.64	4.08	21.0%
Personal computers	4.21	3.77	3.48	3.68	3.68	-3.3%
Others	1.43	1.66	1.93	2.24	2.61	16.2%
Total	11.55	12.16	14.43	16.54	18.10	11.9%

Source: CRI Report

The market size of LAN cables for fixed boardband in China reached RMB7.73 billion representing a CAGR of 17.8% from 2014 to 2018. The market size of LAN cables for consumer electronics reached RMB4.08 billion, representing a CAGR of 21.0% from 2014 to 2018. As the production and sales volumes of personal computers in China have declined for many years, the demand for LAN cables on China's personal computers market is decreasing. In 2018, the market size of LAN cables for personal computers in China reached RMB3.68 billion, representing a negative CAGR of 3.3%. China's other industries such as the blockchain and NAS also have an increasing demand for LAN cables. In 2018, the market size of LAN cables for the blockchain, NAS, etc. reached RMB2.61 billion, representing a CAGR of 16.2% from 2014 to 2018.

The significant increase in the market size of Global and PRC's LAN cables industry, which will favor the development of Target Group for the long term. In this regard, we are of the view that the Acquisition represents a good opportunity for the Group to further expand its business and is in the interests of the Company and the Shareholders as a whole.

5. Reasons for and benefits of the Acquisition

We have discussed with the Management in respect of the reasons for and benefits of the Acquisition. As disclosed in the Letter from the Board, the Acquisition is considered to be in the interest of the Company and the Shareholders as a whole due to the following reasons:

i) The Acquisition is considered to diverse and distinct customer base.

As further described in the paragraph headed "Information of the Company and the Group" in the Letter from the Board, the Group is principally engaged in the manufacturing and sales of cable assembly products. The acquisition of the Target Group, which owns and operates three major industrial complexes situated in Shanghai and Kunshan City (in Jiangsu Province), to manufacture and sell a wide range of products including networking cables, LED video display screens as well as leasing of LED video display screens.

As disclosed in the announcement of the Company dated 24 March 2020, in view of the changing global economy, any disturbance from a potential trade war, and the need to ensure the business growth and diversification of customer base of the Group, the Directors discussed and agreed to embark on seeking the possibility of seizing future opportunities in diverse and distinct customer base.

As disclosed in the Letter from the Board, the Target Group has diverse and distinct customer base and its major customers are reputable multinational corporations that have presence in the PRC. Given that the majority of the Target Group's products were sold within the PRC and the sales to the United States only accounted for approximately 5.1%–6.9% of the total revenue of the Target Group during the Track Record Period, it is unlikely that the Target Group will be materially affected by the additional tariffs to be imposed by the United States. After the Completion, the Group's revenue base will be enlarged and the business risks currently exposed to the Group such as the risk of customer concentration will be mitigated by the diverse customer base of the Target Group. The Acquisition thus strategically improves the Group's defence position amid the global economic uncertainties. We concur with the view of the Directors that the Acquisition allows the Group to diverse and distinct customer base.

ii) The profitable track record of the business of the Target Group

As noted from the section headed "Financial Information of the Target Group" in the Circular, the Target Group has been continuously recording net profit during the Track Record Period.

We concur with the view that the Acquisition represents an attractive investment opportunity for the Group to expand and diversify its business/investment portfolio and to enhance the Group's income source, and long-term development potential.

iii) The Acquisition will create synergies between the Target Group's manufacturing and sales of networking cables business and the Group's manufacturing and sales of cable assembly products business

As disclosed in the Letter from the Board, with the faster than expected introduction of the 5G cellular network technology, the Directors believe that there will be gradual and large scale replacement of 5G devices and equipment and foresee that the Group's cable assembly products in the telecommunication sector and the Target Group's networking cables will have ample demand. In this regard, the Directors believe that the Acquisition can better position the Group and the Target Group to capture the opportunities expectedly brought by the rapid development of 5G technology by (i) integrating the research and development resources to produce new products that can meet the highest standards and specifications capable for the 5G era; and (ii) combining sales and marketing efforts and network to introduce both the Group's and the Target Group's products to the enlarged customer base.

Upon Completion, transactions between the Group and the Target Group will no longer be subject to the connected transaction requirements under the Listing Rules. Accordingly, the Group will be able to (i) achieve better inventory management in response to fast changing demand; (ii) formulate the production schedule in a more flexible manner; (iii) ensure the quality of raw materials that meets the specifications and standards through the stringent production and quality control procedures; and (iv) enhance the ability in managing the fluctuations in procurement costs of raw materials.

Leveraging on the reasons above, coupled with the steady growth of the Target Group's industry as mentioned in the section headed "Industry Overview" to the Circular and our review on the financial information on the Group and the Target Group as discussed in the sub-sections headed "Financial Information of the Target Group" above, we concur with the Directors' view that the Acquisition is beneficial to and in the interest of the Company and the Shareholders as a whole.

6. Principal terms of the Sale and Purchase Agreement

Date:	24 March 2020
Parties	
Purchaser:	Time Interconnect Technology Limited
Vendor:	Linkz Industries Limited
Warrantors:	Nickson Holdings Limited
	Lo Chung Wai Paul

As set out in the Letter from the Board, the principal terms of the Sale and Purchase Agreement are summarized as below:

Assets to be acquired

Pursuant to the S&P Agreement, the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, (i) the Sale Shares; and (ii) the Sale Loan, subject to the terms and conditions of the S&P Agreement. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Company. For detailed information on the Target Group, please refer to the paragraph headed "Information on the Target Group".

Consideration

The Consideration is initially determined at HK$802,679,700, being a discount of 5% to the sum of (i) approximately HK$713,456,000 for the consideration for the acquisition of the Sale Shares calculated based on (1) 2019 June NAV of approximately HK$419,466,000, which takes into account the net assets value of the Target Group as well as the Assets and Liabilities and excludes any assets and liabilities not relating to the Target Group's networking cable business; and (2) the fair value gain of approximately HK$293,990,000 of the Properties with reference to the difference in the market value of the Properties as at 30 June 2019 given by the Preliminary Valuation and their respective book value as at 30 June 2019 in the respective accounts of the Target

Group; and (ii) the Sale Loan of approximately HK$131,470,000 as at 30 June 2019, representing all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor as at 30 June 2019.

Adjustment to Consideration

Pursuant to the S&P Agreement, the initial Consideration is subject to adjustment. Within two months following Completion, the Company shall deliver the (i) Post Completion Accounts; and (ii) Completion Valuation Report to the Vendor, by reference to which adjustment shall be made to the Consideration. The Company shall appoint its auditors (or other qualified public accountants firm acceptable to or agreed by the Company and the Vendor) as soon as practicable to prepare the Completion NAV within 10 business days from the finalisation of the Post Completion Accounts.

In case 95% of the Completion NAV, which is the aggregate of (a) the consolidated net assets value of the Target Group as at the Completion Date; (b) the fair value gain of the Properties over their book value as at the Completion Date; and (c) the Sale Loan:

(i) shall exceed the initial Consideration, the Company shall pay the excess amount on a dollar-for-dollar basis in cash to the Vendor within 10 business days from the finalisation of the Completion NAV; or

(ii) shall be less than the initial Consideration, the Vendor shall refund the shortfall on a dollar-for-dollar basis in cash to the Company within 10 business days from the finalisation of the Completion NAV.

The final Consideration represents a discount of 5% to the Completion NAV and is determined between the Company and the Vendor after arm's length negotiations, and is based on, among other things, (i) the consolidated net assets value of the Target Group as at the Completion Date; (ii) the market value of the Properties; (iii) the Sale Loan; (iv) business and financial performance of the Target Group in the recent years; and (v) the future prospect of the 5G markets and the telecommunication industry and the benefits that can be brought to the Group by integrating the Target Group's networking cable business.

Payment arrangement

The initial Consideration will be payable by the Company to the Vendor in cash 10 business days after the Completion. Based on initial discussion with four leading banks in Hong Kong, subject to approval, approximately HK$700 million of the Consideration will be financed by club deal coordinated among these leading banks and the remaining approximately HK$103 million of the Consideration will be financed by internal resources of the Group and possible equity financing by way of placing of new Shares to not less than six independent investors pursuant to the general mandate granted to the Directors at the Company's annual general meeting on 28 August 2019. According to the latest status of the negotiations with the arranging banks of the club deal, a term loan facility in the amount of HK$700 million shall be made available to the Group which will have a maturity of 4 years and carry an interest rate of applicable HIBOR plus an agreed margin per annum. The term loan, which will be available within three months from the date of signing of the facility agreement, will be guaranteed by the Group and the Target Group jointly and severally. The term loan will be repaid by quarterly instalments throughout the loan period and the Group expects to repay the instalments by self-generated cash of the Enlarged Group. Given that the Enlarged Group has generated a combined net cash inflow from its operations of approximately HK$268.1 million as reference to the unaudited pro forma financial information as set out in Appendix III, the Directors believe the Enlarged Group is able to generate sufficient funds to repay the club deal after the Completion. The issue of new Shares under the general mandate will not result in a change of control of the Company and the Company will not issue further new Shares for the purposes of settling the Consideration. The Company will negotiate with potential underwriters and/or investors for the issue of new Shares. As at the date of this circular, no binding agreement has been reached as to the price and number of Shares to be issued. The net proceeds from the initial public offering of the Company raised in February 2018 will not be used to finance the Acquisition.

The Directors (including the independent non-executive Directors who express their view after considering our advice) consider the terms and conditions of the Sale and Purchase Agreement, which have been arrived at after arm's length negotiations between the Purchaser and the Vendor, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Valuation Reports

The results of the Valuation conducted by the Valuer were set out in Appendix IV to the Circular. Based on the Valuation Reports, the aggregate market value of the Properties, which were three major industrial complexes situated in Shanghai and Kunshan City (in Jiangsu Province), as at 31 January 2020 was approximately RMB333 million. We have reviewed, among others, the valuation of the Properties as detailed in the Valuation Reports prepared by the Valuer, the texts of which are set out in Appendix IV to the Circular and discussed with the Valuer regarding the methodology of and the principal bases and assumptions adopted for the valuation of the Properties.

For our due diligence purpose, we have assessed the qualification and experience of the Valuer for its engagement as the independent professional valuer for the Propeties. We note that the Valuer has over 40 years of experience in valuation of properties in Hong Kong and PRC. We are of the view that the Valuer possesses sufficient experience in performing the valuation.

We have also discussed and confirmed with the Valuer that i) it is independent from the Company; ii) all relevant material information provided by the Company had been incorporated in the Valuation Reports; and iii) they were not aware of any serious defects or other matters that would cause it to question the truthfulness or reasonableness of the information provided by the Company. Based on the engagement letters between the Company and the Valuer and our interview with the Valuer in relation to their terms of engagement, in particular, their scope of work, we noted as there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in their report. We consider that their scope of work is appropriate to the opinion required to be given.

Based on the Valuation Reports, the Valuer had adopted the direct comparison approach by making reference to the comparable market transactions/asking cases as available. As confirmed by the Valuer, the direct comparison approaches is commonly adopted for valuation and is also consistent with normal market practice. Further details of the basis and assumptions of the Valuation are included in the Valuation Report as contained in Appendix IV of the Circular. Based on our interview with the Valuer on their work conducted, we have performed due diligence to assess the fairness and reasonableness of the assumptions, the basis and the methodology adopted for the Valuation Reports.

Based on our discussion with the Valuer and our understanding of the work conducted by the Valuer, we consider that the assumptions, the basis and the methodology adopted for the Valuation Reports are fair and reasonable. We are of the view that the value of Properties is fair and reasonable.

8. Comparative Analysis

In order to assess the fairness and reasonableness of the Consideration, we have attempted to compare the price-to-earnings ratio (''**PE ratio**'') and the price-to book ratio (''**PB ratio**''), both of which are commonly used valuation multiples in assessing value of a company. In identifying the comparable companies, we mainly focused on the companies with 1) similar business nature (i.e. manufacturing and sales of metal-core networking cable), 2) similar business model (i.e. manufacturing through self owned or leased premises situated in PRC), and 3) similar target markets (i.e. the PRC and global market) with the Target Group. Due to Target Group's unique business nature, no listed companies that have the exact same business can be identified with the business size or business model comparable to the Target Group.

In order to have a more comprehensive valuation comparison, we considered that it is necessary to make reference to the valuation of the listed companies in the similar industries in Hong Kong and the PRC markets and thus decided to extend the selection criteria to include those listed companies which have principal business including manufacturing and sales of all types of networking cables including optical fibre and/or metal-core networking cables. In particular, the comparable companies were selected primarily based on the following criteria: (i) listed companies in Hong Kong and the PRC which manufacture and sell of networking cables and networking equipment contributed over 50% of their revenue in their latest reported financial year; (ii) companies which are profitable. We consider the business nature of the Group (i.e. manufacturing and sales of cable assembly products) are different from the Target Group, therefore we have not included the companies with similar business nature to the Group as our comparable companies.

We identified 7 listed companies in Hong Kong and the PRC are among the most relevant peers to the Target Group in terms of manufacturing and sales of networking cables market. As each of the comparable companies has its own unique nature and characteristics in terms of, inter alia, business operation and environment, size, profitability and financial position, the comparison of the PE ratio and the PB ratio between the comparable companies and those implied by the Consideration may not represent an identical comparison. We, however, consider such comparison could be treated as an indication as to the reasonableness and fairness of the Consideration.

The relevant details of the comparable companies are set forth in Table 5 below:

Table 5: Details of the comparable companies

Stock code	The Stock Exchange where the comparable are listed	Name	Principal activates	Market capitalization as at 24 March 2020 (being the date of the Sale and Purchase Agreement	Profit attributable to equity holders in the latest full financial year prior to the date of the Sale and Purchase Agreement	Net assets attributable to equity holders based on the latest published financial statements prior to the date of the Sale and Purchase Agreement	PE ratio	PB ratio
					(Note 1)(Note 2)	*(Note 1)*	*(Note 2)*	
				(HK$'million)	*(HK$'million)*	*(HK$'million)*	*(times)*	*(times)*
1720.HK	Hong Kong	Putian Communication Group Limited	Manufacturing and sales of optical fibre cables, copper cables, and other communication products	1,364	93.5	472.3	14.6	2.9
1617.HK	Hong Kong	Nanfang Communication Holdings Limited	Manufacturing and sales of optical fibre cables	3,573	155.6	915.8	23.5	3.9
6869.HK	Hong Kong	Yangtze Optical Fibre and Cable Joint Stock Limited Company	Manufacturing and sales of optical fibre cables	5,027	1,638.1	9,436.1	3.0	0.5
002491.SZ	Shenzhen	Tongding Interconnection Information Co.,Ltd.	Manufacturing and sale of optical fibre cables and communication equipment	9,561	621	5,633.5	16.5	1.7
000070.SZ	Shenzhen	Shenzhen SDG Information Co., Ltd.	Manufacturing and sale of optical fibre cables and communication equipment	9,063	303	2,946.0	33.6	3.0
300394.SZ	Shenzhen	Suzhou TFC Optical Communication Co.,Ltd	Manufacturing and sale of optical fibre cables and communication equipment	10,104	149	1,243.7	69.2	8.1

Stock code	The Stock Exchange where the comparable are listed	Name	Principal activates	Market capitalization as at 24 March 2020 (being the date of the Sale and Purchase Agreement	Profit attributable to equity holders in the latest full financial year prior to the date of the Sale and Purchase Agreement	Net assets attributable to equity holders based on the latest published financial statements prior to the date of the Sale and Purchase Agreement	PE ratio	PB ratio
					(Note 1)(Note 2)	*(Note 1)*	*(Note 2)*	
				(HK$'million)	*(HK$'million)*	*(HK$'million)*	*(times)*	*(times)*
600345.SH	Shanghai	Wuhan Yangtze Communications Industry Group Co., Ltd	Manufacturing and sale of optical fibre cables and communication equipment	5,305	226	2,126.4	21.0	2.5
						Maximum:	69.2	8.1
						Minimum:	3.0	0.5
						Average:	26.0	3.2
						Average (exclude two extreme figures)	21.9	2.8
						Median:	21.0	2.9
				Consideration			PE ratio	PB ratio
				(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(times)*	*(times)*
					(Note 2)		*(Note 2)*	
			Target Company	802,679	40,900	562,380	19.6	1.4

Source: The Hong Kong Stock Exchange website, Shenzhen Stock Exchange website, Shanghai Stock Exchange website and respective announcements by the relevant listed companies

Notes:

1. For illustrative purpose, amounts denominated in RMB have been converted to HK$ at a rate of RMB1.0 to HK$1.1

2. The calculation of profit attributable to equity holders and PE ratio are excluding government grants

As set out in Table 5 above, the PE ratios of the comparable companies ranged from approximately 3.0 times to approximately 69.2 times with an average of approximately 26.0 times. The PE ratio implied by the Consideration of approximately 19.6 times falls within the range of the PE ratios of the comparable companies and is lower than the average PE ratios of the comparable companies. In addition, given that part of the finance costs were related to bank borrowings which were utilised by the Vendor's other subsidiaries not forming part of the Target Group, the Target Group's PE ratio would be approximately 10.5 times if such finance costs were excluded. Such PE ratio would further be adjusted to approximately 6.7 times as excluded the property valuation of the Target Group, which is similar to the Group's PE ratio of approximately 7.8 times as calculated by using one-year average share price.

The PB ratios of the comparable companies ranged from approximately 0.5 times to approximately 8.1 times with an average of approximately 3.2 times. The PB ratio implied by the Consideration of approximately 1.4 time falls within the range of the PB ratios of the comparable companies and is lower than the average of the PB ratios of the comparable companies.

In view of the above, in particular, (i) the Consideration was arrived at after arm's length negotiations among the parties to the Sale and Purchase Agreement; (ii) the PE ratio implied by the Consideration of approximately 19.6 times falls within the range of the PE ratios of the comparable companies and is lower than the median and the average of the PE ratio of the comparable companies; (iii) the adjusted PE ratio of the Target Group is similar to that of the Group; and (iv) the PB ratio implied by the Consideration of approximately 1.4 times falls within the range of the PB ratios of the comparable companies and is lower than the median and average of the PB ratios of the comparable companies, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

9. Financial effects of the Acquisition

Based on the pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the Acquisition will have the following financial effects on the Group after Completion:

A. Effect on earnings

Following the Completion, the Target Company will become a wholly-owned subsidiary of the Company and the Group will be able to consolidate assets, revenue and costs from the Target Group. The audited profit of the Company for FY2019 as extracted from 2019 Annual Report was approximately HK$122.9 million. Based on the Accountant's Report of the Target Company as set out in Appendix II to the Circular, the Target Company recorded profit of approximately HK$43.5 million in FY2019. According to the unaudited pro forma financial information of the Enlarged Group as set in Appendix III to the Circular, as if the Acquisition had been completed on 1 April 2018, the pro forma profit of the Enlarged Group attributable to the owners of the Company would have been approximately HK$151.8 million in FY2019.

B. Effect on assets, liabilities and net assets

The unaudited consolidated total assets, total liabilities and net assets of the Group as at 30 September 2019, as extracted from the unaudited condensed consolidated financial statement set out in the published review report, were approximately HK$1,016.3 million, HK$447.8 million and HK$568.5 million, respectively. Based on the unaudited pro forma financial position of the Enlarged Group as set out in Appendix III to the Circular, assuming Completion had taken place on 30 September 2019, the pro forma total assets, total liabilities and net assets of the Enlarged Group would have been increased to approximately HK$2,164.5 million, HK$1,835.2 million and HK$329.3 million, respectively.

C. Effect on working capital

The audited consolidated cash and cash equivalents of the Group as at 31 March 2019, as extracted from the 2019 Annual Report, were approximately HK$223.8 million. Based on the unaudited pro forma financial position of the Enlarged Group as at 30 September 2019 as set out in Appendix III to the Circular, assuming Completion had taken place on 30 September 2019, the pro forma bank balances of the Enlarged Group were approximately HK$252.3 million.

OPINION

Having taken into account the above principal factors and reasons, we consider that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution at the EGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
FIRST CAPITAL INTERNATIONAL FINANCE LIMITED
Frankie Yan
Managing Director

Mr Frankie Yan is a licensed person registered with the Securities and Futures Commission and as a responsible officer of First Capital to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

When considering the Acquisition, please carefully consider the risk factors set out below and other information set forth in this circular. The business, financial condition and results of operations and prospects of the Company may be adversely affected by any of the following events. The risks and uncertainties described below are not exhaustive of all the risks faced by the Company or the Target Group. Any other risks and uncertainties which the Company is not aware of or deems to be immaterial currently may also have an adverse impact on the business, financial condition, results of operations and prospects of the Company and the Target Group.

The Acquisition involves various risks, many of which are beyond the control of the Company. These risks can be categorized as (i) risks relating to the Acquisition; (ii) risks relating to the business of the Target Group; (iii) risks relating to the industry in which the Target Group operates; (iv) risks relating to conducting business in the countries where the Target Group operates; and (v) risks relating to this circular.

RISKS RELATING TO THE ACQUISITION

The Acquisition is subject to the fulfilment of the conditions precedent as set out in the S&P Agreement, and the Acquisition may or may not proceed

Completion of the Acquisition is subject to the fulfillment of a number of conditions precedent to Completion as set out in the S&P Agreement and the section headed "Letter from the Board" in this circular. A number of these conditions precedent have not been fulfilled as at the Latest Practicable Date and involve the actions and approvals of third parties including relevant regulatory authorities, which are not within the control of the contracting parties to the S&P Agreement. The Enlarged Group cannot assure you that all or any of the conditions precedent as set out in the S&P Agreement and this circular will be fulfilled or the Completion of the Acquisition will proceed accordingly.

The Acquisition is subject to the Company's ability to obtain adequate financing as set out in the S&P Agreement, and the Acquisition may or may not proceed

Completion of the Acquisition is subject to the fulfilment of a number of conditions precedent to Completion, one of which is the Company having obtained a term loan facility made available to the Group with arranging banks of a club deal in connection with the S&P Agreement. The fulfilment of such condition precedent depends on the Company's ability to obtain adequate financing and involves the approvals of third parties including arranging banks, the economic condition, prevailing interest rate, which are not within the control of the Company. The Enlarged Group cannot assure you that the Company will be able to fulfil this condition precedent or the Completion of the Acquisition will proceed accordingly.

Finance costs for loan to settle the Consideration of the Acquisition may affect future financial performance of the Enlarged Group and the Company's dividend payout after Completion

Pursuant to the S&P Agreement, part of the Consideration will be financed by a club deal coordinated by four leading banks in Hong Kong and a term loan facility in the amount of HK$700 million shall be made available to the Group under the club deal. The term loan will be guaranteed by the Group and the Target Group jointly and severally and will be repaid by self-generated cash of the Enlarged Group. The total estimated finance costs (including the transaction costs) for the term loan is approximately HK$80.8 million.

Upon the term loan being made available to the Group for the Acquisition, the Enlarged Group is expected to incur a significant amount of interest expense relating to the term loan thus affecting the Enlarged Group's finance costs. Future increases in the HIBOR benchmark interest rate, relating to the interest rate charged for the term loan, may lead to higher interest rates, which may increase finance costs of the Enlarged Group thereby materially and adversely affecting its business, financial condition and results of operations. Further, as the declaration of dividends and the amount of any dividends payout depend on various factors such as the reserve of the Company in the future, there is no assurance that the Company will pay dividends in the future.

RISKS RELATING TO THE BUSINESS OF THE TARGET GROUP

A significant portion of the Target Group's revenue during the Track Record Period was derived from a limited number of major customers

The Target Group derived a significant portion of its revenue from its major customers during the Track Record Period. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Target Group's five largest customers accounted for 85.5%, 80.5%, 76.3% and 76.8% of the Target Group's revenue, respectively. The concentration of revenue from a few customers exposes the Target Group to certain business risks including (i) the Target Group may have to spend considerable resources on managing customer relationship with these major customers and prioritise its production capacity to meet their needs and in turn the Target Group's ability to engage with new customers may be limited; (ii) the Target Group may be subject to certain business risks of its major customers which incorporate products of the Target Group to produce theirs or supply their services and the decrease in demand of the major customers' respective products or services may in turn decrease the demand of products of the Target Group; and (iii) major customers of the Target Group, generally do not engage the Target Group on an exclusive basis and even if the major customers provide the Target Group with their demand projection, the actual order they finally placed to the Target Group can be significantly reduced without any or sufficient compensation, business operations and results of operations of the Target Group may thus be materially and adversely affected.

Further, the Target Group has a concentration of credit risks associated with its limited number of major customers. As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, 62%, 59%, 69% and 73% of trade receivables were due from the Target Group's five largest customers, respectively. In case major customers of the Target Group encounter any financial difficulties or opt to default payments to the Target Group for whatever reasons, liquidity position and cash flows of the Target Group may be materially and adversely affected as well.

High gearing ratio may expose the Target Group to liquidity risk

The gearing ratio of the Target Group was 161.1%, 236.1%, 254.0% and 299.0% as of 31 March 2017, 2018 and 2019 and as of 30 September 2019, respectively. High gearing ratio could have significant implications to the Target Group, which include: (i) increasing its vulnerability to adverse general economic and industry conditions; (ii) requiring the Target Group to dedicate a substantial portion of its cash flow from operations to repay its indebtedness, thereby reducing the availability of cash flow for its business expansion, working capital and other general corporate purposes; (iii) limiting its flexibility in adapting or reacting to changes in the business and industry in which the Target Group operates; (iv) placing the Target Group at a competitive disadvantage compared to its competitors with lower levels of indebtedness; (v) limiting its ability to incur additional debts; and (vi) increasing its cost of additional financing.

High gearing ratio would expose the Target Group to liquidity risk which could restrict its ability to make necessary capital expenditure, settle the payment due to the suppliers on time or pursue strategic business opportunities, and the financial condition and results of operations of the Target Group could be materially and adversely affected.

The Target Group derives a significant part of its total revenue in the PRC

During the Track Record Period, the Target Group's revenue derived in the PRC accounted for a significant part of its total revenue and amounted to 42.6%, 47.7%, 52.4% and 52.2% of its total revenue for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively. The Target Group expects that revenue derived in the PRC will continue to account for a significant portion of its revenue in the near future. Any event negatively affecting the networking cable industry such as economic downturn or if additional restrictions or burdens on the industry in general such as more stringent standards and regulations, the overall business and results of operations of the Target Group may be materially and adversely affected.

The business of Target Group is subject to liquidity risk arising from long cash conversion cycle

During the Track Record Period, the Target Group recorded a shorter creditors' turnover days than the sum of its inventory turnover days and debtors' turnover days as there were often time lags between receiving sales proceeds from the Target Group's customers and making payments to its suppliers. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the creditors' turnover days of the Target Group amounted to approximately 73.5 days, 67.0 days, 58.2 days and 58.5 days, respectively, whereas the inventory turnover days of Target Group amounted to approximately 51.5 days, 64.2 days, 65.8 days and 65.0 days, respectively, and the debtors' turnover days of the Target Group amounted to approximately 125.1 days, 116.2 days, 108.1 days and 108.9 days, respectively. If the Target Group fails to properly manage the timing and the amounts of cash to be received from customers and the timing and amounts of cash to be paid to suppliers in an effective manner, it will tighten the liquidity position of the Target Group and the overall cash conversion cycle will be lengthened. If the Target Group is unable to generate sufficient cash flows from its operations or obtain sufficient financing, the liquidity position and the operations of the Target Group will be materially and adversely affected.

Research and development efforts of the Target Group may not yield the benefits that it had expected

The Target Group has a team of research and development personnel for the continuous technological development to cope with rapid changes on various industrial standards and certifications and updates on new technical standards to better serve its customers' needs. The research and development efforts of the Target Group were crucial for its business and for maintaining its competitive position and business growth. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Target Group's cost incurred in research and development expenses amounted to approximately HK$14,211,000, HK$15,511,000, HK$19,761,000 and HK$14,262,000, respectively.

Costs spent on research and development may not necessarily result in successful outcome which enables the Target Group to upgrade its existing products or develop products which its customers require. Further, the Target Group may not be able to anticipate accurately or be aware of the technological development trends and such inability in turn may have a material and adverse impact on its business, financial position and results of operations.

The Target Group does not enter into long-term contracts with its customers generally

The Target Group does not enter into any long-term sales agreement with its customers and sales of the Target Group are made on the basis of individual purchase orders without fixed timing each year. The Target Group may enter into manufacturing agreements with its customers which govern the conduct of each sales transaction between the Target Group and its customers. There is no assurance that any of the customers of the Target Group will place purchase orders with the Target Group in the future at the same level as in prior periods, or that the volume of the customers' purchase orders will be consistent with the expectation of the Target Group when planning its expenditures. As a result, the results of operations of the Target Group may vary from period to period and may fluctuate significantly.

If the Target Group fails to implement its inventory management measures effectively or its inventories become obsolete, future performance and operating results of the Target Group will be adversely affected

The Target Group implements inventory management measures and determines raw materials, components and finished products based on the amount of the actual or projected purchase orders and its procurement cycle for raw materials and components. The Target Group's major customers sometimes enter into vendor-managed inventory arrangements with the Target Group whereby its customers would provide production forecasts to it. The Target Group usually allocates its internal resources to plan its production and manages its inventory level in accordance with its production forecasts. Please refer to section headed "Business of the Target Group — Inventory management" in this circular for details of the Target Group's inventory management. If the actual demand for the Target Group's target products lags significantly behind internal projections of the Target Group or those of its customers, the Target Group may result in underutilising its production capacities or producing more networking cable products than the Target Group can sell, which may have a material adverse effect as to the financial performance and cash flow of the Target Group and could increase write-offs of obsolete inventory.

The Target Group's business relies on its ability to attract and retain its senior management and technical personnel

The Target Group depends on its senior management (for biographies of the Target Group's senior management, please refer to the section headed "Directors and Senior Management of the Target Group" in this circular) for the smooth operation of its factories and execution of its business plans. The continuing services of the directors, senior management team and technical personnel of the Target Group is critical to maintain the quality of its products and its future success. If members of senior management as set out in the section headed "Directors and Senior Management of the Target Group" in this circular are unable or unwilling to continue their services with the Target Group, the Enlarged Group may not be able to replace them with qualified and experienced candidates who have sufficient technical knowledge in the networking cable industry or are familiar with and capable of the management and operation of highly automated manufacturing in a timely manner, or at all, which may result in business disruption and materially and adversely affect its financial conditions and results of operations.

Fluctuations in the prices of major raw materials of the Target Group could materially and adversely affect its business, financial conditions and results of operations

The Target Group is dependent upon raw materials used in the manufacture of networking cables that it sells to its customers and it may from time to time experience increase in costs of raw materials. For the three years ended 31 March 2019 and the six months ended 30 September 2019, the total cost of raw materials accounted for 86.3%, 86.2%, 86.4% and 85.2% of the total cost of goods sold of the Target Group, respectively. In particular, copper, being the principal raw material of networking cables that the Target Group makes, is a kind of commodity with its price having demonstrated a considerable volatility in the past. If the Target Group cannot manage the risk of price fluctuations of the raw materials at all time and is not able to shift such the price increase to its customers in a timely manner, or even if the price increase is able to be passed on to the Target Group's customers, the demand of such products may consequently decrease, there may be material and adverse effect on its business, financial conditions and results of operations.

The Target Group may experience labour shortage or unrest or may incur high labour costs

The availability of automation technology or production procedures cannot fully replace labour for the production processes of the Target Group. For the three years ended 31 March 2019 and the six months ended 30 September 2019, the salaries and employee benefit expenses accounted for 5.5%, 5.3%, 5.4% and 6.0% of the total cost of goods sold of the Target Group, respectively. As a result of changes in the labour market conditions or industry practices or otherwise, the Target Group may be required to increase the wages for its workers. In addition, the Target Group may face labour unrest or may raise wages for its employees and contract workers, whether due to labour unrest or as a result of the wage rise of other manufacturing companies in China. Labour unrest will disrupt its production and the higher wages will result in increased labour costs. If the Target Group cannot increase its product prices to offset the additional labour costs in a timely manner or in a sufficient amount or if the Target Group experience labour shortage or labour unrest, its business, financial conditions and results of operations may be materially and adversely affected.

Failure to maintain an effective quality control system could result in product returns, warranty claims or product liability claims against the Target Group

The Target Group places emphasis on the quality of its products and has adhered to stringent quality control measures. In order to meet customers' requirements and expectations for the quality and safety of its products, the Target Group has adopted a stringent quality control system incorporating inspection and testing procedures throughout its manufacturing process. Despite its quality control systems having been prepared and reviewed by designated management staff and every step of the manufacturing process of the Target Group having been monitored and managed, there is no assurance that the quality control system in place will be effective in every circumstance. Any significant failure or deterioration in the efficacy of the Target Group's quality control system could result in damage to or defects in its products, resulting in cancellation or loss of orders from customers, loss of customer's confidence in its products, a decrease in demand for its products overall and the Target Group's business and results of operations could be materially and adversely affected.

Availability of substitutes of the Target Group's products could adversely affect its financial performance

Some of the Target Group's products may be easily replicated and the Target Group faces pricing pressure for its products due to availability of substitutes of the Target Group's products. In the face of pricing pressure of a given product, the Target Group may resort to cost reduction in order to maintain profitability. Although the Target Group works consistently towards reducing its production costs, there is no assurance that the Target Group will be able to achieve the desirable level of reduced costs to sustain its normal operation. As such, if the Target Group considers it commercially infeasible to offer an existing product, it may either withdraw from offering the product or remain to offer it at reduced profit or even a loss, which may in turn adversely affect its scale of operation, profitability and future prospect.

The Target Group's insurance coverage may not fully cover all risks related to its business and operations

The Target Group has maintained necessary insurance such as product liability and public liabilities insurance and these insurance policies are generally in accordance with customary industry practices, including deductibles and limits of coverage. There is no assurance that the Target Group is fully insured against all potential hazards incidental to its business. If the Target Group incurs a significant liability for which it was not fully insured, result in an adverse effect on its results of operations. As a result of market conditions, premiums and deductibles for certain insurance policies may increase substantially and, in some instances, certain insurances may become unavailable at a reasonable cost or available only for certain risks. If for any reason the Target Group is no longer covered by its existing insurance, there is no assurance that the Target Group would be able to obtain replacement insurance on acceptable terms or at all, which may have an adverse effect on its results of operations.

The Target Group may be subject to liability in relation to industrial accidents at production facilities

Given the nature of its business operation, the Target Group is subject to the risks of potential liability associated with industrial accidents at its production facilities. There is no assurance that industrial accidents, whether due to malfunction of equipment or other reasons, will not occur in the future at production facilities of the Target Group. Under such circumstances, the Target Group may be subject to employee claims for compensation or penalties imposed by relevant government authorities.

The Target Group may also experience interruptions in its operations or may be required to change in the manner it operates, as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing events could materially and adversely affect the Target Group's business, financial condition and results of operations.

Any unanticipated or prolonged interruption of operations at production facilities would have a material and adverse effect on the business, financial conditions and results of operations of the Target Group

The Target Group is dependent on the continued and uninterrupted performance of its production facilities. However, these facilities are subject to operating risks, including equipment failures, failures to comply with applicable regulations, disruptions in power supply, industrial accidents, labour shortages, strike, riot, fire, earthquake or other natural calamities, and acts of sabotage. If any unanticipated or prolonged interruption of operations at any of the production facilities of the Target Group occurs as a result of any of the foregoing or other risks or factors, the Target Group may be unable to deliver products to its customers in a timely manner or at all. Consequently, the business operation, reputation and customer relationship of the Target Group may be damaged, and the Target Group may be subject to compensation claims from customers and its ability to attract new businesses may also be adversely affected.

The Target Group may be subject to civil and criminal liabilities for its defective products and any significant product liability claim could have a material and adverse effect on its financial condition

The Target Group is exposed to a certain level of risks of product liability and claims for the manufacture and sale of its products. There is no assurance that the Target Group will not receive any complaints or claims which may adversely affect its reputation and operation. The Target Group may also be liable for loss and injury due to defective products sold in jurisdictions where it operates and its insurance coverage may not be sufficient, resulting in a material adverse effect on its results of operations and financial condition.

The intellectual property rights of the Target Group may not be sufficient to prevent others from unauthorised use of its intellectual property

The Target Group relies on a combination of trademark and copyright laws, non-disclosure agreements, technical knowhow and other methods to protect its intellectual property rights. In particular, the Target Group relies on various registered patents in its production process. For more details of the Target Group's intellectual properties, please refer to the paragraph headed ''General Information — Intellectual Properties of the Target Group'' in Appendix V to this circular. The registered trademarks, patents, trade names, technologies etc. of the Target Group may be inadequate in preventing misappropriation and unauthorised use of its intellectual properties. Failure to prevent others from unauthorised use of the intellectual property of the Target Group could harm its business, reputation and competitive positions and the Target Group may have to enforce its intellectual property rights through litigation and such potential litigation may result in substantial costs and diversion of resources and management attention.

Any change in the tax treatment of the Target Group could reduce its profitability

The Target Group's income tax filing positions and consolidated income tax provisions and accruals are based on interpretations of applicable tax laws, including income tax treaties between the various countries and regions in which the Target Group operates, and significant judgment and the use of estimates are required in determining such income tax provisions. The final determination of the relevant tax authorities could be materially different from the Target Group's historical income tax provision and accruals. The Target Group may face adverse tax consequences and there could have a material effect on the financial statements of the Target Group in the period or periods for which that determination is made.

The Target Group is subject to certain laws and regulations and failure to comply with applicable laws and regulations could result in financial losses

The Target Group is subject to laws, rules and regulations that regulate all aspects of its business. Compliance with applicable laws, rules and regulations may restrict the Target Group's business activities and require the Target Group to incur increased expense and to devote considerable time to such compliance efforts. Failure to comply with any of the applicable laws, rules and regulations could result in fines, suspension of the Target Group's business licenses or, in extreme cases, business license revocation, each of which would have a material adverse effect on the Target Group's business, liquidity, financial condition and results of operations. Laws, rules, regulations and regulatory interpretations may change from time to time and such changes could have a material adverse effect on the Target Group's business.

RISKS RELATING TO THE INDUSTRY IN WHICH THE TARGET GROUP OPERATES

The Target Group faces significant competition and its inability to compete effectively with its peers would be detrimental to its business and prospects for future growth

The Target Group operates in a highly competitive industry where the entry barrier is not high. As such, the Target Group faces significant competition and pricing pressure in its business. The industry and markets for products of the Target Group are characterised by factors such as rapid technological change and new product development, rapid product obsolescence, evolving industry standards and significant price erosion over the life of a product.

The Target Group faces significant competition with its peers in the networking cable industry on the following aspects: product functionality, quality and reliability; design, technical and manufacturing capabilities; ability to meet customers' delivery schedules; customer relationships and services; stability of raw material procurement; and product price. There is no assurance that the Target Group will maintain its competitiveness in any of these areas with respect to any of its products. Many of the existing and potential competitors of the Target Group may have significantly greater financial, manufacturing, sales, marketing, technology and other resources. If the Target Group fails to compete effectively with its peers in the future, its business and prospects for future growth would be materially and adversely affected.

The Target Group may not be able to develop, manufacture and introduce new and technologically enhanced products that meet its customers' requirements consistently

The industry of the Target Group is characterised by rapid changes caused by the frequent emergence of new technologies and industry standards. In order to maintain its competitiveness in the industry, the Target Group is required to anticipate and respond rapidly to changes in industry standards and customer needs and to develop, manufacture and introduce new and enhanced products on a timely and cost effective basis. Failure to anticipate and respond to customers' changing needs and emerging technological trends timely and accurately, to develop, manufacture and introduce products that meet the evolving needs of customers could adversely affect its relationships with customers, thus resulting in loss of market share. If this occurs, it may have a material and adverse effect on the business, financial conditions and results of operations of the Target Group.

Products of the Target Group are required to meet industry technical standards certifications, and/or client's specifications and customers of the Target Group place significant emphasis on product quality, timeliness of delivery and reliability, any quality, delivery or reliability issue can affect the Target Group's reputation and its customer's decision in selecting suppliers. As a result, if products of the Target Group experience quality deficiency issues, its business, financial conditions and results of operations could be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE COUNTRIES WHERE THE TARGET GROUP OPERATES

The Target Group's results of operations could be materially and adversely affected by volatile or uncertain conditions and could be disrupted by geopolitical events such as the U.S.-China trade war

There is a risk that, when global economic conditions are unstable or volatile, the Target Group may experience a decline in its business.

China's economic growth may slow down due to weakened exports as well as recent developments surrounding the tension relating the trade issues with the United States. Starting in March 2018, the United States imposed tariffs on steel and aluminum imports from China, and later on 6 July 2018, the United States imposed 25% tariffs on US$34 billion worth of Chinese goods as part of U.S. President Donald Trump's tariffs policy. In retaliation, the PRC responded with similarly sized tariffs on United States' products. On 17 September 2018, U.S. President Donald Trump imposed 10% tariffs on approximately US$200 billion worth of Chinese goods and announced to further increase the rate to 25% in January 2019. In return, the PRC responded with tariffs on US$60 billion of U.S. goods. The rhetoric surrounding the trade war continues to escalate. On 10 May 2019, the U.S. increased tariffs on US$200 billion worth of Chinese products from 10% to 25%. U.S. President Donald Trump also announced that he would come up with new tariffs of 25% on an additional US$325 billion worth of Chinese goods, which would cover essentially all remaining Chinese products. On 13 May 2019, China announced that it would increase tariffs on US$60 billion worth of U.S. goods from 1 June 2019 in response to the tariff increases imposed by the U.S. on 10 May 2019. Moreover, up until May 2019, the U.S. has banned six Chinese technology firms from exporting certain sensitive U.S. goods. In September 2019, U.S. and China held trade talks and in December 2019, both China and U.S. has exempted goods from their respective tariff lists. On 13 January 2020, U.S. removed its designation of China as a currency manipulator and on 15 January 2020, U.S. and China signed phase one trade deal, with China agreeing to purchase at least an additional US$200 billion worth of U.S. goods, which has for the time eased the tension of the U.S.-China trade war.

Although phase one trade deal was signed, many of the bans and tariffs imposed still remain. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the industries the Target Group's customers operate in remain uncertain. Such volatile economic conditions may cause customers to reduce or defer projects for which they utilise the Target Group's products, thereby negatively affecting demand for them. To the extent participants in such industries are targeted by U.S. tariffs or otherwise adversely affected by the trade war such as U.S.'s ban on exports of certain suppliers, their demand for the Target Group's products may decrease. As a result, the Target Group's business, results of operations and financial condition may be adversely affected. Some of the Target Group's customers are China-based technology companies that may be adversely affected by the trade war if it escalates or becomes protracted. If this happens, the Target Group's business with such customers may be harmed.

Any occurrence of natural disasters, widespread health epidemics or other events could have a material adverse effect on the business, financial condition and results of operations of the Target Group

The Target Group's business is susceptible to natural disasters such as earthquakes, fires or floods, widespread health epidemics, such as swine flu, avian influenza, severe acute respiratory syndrome, Ebola, Zika, coronavirus or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions.

The occurrence of a disaster or a prolonged outbreak of an epidemic illness or other adverse public health developments in the PRC or in other regions could materially disrupt the business and operations of the Target Group. For the recent outbreak of a new type of coronavirus, which is known as COVID-19, the measures implemented by the PRC government to fight and control the spread of the virus have significantly disrupted travel and local businesses. The outbreak could severely disrupt operations of the Target Group if any of the employees of the Target Group were suspected of contracting an epidemic disease as such, requiring the Target Group to quarantine some or all of the employees or disinfect the facilities used for the Target Group's operations and cause a temporary closure to the production facilities of the Target Group. The Target Group's profitability could also be materially affected to the extent that any natural disasters, health epidemics or other events harm the PRC and the global economy in general.

The Target Group is vulnerable to adverse changes in political, economic and social conditions, laws, regulations and policies in the PRC

During the Track Record Period, the Target Group's manufacturing operations were conducted in the PRC and a substantial portion of its revenue was derived from the PRC market. As a result, the Target Group is susceptible to changes in political, economic and social conditions in the PRC. The economy of PRC differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. In the past, the PRC government has implemented measures emphasising the utilisation of market forces for economic reform. However, the PRC government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. The Target Group may not be able to capitalise on the economic reform measures adopted by the PRC government.

In addition, the implementation of the laws in the PRC and regulations involves a degree of uncertainty. The Target Group cannot predict the future development of the PRC's legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on the Target Group. Changes in the political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof) and fiscal or financial measures, could have an adverse effect on the overall economic growth of the PRC and in turn have an adverse effect on the Target Group's business, growth strategies, financial condition and results of operations.

Material fluctuations in foreign exchange rates may adversely affect the Target Group's business and performance

The Target Group mainly operates in Hong Kong and the PRC. The Target Group's sales, purchases, expenses and payments are mainly denominated in RMB, HK$ and US$. Therefore, the Target Group is subject to currency risks. For the years ended 31 March 2017 and 2019 and the six months ended 30 September 2019, the Target Group recorded the net foreign exchange gain of approximately HK$5,870,000, HK$953,000 and HK$11,611,000 and the net foreign exchange loss of approximately HK$5,567,000 for the year ended 31 March 2018, respectively. The exchange rates of different currencies are subject to fluctuations affected by international political and economic conditions and changes in the relevant government's economic and monetary policies. Any possible material fluctuations in foreign exchange rates may adversely affect the Target Group's business and performance.

The Target Company may be considered a "resident enterprise" under the PRC Enterprise Income Tax Law and income tax on the dividends that it receives from its PRC operating subsidiaries may increase

Under the PRC Enterprise Income Tax Law (《企業所得稅法》) (the "**EIT Law**"), enterprises established under the laws of foreign countries or regions and whose "de facto management bodies" are located within the PRC are considered "resident enterprises" and thus will generally be subject to enterprise income tax at the rate of 25% on their global income. If the Target Group was considered a PRC resident enterprise, the Target Group would be subject to enterprise income tax at the rate of 25% on the Target Group global income, and any dividend or gain on the sale of shares of the Target Group received by the Target Company may be subject to a withholding tax at a rate of up to 10%.

In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by the Target Group's PRC operating subsidiaries to the Target Company would meet such qualification requirements. If the Target Group's global income were to be taxed under the EIT Law, the Target Group's financial position and results of operations would be materially and adversely affected.

RISKS RELATING TO THIS CIRCULAR

This circular contains forward looking statements.

This circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

— the business strategies and plans to execute these strategies;

— the operations and business prospects, including development plans for the existing and new businesses;

— the financial conditions;

— availability of bank loans and other forms of financing;

— the ability to reduce costs;

— the dividend policy;

— the future developments trends, conditions and competitive environment in the industry;

— the effect of the global financial markets and economic crisis;

— changes or volatility in interest rates, foreign exchange rates and overall market changes;

— the regulatory environment for the industry in general; and

— the general economic trend of the PRC and general economic conditions.

The words ''anticipate'', ''believe'', ''consider'', ''could'', ''estimate'', ''expect'', ''going forward'', ''intend'', ''may'', ''ought to'', ''plan'', ''potential'', ''project'', ''seek'', ''will'', ''would'', and similar expressions and the negative of these words, as they relate to the Company or the Target Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of the Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the section headed ''Risk Factors relating to the Target Group'' of this circular, many of which are beyond the Company's control. In light of these and other uncertainties, the inclusion of forward looking statements in this circular should not be regarded as representations by the Company or the Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, the financial condition of the Company or the Target Group may be materially and adversely affected and actual outcomes may differ materially from those described in this circular as anticipated, believed or expected.

Subject to the requirements of the Listing Rules, the Company does not intend to publicly update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this circular might not occur in the way the Company expects, or at all. Accordingly, investors should not place undue reliance on any forward-looking information. All forward-looking statements in this circular are qualified by reference to this cautionary statement.

Except as otherwise provided in this circular, the information that appears in this Industry Overview section is derived from the CRI Report prepared by CRI and reflects estimates of market conditions based on publicly available sources and interviews with industry experts and participants, and is prepared primarily as a market research tool. The Directors believe that the sources of information contained in this Industry Overview section are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by CRI and set out in this Industry Overview section has not been independently verified by the Group, the Financial Advisers, their respective affiliates or advisers, or any other parties involved in the Acquisition. No representation is given as to the accuracy or completeness of such information, and the information should not be relied upon in making, or refraining from making, any investment decision. The Company has engaged CRI to prepare the reports for use in whole or in part in this circular.

SOURCE OF INFORMATION

The Company has commissioned CRI to assess the industry development trends, market demand and competitive landscape of networking cable industry in the PRC, in which the Target Group operates, at a fee of HK$190,000 and the Directors consider that such fee reflects market rates. Founded in 2007, CRI is a research and consulting company focusing on various industries and markets. CRI provides customised industry research services and produces a variety of market research reports, industry analytical reports and publications covering different industries.

The information contained in the CRI Report is derived by means of data and intelligence gathering through: (i) primary research, including face-to-face interviews with industrial insiders and experts and phone interviews with key stakeholders in the PRC, such as relevant manufacturers, distributors and customers; and (ii) secondary research, involved analysing data from various publicly available data sources. To ensure the reliability, the market specialists at CRI assessed and recalculated, if necessary, relevant data from different institutions according to actual conditions. Nevertheless, the Company cannot assure you that the accuracy or completeness of the factors, forecasts and statistics in this circular obtained from sources such as government publications, market data providers and the CRI Report.

Except as otherwise noted, all the data and forecast in this section are derived from the CRI Report. The Directors confirm that, after taking reasonable care, there is no material adverse change in the market information since the date of the CRI Report which may qualify, contradict or have a material impact on the information in this section.

DEFINITION AND CLASSIFICATION

Networking cables are cables used to transmit internet data. By raw material, networking cables are classified into metal-core Ethernet cables (mainly copper-core Ethernet cables) and optical fibre cables.

The major downstream industries of Ethernet cables are networking cables that used in Ethernet environments such as local area networks, metropolitan networks and wide area networks. For the purposes of the CRI Report, the industry of networking cables with metal core which are commonly known as LAN cables is studied.

Market size of networking cables in the PRC

In 2018, the market size of networking cables in the PRC reached RMB39.91 billion, representing a CAGR of 24.5% from 2014 to 2018. The fast growth was attributable to the growing demand resulting from development of the 4G industry, fixed broadband, data centres, etc. Having a large number of downstream consumers, manufacturers of LAN cables have strong bargaining power. From 2014 to 2018, the PRC's LAN cable market maintained steady growth. With telecom operators (fixed broadband connection) and data centres as the major users, manufacturers of optical fibre cables had weak bargaining power. In 2018, the market size of optical fibre cables in the PRC reached RMB21.81 billion, representing a CAGR of 44.1% from 2014 to 2018. From 2014 to 2017, driven by the development of industries such as optical fibre broadband and data centres, the PRC's optical fibre cable market grew rapidly. From 2018 to 2019, as the PRC had basically completed 4G construction and had not started large-scale 5G construction, the growth rate of the data centre industry moderated. Therefore, the PRC's optical fibre cable market shrank. As the PRC accelerates 5G construction, the growth rate of the PRC's optical fibre cable market will pick up from 2020 to 2023. In 2023, the market size of networking cables in the PRC is expected to reach RMB66.80 billion, representing a CAGR of 13.8% from 2019 to 2023. Specifically, the market size of LAN cables is expected to reach RMB32.47 billion, representing a CAGR of 12.6% from 2019 to 2023; the market size of optical fibre cables is expected to reach RMB 34.33 billion, representing a CAGR of 15.0% from 2019 to 2023.

	Market size (RMB billion)		
	LAN cables	**Optical fibre cables**	**Networking cables**
2014	11.55	5.06	16.61
2015	12.16	6.81	18.97
2016	14.43	11.20	25.63
2017	16.54	19.69	36.23
2018	18.10	21.81	39.91
2019F	20.21	19.63	39.84
2020F	22.65	22.57	45.22
2021F	25.46	25.96	51.42
2022F	28.71	29.85	58.56
2023F	32.47	34.33	66.80
2014–2018 CAGR	11.9%	44.1%	24.5%
2019–2023F CAGR	12.6%	15.0%	13.8%

Note: The years specified in the table are for the period from April to March of relative year.

Source: CRI Report

Market size of LAN cables

In 2018, the global market size of LAN cables reached US$6.79 billion, representing a CAGR of 10.7% from 2014 to 2018. The global market size of LAN cables for fixed broadband, a major part of the global LAN cable market, reached US$3.07 billion, representing a CAGR of 8.8% from 2014 to 2018. The global market size of LAN cables for consumer electronics, another major part of the global LAN cable market, reached US$1.92 billion, representing a CAGR of 20.4% from 2014 to 2018. As the global sales of personal computers have been declining in recent years, the global demand for LAN cables from personal computers is shrinking. In 2018, the global market size of LAN cables for personal computers reached US$0.88 billion, representing a negative CAGR of 0.3% from 2014 to 2018. The decline in personal computer market has been offset by other new products which have processing power and require networking usage. Other industries such as the blockchain (including distributed ledgers and cryptocurrencies) applications, cloud computing and network attached storage (NAS) also have an increasing demand for LAN cables. In 2018, the global market size of LAN cables for the blockchain applications, NAS, etc. reached US$0.92 billion, representing a CAGR of 15.0% from 2014 to 2018.

Market size of global LAN cables 2014–2018

	Market size (US$ billion)					2014–2018 CAGR
	2014	**2015**	**2016**	**2017**	**2018**	
Fixed broadband	2.19	2.54	2.74	2.89	3.07	8.8%
Consumer electronics	0.91	1.10	1.30	1.55	1.92	20.4%
Personal computers	0.90	0.87	0.84	0.82	0.88	–0.3%
Others	0.53	0.60	0.70	0.80	0.92	15.0%
Total	4.53	5.11	5.58	6.06	6.79	10.7%

Note: The years specified in the table are for the period from April to March of relative year.

Source: CRI Report

In 2018, the market size of LAN cables in China reached RMB18.10 billion, representing a CAGR of 11.9% from 2014 to 2018. The structure of China's LAN cable market was similar to that of the global LAN cable market. The market size of LAN cables for fixed broadband in China reached RMB7.73 billion, representing a CAGR of 17.8% from 2014 to 2018. The market size of LAN cables for consumer electronics reached RMB4.08 billion, representing a CAGR of 21.0% from 2014 to 2018. As the production and sales volumes of personal computers in China have declined for many years, the demand for LAN cables on China's personal computers market is decreasing. In 2018, the market size of LAN cables for personal computers in China reached RMB3.68 billion, representing a negative CAGR of 3.3%. China's other industries such as the blockchain and NAS also have an increasing demand for LAN cables. In 2018, the market size of LAN cables for the blockchain, NAS, etc. reached RMB2.61 billion, representing a CAGR of 16.2% from 2014 to 2018.

Market size of the PRC's LAN cables industry from 2014–2018

	Market size (RMB billion)					2014–2018 CAGR
	2014	2015	2016	2017	2018	
Fixed broadband	4.01	4.27	5.94	6.98	7.73	17.8%
Consumer electronics	1.91	2.46	3.07	3.64	4.08	21.0%
Personal computers	4.21	3.77	3.48	3.68	3.68	–3.3%
Others	1.43	1.66	1.93	2.24	2.61	16.2%
Total	11.56	12.16	14.42	16.54	18.10	11.9%

Note: The years specified in the table are for the period from April to March of relative year.

Source: CRI Report

The Target Group has a wide variety of products for different application scenarios. From 2017 to 2019, the Target Group's major products Cat 5/5e cables, Cat 6/6A cables and Cat 7/7A cables accounted for over 90% of the total revenue of the Target Group. Cat 5/5e cables and Cat 6/6A cables have similar structures and mainly differ in terms of transmission speed and performance. Cat 5/5e cables are mainly used in fields such as fixed broadband, consumer electronics and personal computers. Having higher performance and prices, Cat 6/6A cables are mainly used in fields such as fixed broadband for enterprises and high-end consumer electronics and personal computers. With structure different from those of Cat 5/5e cables and Cat 6/6A cables and much higher transmission speed, Cat 7/7A cables are mainly used in fields such as data centers and fixed broadband for enterprises. As the access rate of global fixed broadband increases, Cat 5/5e cables and Cat 6/6A cables are expected to take up a smaller share of the LAN cable market while the market share of Cat 7/7A cables will gradually increase.

Global LAN cables market by product type

	Market size (US$ million)						
	2017	2018	2019F	2020F	2021F	2022F	2023F
Cat 5/5e cables	1,422.81	1,473.57	1,496.64	1,492.99	1,462.56	1,407.24	1,320.04
Cat 6/6A cables	3,802.22	4,203.40	4,588.19	5,027.25	5,519.98	6,073.36	6,695.35
Cat 7/7A cables	157.42	373.48	740.76	1,062.81	1,556.92	2,179.64	2,913.61
Others	672.04	740.18	733.21	851.94	896.40	920.53	963.27
Total	6,054.49	6,790.63	7,558.80	8,434.99	9,435.86	10,580.77	11,892.27

Note: The years specified in the table are for the period from April to March of relative year.

Source: CRI Report

COMPETITIVE LANDSCAPE

There are many LAN cable manufacturers in the world. By the end of 2018, the number of LAN cable manufacturers in the world was over 1,000, representing a low market concentration ratio. By revenue, the global top five LAN cable manufacturers in 2018 were Amphenol Corporation, CommScope Holding Company, Inc., TE Connectivity Ltd., Schneider Electric and the Target Group. Amphenol Corporation took up the largest market share of 6.2%. The Target Group took up the fifth largest market share of about 3.2%. The market share of top five LAN cable manufacturers was 23.8%. All of the top five LAN cable manufacturers except the Target Group are listed companies. And the LAN cable is not the main business of these leading companies.

Global Top 5 LAN cable manufacturers in 2018

Ranking	**Enterprise**	**Revenue of LAN cable business** *(US$ million)*	**Global market share** %
1	Amphenol Corporation	420.1	6.2%
2	CommScope Holding Company, Inc.	365.5	5.4%
3	TE Connectivity Ltd.	346.5	5.1%
4	Schneider Electric	264.2	3.9%
5	The Target Group	216.3	3.2%
	Total	1,612.6	23.8%

Note: The revenues are for the period from April 2018 to March 2019.

Source: CRI Report

There are also many small and medium-sized LAN cable manufacturers (including manufacturers that have their own brands, OEMs and ODMs) in the global and China markets. These manufacturers take orders at low prices but they have uneven product quality and low profit margins. It is expected that as downstream clients put forward higher technical and quality requirements for LAN cables, less competitive LAN cable manufacturers will close down, and the global and China LAN cable markets will become more concentrated.

Competitive advantages of the Target Group in the market

(1) The Target Group ranked fifth in the global LAN cable market in terms of revenue.

(2) Having produced different cables for over 26 years, the Target Group has advanced technologies and various products.

(3) The Target Group keeps long-term cooperation with some excellent and international clients, which secures the sustained growth of its revenue.

(4) The LAN cables of the Target Group's self-owned brand are well known to the China market.

(5) The Target Group keeps developing new LAN cables according to market trends and latest technologies, which helps to create new growth areas, such as Cat 8 cables, optical fibre cables, etc.

Entry barriers

Capital

Purchase of LAN cable manufacturing equipment and research and development of new product require constant and massive funds because the downstream clients' requirements on quality, performance and specification of cable for fixed broadband, consumer electronics and other industries constantly leveling up, which creates a fund barrier to enterprises. In addition, to improve profit margin and save labour costs, substantial investment in automation machines is needed for routine and repetitive procedures.

Sales channel

Qualified LAN cable suppliers should not only comply with the industry standards but also satisfy the qualification requirements set out by the clients. Qualification procedures are usually stringent as part of the total quality control process, especially for global corporations. Once the supplier is authorised by the clients, the partnership usually stays long in the absence of unexpected events. Corporates may set high bar in authorising suppliers and the cost of switching suppliers may be significant. Such authorisation mechanism and industry phenomenon of long-term partnerships forms a solid barrier to new entrants.

Technology

Varieties and specifications of LAN cable for downstream industries are numerous and complicated, which requires high-level design and techniques. Manufacturers should have fast research and development ability to respond to the speedy upgrading of downstream products in short time horizon, which constitutes a technical barrier to new entrants.

Key drivers

(1) Global fixed broadband networks have huge demand for LAN cables and the demand is growing steadily.

(2) With the development of global economy, the rise of people's disposable income and the advancement of new technologies such as 4K or even 8K video *(Note)* and virtual reality, consumers are increasingly reliant on the internet and demanding on network transmission. The demand of stable signal and high volume transmission is also growing. To achieve faster network transmission, LAN cables with higher performance and prices will gain popularity in the future.

(3) As a major LAN cable manufacturing country, China has mature LAN cable manufacturing technologies, which is favourable to the development of the industry. China-made LAN cables are not only sold domestically but also exported to overseas markets.

(4) The theoretical download speed of 5G is 20 Gbit/s (according to the ITU IMT-2020 standard), which is more than 60 times the peak download speed of 100 Mbit/s to 150 Mbit/s of 4G. The download speed of 5G will exceed the average download speed below 100 Mbit/s of the current mainstream fixed network broadband services. The popularization of 5G will inevitably impact the fixed broadband market. To compete with 5G operators, fixed broadband operators will increase broadband speed by providing fixed broadband with download speed of 1 Gbit/s or higher. On one hand, the number of fixed broadband users will increase. On the other hand, old fixed broadband users need new LAN cables for service upgrade. Therefore, the development of 5G will boost the global demand for Cat 7 cables, Cat 7A cables and Cat 8 cables and stimulate the business growth of the Target Group.

To compete with 5G operators, fixed broadband operators will promote 4K and 8K video streaming, smart homes and other value-added services. The popularization of these services will also drive up the demand for LAN cables and the business growth of the Target Group.

As the global 5G market grows, the 5G-related telecommunications equipment market will also grow and the demand for Cat 7 cables, Cat 7A cables and Cat 8 cables will expand.

Note: 4K and 8K resolution, also called 4K and 8K, refers to the horizontal display resolution of approximately 4,000 pixels and 8,000 pixels, respectively.

Threats and challenges

Technical risks

In the 5G era, internet data will be transmitted much faster than in the 4G era, which put forwards higher technical requirements for telecommunications equipment including LAN cables, and new category of LAN cables with higher frequency and better performance is being developed. If LAN cable manufacturers cannot timely upgrade technologies and develop products that meet market needs, they will lose the market.

As users put forward higher technical requirements for the transmission performance and stability of LAN cables, the market size of mainstream Cat 5/5e cables and Cat 6/6A cables is shrinking while the market size of Cat 7/7A cables and Cat 8 cables is expanding. Cat 7/7A cables and Cat 8 cables have different structures from Cat 5/5e cables and Cat 6/6A cables and require high research and development and production capacities.

Fluctuations in the prices of upstream raw materials

The fluctuations in the prices of upstream raw materials, such as copper, polyethylene and PVC, directly affect the profitability of the LAN cable business.

Cost of copper accounts for over a half of the total cost of copper cables. The price of #1 electrolytic copper on China market fluctuated during 2016 to 2018. The highest average quarterly price of #1 electrolytic copper in China was RMB54,539 per ton in the fourth quarter of 2017, while the lowest average quarterly price was RMB36,569 per ton in the second quarter of 2016. The fluctuation of #1 electrolytic copper price was mainly due to multiple factors, such as the changes in export volumes, the exchange rate of RMB, etc.

Polyethylene (PE) and PVC are the major materials for producing cable jackets and connectors. Major raw material of PE is petroleum; major raw materials of PVC are petroleum or petroleum products. Price of raw materials of both PE and PVC are influenced by the international crude oil price. The prices of the two products fluctuated during 2016 to 2018.

If raw material prices fluctuate wildly in the short term, LAN cable buyers may restrict their purchase size and manufacturers will face certain operational risks as well.

Quality of LAN cables

The quality of LAN cables made in China is patchy. Some manufacturers produce cheap products for the low-end market to obtain a larger market share, resulting in lower profit margins of the industry.

There are large quantities of poor-quality LAN cables on both the PRC market and the global market. Poor-quality networking cables obtain market share by low prices that are only half of those regular products. Poor-quality networking cables are made with poor-quality raw materials for cost reduction. For example, the replacement of oxygen-free copper with recycled copper results in poor data transmission performance and short service life. Counterfeit products may exist in the low-end market by selling at low price, for instance, Cat 3 cables may be disguised as Cat 5/5e cables or Cat 6/6A cables. Poor-quality networking cables not only harm the interests of the networking cable industry, intensify competition and decrease industry profit margins but also harm the interests of customers.

Future trends

(1) At the end of 2018, the bandwidths of the mainstream fixed broadbands in the world were between 20 Mbps and 100 Mbps. It is expected that they will increase to 100 Mbps to 1Gbps from 2019 to 2023. The increase in bandwidths will put forward higher technical requirements and industry standard for LAN cables. Taking twisted pairs for example, Cat 5 cables' will gradually be obsoleted as similar to Cat 1 to Cat 4 cables, Cat 6 will become the mainstream and Cat 7 and the developing Cat 8 cables will grow popular.

(2) With the increasing performance and larger screens of mobile phones, the global sales volume of personal computers will continue to drop from 2019 to 2023 but it will remain above 200 million units per year. As 4K video and other networking and cloud applications require larger bandwidths, technological improvements of the LAN cables for personal computers is expected.

(3) With the popularisation of smart TVs, the highest resolution of panels is increasing from 4K to 8K. It is expected that the 2020 Summer Olympic to be held in Tokyo will be broadcasted by use of 8K4K (7,680×4,320) signals, which will promote the application of 8K resolution in global TV programmes and online videos and put forward higher technical requirements for the LAN cables for smart TVs.

It is expected that the global market size of LAN cables will continue to grow from 2019 to 2023. It will reach US$11.90 billion in 2023, representing a CAGR of 12.0% from 2019 to 2023. The LAN cables for fixed broadband will keep the largest share of the global LAN cable market. In 2023, the global demand for LAN cables for fixed broadband will reach US$4.73 billion, representing a CAGR of 9.0% from 2019 to 2023. The global demand for LAN cables for consumer electronics such as smart TVs will reach US$4.42 billion in 2023, representing a CAGR of 18.2% from 2019 to 2023. The global demand for LAN cables for personal computers will reach US$929.09 million in 2023, representing a CAGR of 1.0% from 2019 to 2023. The global demand for LAN cables for other industries such as the blockchain and NAS will reach US$1.82 billion in 2023, representing a CAGR of about 14.6% from 2019 to 2023.

Forecast on global market size of LAN cables 2019–2023F

	Market size (US$ billion)					2019–2023F
	2019F	2020F	2021F	2022F	2023F	CAGR
Fixed broadband	3.35	3.65	3.98	4.34	4.73	9.0%
Consumer electronics	2.26	2.68	3.16	3.74	4.42	18.2%
Personal computers	0.89	0.90	0.91	0.92	0.93	1.0%
Others	1.05	1.21	1.38	1.59	1.82	14.6%
Total	7.55	8.44	9.43	10.59	11.90	12.0%

Note: The years specified in the table are for the period from April to March of relative year.

Source: CRI Report

China's LAN cable market will also keep growing from 2019 to 2023. It is expected that the market size of LAN cables in China will reach RMB 32.46 billion in 2023, representing a CAGR of about 12.6%. The structure of China's LAN cable market will be similar to that of the global LAN cable market. The LAN cables for fixed broadband will continue to take up the largest share of China's LAN cable market from 2019 to 2023. The demand for LAN cables for fixed broadband in China will reach RMB 13.32 billion in 2023, representing a CAGR of 11.5% from 2019 to 2023. The demand for LAN cables for consumer electronics in China will reach RMB9.98 billion in 2023, representing a CAGR of about 19.6% from 2019 to 2023. The demand for LAN cables for personal computers in China will reach RMB3.77 billion, in 2023 representing a CAGR of about 0.5% from 2019 to 2023. The demand for LAN cables for other industries such as the blockchain and NAS in China will reach RMB5.39 billion, representing a CAGR of 15.6% from 2019 to 2023.

Forecast on market size of China's LAN cables 2019–2023F

	Market size (RMB billion)					2019–2023F
	2019F	2020F	2021F	2022F	2023F	CAGR
Fixed broadband	8.62	9.61	10.72	11.95	13.32	11.5%
Consumer electronics	4.88	5.84	6.98	8.35	9.98	19.6%
Personal computers	3.70	3.72	3.74	3.75	3.77	0.5%
Others	3.02	3.49	4.03	4.66	5.39	15.6%
Total	20.22	22.66	25.47	28.71	32.46	12.6%

Note: The years specified in the table are for the period from April to March of relative year.

Source: CRI Report

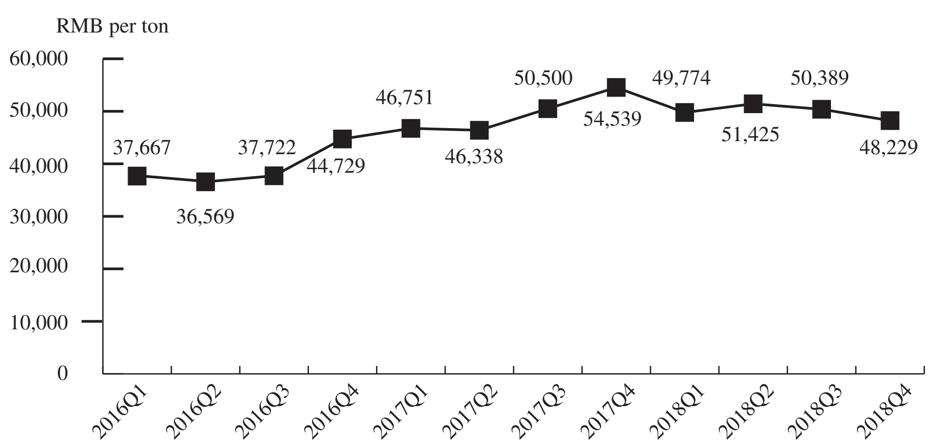
Raw materials

Direct upstream raw materials of LAN cable are copper cables and connectors, which are customised products but not standard products. Therefore, CRI conducted alternative research on major raw materials. Major raw materials for copper cables are copper wires and other materials such as PE and PVC. For the above reasons, CRI analyses the price trend of upstream raw material for copper, PE and PVC for reference. The following charts illustrate the price of #1 electrolytic copper, PE and PVC in China during the years indicated.

Copper

Cost of copper accounts for over half of the total cost of copper cables. The price of #1 electrolytic copper in China market fluctuated during 2016 to 2018. The highest average quarterly price of #1 electrolytic copper in China was RMB54,539 per ton in the fourth quarter of 2017, while the lowest average quarterly price was RMB36,569 per ton in the second quarter of 2016. The fluctuation of #1 electrolytic copper price was mainly due to multiple factors, such as the changes in export volumes, the exchange rate of RMB, etc.

Price Trend of #1 Electrolytic Copper on China Market, 2016–2018



Source: National Bureau of Statistics of China; CRI

PE and PVC

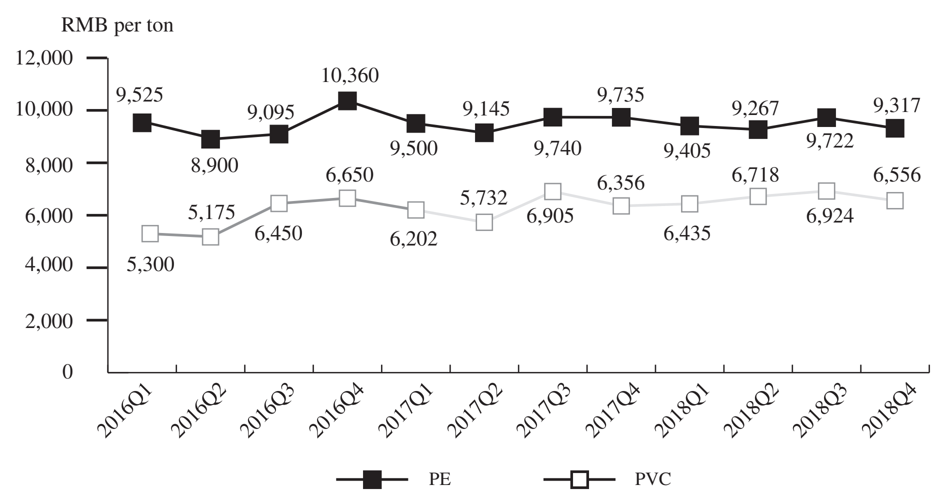
Polyethylene (PE) and polyvinyl chloride (PVC) are the major materials for producing cable jackets and connectors. Major raw material of PE is petroleum while major raw materials of PVC are petroleum or petroleum products. Price of raw materials of both PE and PVC are influenced by the international crude oil price. The prices of the two products fluctuated during 2016 to 2018.

The production volume of PE is so low in China that China has not achieved self-sufficiency in PE. More than half of the PE needs in China are satisfied by imports. As the global production capacity of PE keeps expanding in recent years, low-price PE is flocking to China from abroad. The highest average quarterly price of PE in China was RMB10,360 per ton in the fourth quarter of 2016, while the lowest average quarterly price was RMB8,900 per ton in the second quarter of 2016. With the fluctuation of PE prices in the global market, PE prices in the China market also fluctuated from 2016 to 2018.

The highest average quarterly price of PVC in China was RMB6,718 per ton in the second quarter of 2018, while the lowest average quarterly price was RMB5,300 per ton in the first quarter of 2016. During 2016 to 2018, the price of PVC fluctuated greatly due to various reasons, such as changes in supply and demand, the in-the-making of the Sino-US trade war in 2018, etc. While China's demand of PVC is rising steadily as a result of urbanisation and growing economy, the domestic supply of PVC also depended on the import price of PVC polymer in primary form, which was affected by changing demand in other countries.

It is expected that from 2019 to 2023, the prices of the major raw materials for LAN cables (electrolytic copper, PE and PVC) will stay at a low level, which will help LAN cable manufacturers to control costs.

Price Trend of PE and PVC on China Market, 2016–2018



Source: National Bureau of Statistics of China; CRI

This section summarises the principal laws and regulations of the PRC and Hong Kong which are relevant to the Target Group's business.

THE LAWS AND REGULATIONS OF THE PRC

The following sets forth a summary of the most related aspects of PRC laws and regulations relating to the business operations of the Target Group in the PRC:

Provision on Foreign Investment

The establishment, operation and management of foreign-invested enterprises in the PRC are governed by (i) the Catalogue of Industries for Encouraging Foreign Investment (2019 Version) (《鼓勵外商投資產業目錄(2019年版)》) jointly promulgated by the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) (the "**NDRC**") and the Ministry of Commerce (國家商務部) (the "**MOFCOM**") and became effect on 30 July 2019; (ii) the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (《外商投資准入特別管理措施(負面清單) (2019年版)》) jointly promulgated by the NDRC and the MOFCOM and became effect on 30 July 2019; (iii) the Company Law of the PRC (《中華人民共和國公司法》), which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (the "**NPCSC**") on 29 December 1993 and was last amended on 26 October 2018; (iv) the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) promulgated on 15 March 2019 and became effective on 1 January 2020; (v) the Implementing Regulation for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) promulgated on 26 December 2019 and became effective on 1 January 2020; and (vi) the Measures for Reporting Foreign Investment Information (《外商投資信息報告辦法》) jointly promulgated by the MOFCOM and the State Administration for Market Regulation (國家市場監督管理總局) on 30 December 2019 and became effective on 1 January 2020. According to those laws and regulations aforesaid, the State adopts the management system of pre-establishment national treatment and negative list for foreign investment. For the fields not included in the negative list for foreign investment access, management shall be conducted under the principle of consistency for domestic and foreign investment. The State establishes a foreign investment information report system, which indicates that foreign investors or foreign-funded enterprises shall submit investment information to the competent department for commerce concerned through the enterprise registration system and the enterprise credit information publicity system. Where a foreign investor or foreign-funded enterprise fails to report the investment information as required to the foreign investment information report system, it shall be ordered to make correction within a time limit by the competent commerce department; and, if it fails to correct by the prescribed deadline, a fine of not less than RMB100,000 but not more than RMB500,000 shall be imposed thereon.

According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition), the business activities conducted by the subsidiary of the Target Company established in the PRC are not included in the negative list.

Provisions on Investment Made by Foreign-Invested Enterprises in the PRC

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in the PRC (《關於外商投資企業境內投資的暫行規定》), which were jointly promulgated by the Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部) (now integrated into the MOFCOM) and the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局) on 25 July 2000 and amended on 28 October 2015, stipulates that the investment in the PRC by foreign-invested enterprises shall be conducted with reference to the Interim Provisions on Guiding Foreign Investment Direction (repealed by the Regulations on Guiding Foreign Investment Direction (《指導外商投資方向規定》) and the Regulations on the Catalogue of Industries for Guiding Foreign Investment. Foreign investment enterprises shall not invest in fields in which foreign investment is prohibited.

Provisions on Product Quality

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) promulgated by the NPCSC on 22 February 1993 and latest amended on 29 December 2018, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the quality of their products.

Responsibilities and obligations of producers for the products include: (i) be responsible for the quality of the products they produce; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes to highlight the way of handling that calls for attention.

A producer in breach of the above responsibilities and obligations shall be liable for civil compensation. The authorities shall order the suspension of production, confiscate the products illegally produced, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licenses shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

Provisions on Consumer Protection

The Law on the Protection of Consumer Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》) (the "**Law on the Protection of Consumer Rights and Interests**"), which came into force on 1 January 1994, and was amended on 27 August 2009 and on 25 October 2013, respectively, stipulates that the merchandise or services provided by business operators should meet safety requirements. Business operators must fulfill their obligation in protecting the safety of their customers. Business operators are forbidden to impose unfair and unreasonable rules such as exclusion or restriction of customer rights, mitigation or exemption of the responsibility of business operators, increase of consumer responsibility through standard terms, notices, disclaimers and store notices. When a business operator violates the Law on Protection of Consumer Rights and Interests and causes bodily or property damage to consumers, they are required to undertake civil compensation responsibilities. They may also receive administrative penalties including warnings, confiscation of illegal earnings, fines, orders to suspend business and revocation of business license from administrative departments.

Provisions on Import and Export Goods

The Customs Law of the PRC (《中華人民共和國海關法》) (the "**Customs Law**") was adopted by the NPCSC on 22 January 1987, being effective on 1 July 1987, latest amended on 4 November 2017 and came into force since 5 November 2017. According to the Customs Law, where a consignee or consignor of import or export goods or a customs-clearing enterprise goes through customs declaration procedures, they shall be subject to registration by customhouse. Unless otherwise stipulated, the consignee or consignor of import and export goods may take import and export goods through Customs declaration procedures and pay tax themselves.

According to the Notice of General Administration of Customs on Promoting the Related Matters of Integration of Customs and Inspection and Quarantine and Optimizing the Registration of Customs Declaration Agencies (《海關總署關於推進關檢融合優化報關單位註冊登記有關事項的公告》) effected on 29 October 2018, the registration certificates of Customs Declaration Unit (海關報關單位註冊登記證書) issued by customs can reflect the qualifications of customs declaration and inspection declaration of enterprises.

Provisions on Environmental Protection

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**") implemented on 26 December 1989 and amended on 24 April 2014 stipulates that construction projects which may have environmental impacts shall conduct environmental impact assessment and installations for the prevention and control of pollution in construction projects must be designed, built and commenced operation together with the main body of the project. Enterprises and institutions engaged in discharge of pollutants shall establish an environmental protection accountability system to specify the responsibilities of the person(s)-in-charge and the relevant personnel of the organization. If enterprises or other production operators violate the relevant regulations of the Environmental Protection Law, they may be liable to legal responsibilities including administrative penalties such as fines, corrective actions, suspension of production for improvement, suspension of business or being shut down. Direct management and direct persons in charge may be subject to detainment, and liable to criminal responsibility if their violations constitute a criminal offense.

Pursuant to Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and amended on 2 July 2016 and 29 December 2018 respectively, the State implement classified administration of environmental impact assessment for construction projects in accordance with the degree of environmental impacts of construction projects and the construction entity shall produce environmental impact reports and environmental impact statements or complete environmental impact registration forms according to the list for classified administration of environmental impact assessment for construction projects.

Provision on Taxation

Enterprise Income Tax

The Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)(the "**EIT Law**") promulgated by the NPC on 16 March 2007, effective on 1 January 2008 and last amended on 29 December 2018, as well as Regulation on the Implementation of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and became effective on 1 January 2008 and was last amended on 23 April 2019, impose a uniform enterprises income tax rate of 25% on both domestic and foreign-invested enterprise, unless they qualify for certain exceptions, and terminate most of the tax exemptions, reductions and preferential treatments available under previous tax laws and regulations.

According to the EIT Law, its Implementation Regulations and the Administrative Measures on Accreditation of High-tech Enterprises (《高新技術企業認定管理辦法》) promulgated by the Ministry of Science and Technology of the PRC (科學技術部) (the "**MOST**"), the Ministry of Finance (財政部) (the "**MOF**"), the State Administrative of Taxation (國家稅務總局) (the "**SAT**") on 4 April 2008 and came into force on 1 January 2008, amended on 29 January 2016 and effective as of 1 January 2016, an accredited High-tech Enterprises is entitled to enjoy a reduced enterprise income tax rate of 15% from the year of issue stated on the High-tech Enterprise certificate.

According to the EIT Law and its Implementation Regulations, the research and development expenses of an enterprise for developing new technologies, new products and new processes may be deducted when computing the taxable amount of income; for the actual expenses that intangible assets are yet to be formed and included in the profit and loss for the current period, 50% of the research and development expenses may be deducted on the basis of actual deduction pursuant to the provisions; where intangible assets are formed, 150% of the cost of intangible assets may be amortized. In light of the Notice on Increasing the Rate of Additional Deduction of Pre-tax Research and Development Expenses (《關於提高研究開發費用稅前加計扣除比例的通知》) promulgated by the SAT, the MOF, the MOST on 20 September 2018 and came into force on the same date, for the actual expenses that intangible assets are yet to be formed and included in the profit and loss for the current period, during the period from 1 January 2018 to 31 December 2020, 75% of the actual amount of research and development expenses may be deducted; where intangible assets are formed, 175% of the cost of intangible assets may be amortized.

Value-added tax

The Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (the "**VAT Provisional Regulations**") was officially implemented on 1 January 1994 and amended on 6 February 2016 and 19 November 2017, and its implementing rules (《中華人民共和國增值稅暫行條例實施細則》) was promulgated by MOF on 25 December 1993 and amended by the MOF and the SAT on 15 December 2008 and 28 October 2011 respectively. The VAT Provisional Regulations provides that value-added tax is payable on the sale or import of goods, the sale of services, intangible assets and real estate and the provision of processing, repair and assembly services in the PRC. The tax rate for taxpayers engaging in sale of or import of goods shall be 17% and the tax rate for taxpayers engaging in sale of services and intangible assets shall be 6%, unless otherwise stipulated in the VAT Provisional Regulations.

According to the Notice of the MOF and the SAT on Adjusting the Value-added Tax Rate (《財政部、稅務總局關於調整增值稅稅率的通知》), effected on 1 May 2018, the VAT tax rates on sales or imported goods are adjusted from 17% and 11% to 16% and 10% respectively.

According to the Notice of the Relating Policies on Deepening Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》) promulgated on 20 March 2019 and be effected on 1 April 2019, the VAT tax rates on sales or imported goods are adjusted from 16% and 10% to 13% and 9% respectively.

Since 1 January 1994, business tax and value-added tax are implemented together upon different sorts of business incomes. From 1 January 2012, the SAT and the MOF had promulgated several notices on including more industries on switching from business tax to value-added tax.

On 23 March 2016, the SAT and the MOF promulgated Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》(財稅[2016]36號)), according to which the pilot program of replacing business tax with value-added tax shall be implemented nationwide effective from 1 May 2016 and all business tax payers in construction industry, real estate industry, finance industry, consumer service industry, etc. shall be included in the scope of the pilot program and pay value-added tax instead of business tax. The tax rate of general tax activities (excluding the provision of services in transportation, postal services, basic telecommunications, construction or real property lease, the sale of real property or the transfer or land use right, the provision of tangible personal property lease services, the cross-border taxable activities, etc.) applied to general tax payers will be 6%. On 19 November 2017, the State Council promulgated the Decision on Abolition of the Provisional Regulations on Business Tax of the PRC and Revision of the VAT Provisional Regulations (《國務院關於廢止《中華人民共和國營業稅暫行條例》和修改《中華人民共和國增值稅暫行條例》的決定》), the Business Tax of the PRC have been abolished since 19 November 2017.

Provisions relating to Foreign Exchange

Pursuant to the Foreign Exchange Administrative Regulations of the PRC (《中華人民共和國外匯管理條例》), which was promulgated on 29 January 1996 and became effective on 1 April 1996, and amended on 14 January 1997 and 5 August 2008 respectively and became effective on 5 August 2008, conversion of RMB and remittance of the foreign currency outside the PRC for capital account items, such as direct equity investment, loans and repatriation of investment, are subject to the obtaining of prior approval from the State Administration of Foreign Exchange (國家外匯管理局) and/or one of its branches.

Provisions on Labor Services

The Labor Law of the PRC (《中華人民共和國勞動法》) (the "**Labor Law**") was promulgated by the NPCSC, implemented on 1 January 1995 and amended on 27 August 2009 and 29 December 2018. The Labor Law stipulates that workers are entitled to have equal opportunities in employment, selection of occupations, receiving wages and remuneration, rest days and holidays, protection of occupational safety and health, the rights to social insurance and welfare, etc.

According to the Labor Law, where an enterprise fails to follow the stipulations to provide normal rest days and holidays for the laborers due to the characteristic of its production, it may, with the approval of the administrative department of labor, adopt other rules on working hours and rest.

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which was implemented on 1 January 2008 and amended on 28 December 2012, stipulates that written labor contracts must be executed in order to establish a labor relationship between the employer unit and the laborer. When an employer unit is recruiting laborers, it should inform the laborers truthfully the content of work, working conditions, place of work, occupational hazards, safe production conditions, labor remuneration and other circumstances requested to be known by the laborers.

The Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and became effective on 1 July 2011 and was subsequently amended and came into force on 29 December 2018, stipulates that employer units must purchase social insurance for laborers. Such insurance includes pension insurance, unemployment insurance, childbirth insurance, work injury insurance and medical insurance. When an employer unit fails to complete social insurance registration or does not pay the full amount of social insurance fees on time, it may be subject to administrative penalties such as order of correction within a specific timeframe, order of payment within a specific timeframe, or top-up, increase of penalty fees and fines by the social insurance administrative authorities.

The Administrative Provisions for Housing Provident Funds (《住房公積金管理條例》) promulgated on 3 April 1999, which became effective on 3 April 1999 and was subsequently amended on 24 March 2002 and 24 March 2019，stipulates that employer units must register housing provident fund deposits with the housing provident fund management center and set up housing provident fund accounts for its employees. Failure to do so may result in penalties such as order to register within a specific timeframe or fines by the housing provident fund management center. If an employer unit fails to make deposits after the due date, the housing provident fund management center may apply for enforcement with the People's Court.

Provisions on work health and safety

The Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) promulgated on 27 October 2001,which became effective on 1 May 2002 and was last amended 29 December 2018, stipulates that employers shall create work environment and conditions meeting the national occupational health standards and health requirements and take measures to ensure that employees receive occupational health protection. When the employer fails to provide occupational disease protective facilities and occupational disease protective items for personal use or provides occupational disease protective facilities and occupational disease protective items for personal use which do not meet the national occupational health standards and health requirements, the work safety administrative department shall issue a warning and order to make correction within a prescribed time limit; if no correction is made within the prescribed time, a fine shall be imposed and for serious circumstances, the enterprise will be ordered to cease operations causing occupational disease hazards or be ordered a shutdown.

The Work Safety Law of the PRC (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and becoming effective on 1 November 2002 and amended in 2009 and 2014, respectively, stipulates that employees are entitled to safeguards for work safety and shall perform work safety obligations. Enterprise units shall meet the work safety conditions prescribed by this law and other relevant laws, administrative regulations, and national or industry standards. Enterprise units not meeting such conditions shall not be engaged in production and other business activities. Enterprise units shall provide their employees with work safety education and training to ensure that their employees (i) have necessary work safety knowledge; (ii) are familiar with the relevant work safety policies and rules and safe operating procedures; (iii) possess the safe operating skills for their respective posts; (iv) know the emergency response measures for accidents; and (v) are informed of their rights and obligations in terms of work safety. The Labour union supervises work safety and protects the lawful rights and interests of employees in terms of work safety. If the enterprise unit fails to establish a work safety management section or employ work safety management personnel as required, or fails to provide work safety education and training for its employees as required, it may be ordered to take corrective actions and fined or even ordered to a shutdown. Further, the person in-charge or the personnel directly responsible may be imposed with an administrative punishment or fine. If any crime has been committed, the offender may be liable to criminal liabilities.

Provision relating to Intellectual Property

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

According to the Trademark Law last amended on 23 April 2019 and its implementation regulations last amended on 29 April 2014, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks. Registered trademarks are granted on a term of ten years, commencing from the date of registration. Twelve months prior to the expiration of the ten-year term, an applicant can renew the application and reapply for trademark protection. Infringement on the exclusive rights of registered trademarks may result in the imposition of fines, confiscation and destruction of the infringing commodities. Where the infringement constitutes a criminal offence, the criminal liability shall be pursued in accordance with the relevant law.

According to the Patent Law last amended on 27 December 2008 and effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The Computer Software Protection Regulations (《計算機軟件保護條例》) promulgated by the State Council on 4 June 1991 and latest amended on 30 January 2013, are intended to protect the rights and interests of the computer software copyright holders. Software developed by PRC citizens, legal person or other organizations is automatically protected immediately after its development, whether published or not.

THE LAWS AND REGULATIONS OF HONG KONG

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

The Employment Ordinance provides for, amongst other things, the protection of the wages of employees, to regulate general conditions of employment, and for matters connected therewith. Under section 25 of the Employment Ordinance, where a contract of employment is terminated, any sum due to the employee shall be paid to him as soon as it is practicable and in any case not later than seven days after the day of termination. Any employer who wilfully and without reasonable excuse contravenes section 25 of the Employment Ordinance commits an offence and is liable to a maximum fine of HK$350,000 and to imprisonment for a maximum of three years. Further, under section 25A of the Employment Ordinance, if any wages or any sum referred to in section 25(2)(a) are not paid within seven days from the day on which they become due, the employer shall pay interest at a specified rate on the outstanding amount of wages or sum from the date on which such wages or sum become due up to the date of actual payment. Any employer who wilfully and without reasonable excuse contravenes section 25A of the Employment Ordinance commits an offence and is liable on conviction to a maximum fine of HK$10,000.

Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity or dies arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

According to section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction to a fine of HK$100,000 and imprisonment for two years.

According to section 48 of the Employees' Compensation Ordinance, an employer shall not, without the consent of the Commissioner for Labour, terminate, or give notice to terminate, the contract of service of an employee (who has suffered incapacity or temporary incapacity in circumstances which entitle him to compensation under the Employees' Compensation Ordinance) before occurrence of certain events. Any person who commits breach of this provision is liable on conviction to a maximum fine of HK$100,000.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

The MPF Scheme is defined contribution retirement scheme managed by authorised independent trustees. The Mandatory Provident Fund Schemes Ordinance provides that an employer shall participate in an MPF Scheme and make contributions for its employees aged between 18 and 65. Under the MPF Scheme, an employer and its employee are both required to contribute 5% of the employee's monthly relevant income as mandatory contribution for and in respect of the employee, subject to the minimum and maximum relevant income levels for contribution purposes. The maximum level of relevant income for contribution purposes is currently HK$30,000 per month or HK$360,000 per year.

Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance imposes a common duty of care on an occupier of a premise to take reasonable care of the premise in all circumstances so as to ensure that his visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

(i) providing and maintaining plant and work systems that are safe and without risks to health;

(ii) making arrangement for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;

(iii) providing all necessary information, instruction, training, and supervision for ensuring safety and health;

(iv) providing and maintaining safe access to and egress from the workplaces; and

(v) providing and maintaining a working environment that is safe and without risks to health.

Failure to comply with the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK$200,000 and to imprisonment for six months. The Commissioner for Labour may also issue improvement notices against non-compliance of the Occupational Safety and Health Ordinance or the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong), or suspension notices against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notices constitutes an offence punishable by a fine of HK$200,000 and HK$500,000, respectively and imprisonment of up to one year.

Transfer pricing adjustments in Hong Kong and the PRC

Hong Kong

Regulations concerning transfer pricing between associated enterprises can be found in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**IRO**") and the comprehensive double taxation agreements (the "**DTAs**") between Hong Kong and other countries or territories, including the PRC.

Pursuant to section 20(2) of the IRO, a non-resident person shall be liable to Hong Kong profits tax where it carries on business with a closely connected resident person and such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong.

Under section 60 of the IRO, where it appears to an assessor that for any year of assessment any person chargeable with tax has not been assessed or has been assessed at less than the proper amount, the assessor may, within the year of assessment or within 6 years after the expiration thereof, assess such person at the amount or additional amount which according to his judgment such person ought to have been assessed, and, provided that where the non-assessment or under-assessment of any person for any year of assessment is due to fraud or wilful evasion, such assessment or additional assessment may be made at any time within 10 years after the expiration of that year of assessment.

Section 61A of the IRO stipulates that where it would be concluded that person(s) entered into or carried out transactions for the sole or dominant purpose to obtain a tax benefit (which means the avoidance or postponement of the liability to pay tax or the reduction in the amount thereof), liability to tax of the relevant person(s) will be assessed (a) as if the transaction or any part thereof had not been entered into or carried out; or (b) in such other manner as the supervising authority considers appropriate to counteract the tax benefit which would otherwise be obtained.

The DTAs contain provisions mandating the adoption of arm's length principle for pricing transactions between associated enterprises. The arm's length principle uses the transactions of independent enterprises as a benchmark to determine how profits and expenses should be allocated for the transactions between associated enterprises. The basic rule for DTA purposes is that profits tax charged or payable should be adjusted, where necessary, to reflect the position which would have existed if the arm's length principle had been applied instead of the actual price transacted between the enterprises.

The Departmental Interpretation and Practice Notes No. 45 – Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the Inland Revenue Department in April 2009 makes it available that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country (countries entered into tax arrangements with Hong Kong includes the PRC).

The Inland Revenue Department also issued a Departmental Interpretation and Practice Notes No. 46 in December 2009 which provides a comprehensive guideline on transfer pricing and further issued a Departmental Interpretation and Practice Notes No. 48 in March 2012 which provides a mechanism for taxpayers to pre-agree their transfer pricing arrangements with the Inland Revenue Department.

The PRC

Pursuant to the EIT Law, and its Implementation Regulations and the Implementation Regulations for Special Tax Adjustments (Trial) (《特別納稅調整實施辦法(試行)》) (the "**STA Rules**"), transactions in respect of the purchase, sale and transfer of products between, among others, enterprises under direct or indirect control by the same third party are defined as related party transactions, which should comply with the arm's length principle (獨立交易原則). If the related party transactions fail to comply with arm's length principle which result in the reduction of the enterprise's taxable income, the tax authority has the power to make an adjustment (特別納稅調整) following certain procedures within ten years from the tax paying year that the non-compliant related party transaction had occurred.

Pursuant to the Law of the PRC on the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) promulgated on 4 September 1992, latest amended on 24 April 2015 and its implementing rules (《中華人民共和國稅收徵收管理法實施細則》) promulgated on 7 September 2002, latest amended on 6 February 2016, taxpayers have an obligation to provide the local tax authorities with information on prices, expenditure standard and others concerning business transactions with the related party. The taxpayer may propose to the competent tax authorities a pricing principle and calculation method for business transactions with the related party. The competent tax authorities may, after examination and approval, agree upon the items of pricing with the taxpayer in advance and supervise over the implementation. Pursuant to the Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related Party Transactions and the Management of Contemporaneous Documentation (《國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告》) ("**Circular 42**") promulgated by the SAT and became effective on 29 June 2016, any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in China and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any related party and attach thereto the Annual Report on the Related Party Transactions (年度關聯業務往來報告). Enterprises shall prepare contemporaneous documentation (同期資料) based on a tax year, and submit contemporaneous documentation for the related party transactions to the tax authority if required by the same. Contemporaneous documentation includes the master file (主體文檔), local file (本地文檔) and special issue file (特殊事項文檔), each of which is applied to different circumstances in relation to the related party transactions of the PRC enterprises.

The SAT has published an announcement on issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (《特別納稅調查調整及相互協商程序管理辦法》) (the "**Circular 6**") which came into effect from 1 May 2017. According to the Circular 6, the tax authorities exercise special tax adjustment monitoring and management of enterprises via review of the reporting of related party transactions, management of contemporaneous documentation, profit level monitoring and other means. If an enterprise receives a special tax adjustment risk warning from tax authorities or detects in itself any special tax adjustment risk, the enterprise may carry out voluntary adjustments regarding tax payment matters and the relevant tax authority may still proceed with special tax investigation adjustment procedures according to the relevant provisions. Besides, pursuant to the tax treaties signed by China, the SAT may activate mutual consultation procedures either upon application by an enterprise or upon request by the competent tax authority of the contracting counter-party of a tax treaty to consult and negotiate with the latter, so as to avoid or eliminate international double taxation triggered by special tax adjustment.

As confirmed by the directors of the Target Group, the transfer pricing arrangements of the Target Group have not been challenged, investigated or penalised by any relevant tax authority in the PRC, nor has it received any special tax adjustment risk warning from tax authorities in the PRC during the Track Record Period and up to the Latest Practicable Date.

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

The Target Group's networking cables business commenced when the Vendor established Shanghai LTK Electric Wire Ltd. (currently known as Linkz (Shanghai)) in 1993. In 2006, the Target Company was incorporated as an investment holding company in order to formalise the business operations of the Target Group. In the same year, with an aim to capture growth opportunities and to provide manufacturing support to the Target Group in the networking cables business, the Target Group established Linkz Ind (Suzhou), which currently has the largest manufacturing capacity in the Target Group. In 2014, with a view to further expand the manufacturing capabilities of the Target Group, the Vendor acquired Hover Manufacturing together with its operating subsidiaries, Hover (Kunshan) and Kunshan Deqin.

Since then, the Target Group has mainly conducted its business operations through its operating subsidiaries, namely Linkz (Shanghai), Linkz Ind (Suzhou), Hover (Kunshan) and Kunshan Deqin. The Target Group is principally engaged in the manufacture and sale of networking cables, electronic components, semi-conductors and machinery components.

MILESTONES OF THE TARGET GROUP

The following table sets forth certain key milestones in the Target Group's history:

Year	**Event**
1993	The Target Group first carried out networking cables manufacturing business through Linkz (Shanghai)
1999	Linkz (Shanghai) was awarded National Key New Products — Unshielded Twisted Pair Cable
2001	Linkz (Shanghai) was awarded National Key New Products — CAT 6 Twisted Pair Cable
2003	Linkz (Shanghai) was honored as "2000–2002 China Top 100 Overseas Chinese Enterprises* (2000–2002 全國百家明星僑資企業)"
2006	The Target Company was incorporated
2006	Linkz Ind (Suzhou) was established
2007	Linkz (Shanghai) was accredited as a Shanghai Municipal Enterprise Technology Center
2007	Linkz (Shanghai) was awarded National Key New Products — CAT 6A Twisted Pair Cable
2017	Linkz Ind (Suzhou) was accredited with ISO 9001:2015 and ISO 14001:2015 management system standard
2018	Linkz (Shanghai) was accredited with ISO 9001:2015 and ISO 14001:2015 management standard
2019	Hover (Kunshan) was accredited with GB/T 19001–2016/ISO 9001:2015 quality management systems model for quality assurance

THE SHAREHOLDER

As at the Latest Practicable Date, the Vendor owned 100% of the shares of the Target Company. The Vendor is also a Controlling Shareholder of the Company. The Vendor, with its group of subsidiaries, conducted businesses in the manufacture and sales of a range of products including networking cables, LED video display screens as well as leasing of LED video display screens.

Mr. Paul Lo, one of the Controlling Shareholders of the Company, together with two individuals who were Independent Third Parties co-founded the Vendor in 1981.

For further details on the shareholder structure of the Vendor, please refer to the section headed "Letter from the Board — Information on the Parties — Information on the Vendor" in this circular.

MEMBERS OF THE TARGET GROUP

Details of the members of the Target Group are set forth below:

No.	Name	Date of incorporation	Place of incorporation	Principal business activities
1	Linkz Cables Limited	5 December 2006	BVI	Investment holding
2	Linkz Technology	16 March 2007	Hong Kong	Investment holding*(Note)*
3	Linkz Ind (Suzhou)	19 December 2006	PRC	Research and manufacture of networking cables, optical fibre and connectors
4	Linkz (HK)	21 February 2007	Hong Kong	Investment holding
5	Linkz (Shanghai)	7 December 1993	PRC	Sales and manufacture of networking cables
6	Hover Manufacturing	13 June 1997	Hong Kong	Investment holding
7	Hover (Kunshan)	18 August 2006	PRC	Research and manufacture semiconductors and cable components
8	Kunshan Deqin	2 November 2004	PRC	Processing and manufacture of metal hardware, electric components and machinery equipment

Note: Upon completion of the Reorganisation, the trading of networking cables conducted by Linkz International will be transferred to Linkz Technology by way of transfer of the Assets and Liabilities. For further details, please refer to the section headed "Letter from the Board – Reorganisation" in this circular.

Linkz Cables Limited

Linkz Cables Limited was incorporated in the BVI as a limited liability company on 5 December 2006 with an initial authorised share capital of 50,000 shares with a par value of US$1.00 each and was wholly-owned by the Vendor.

Linkz Cables Limited is an investment holding company.

Linkz Technology

Linkz Technology is a direct wholly-owned subsidiary of the Target Company. It was incorporated in Hong Kong as a limited liability company on 16 March 2007 with an initial share capital of HK$10,000, divided into 10,000 shares of HK$1.00 each and the Target Company held all 10,000 shares.

Linkz Technology is an investment holding company.

Linkz Ind (Suzhou)

Linkz Ind (Suzhou) was established in the PRC as a WFOE on 19 December 2006 with an initial registered capital of US$15,000,000 and was wholly-owned by the Target Company. The initial registered capital was fully paid by the Target Company on 26 May 2008. On 10 October 2008, Linkz Ind (Suzhou) increased its registered capital to US$30,000,000. The additional capitals were fully paid on 27 September 2010.

Linkz Ind (Suzhou) runs a business in research and manufacture of networking cables, optical fibre and connectors.

Linkz (HK)

Linkz (HK) is a direct wholly-owned subsidiary of the Target Company. It was incorporated in Hong Kong as a limited liability company on 21 February 2007 with an initial share capital of HK$10,000, divided into 10,000 shares of HK$1.00 each and the Target Company held all 10,000 shares. On 26 April 2012, the share capital was increased to HK$10,000,000 by the creation of an additional 9,990,000 shares of HK$1.00 each and all were allotted to the Target Company.

Linkz (HK) is an investment holding company.

Linkz (Shanghai)

Linkz (Shanghai) was established in the PRC as a sino-foreign equity joint venture on 7 December 1993 with an initial registered capital of US$2,300,000, under its former name Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司). Linkz (Shanghai) was initially owned as to 30% and 70% by Shanghai Anting Industrial Limited* (上海安亭實業總公司) and Rawin Industries Limited (惠榮實業有限公司) (currently known as Belden Grass Valley Asia Limited, 百通草谷亞洲有限公司), respectively. The initial registered capital was fully paid up by Shanghai Anting Industrial Limited and Rawin Industries Limited on 20 September 1994. On 8 April 1994, Linkz (Shanghai) agreed to amend its articles due to the name of change of its shareholder, Rawin Industries Limited to LTK Wiring Company Limited (樂庭電線有限公司).

On 9 February 1995, Linkz (Shanghai) increased its registered capital to US$3,750,000 and was owned as to 20% and 80% by Shanghai Anting Industrial Limited and LTK Wiring Company Limited, respectively. The additional capitals were fully paid on 12 December 1995.

On 15 December 1995, Linkz (Shanghai) increased its registered capital to US$6,250,000 and was owned as to 12% and 88% by Shanghai Anting Industrial Limited and LTK Wiring Company Limited, respectively.

On 29 February 1996, Linkz (Shanghai) increased its registered capital to US$8,250,000 and was owned as to 9.09% and 90.91% by Shanghai Anting Industrial Limited and LTK Wiring Company Limited, respectively. The additional capitals were fully paid on 25 April 1997.

On 21 December 1999, Linkz (Shanghai) increased its registered capital to US$10,000,000 and was owned as to 7.5% and 92.5% by Shanghai Anting Industrial Limited and LTK Wiring Company Limited, respectively. The additional capitals were fully paid on 30 November 1999.

On 13 September 2000, Linkz (Shanghai) further increased its registered capital to US$15,000,000 and was owned as to 5% and 95% by Shanghai Anting Industrial Limited and LTK Wiring Company Limited, respectively. All additional capitals were fully paid.

On 11 April 2007, LTK Wiring Company Limited transferred its entire equity interest, being 95% of the equity interest in Linkz (Shanghai) to Linkz (HK) at a consideration of US$14,250,000 and as a result, Linkz (Shanghai) was owned as to 5% and 95% by Shanghai Anting Industrial Limited and Linkz (HK), respectively.

On 27 August 2007, Linkz (Shanghai) changed to its current name.

Linkz (Shanghai) runs a business in sales and manufacture of networking cables.

Hover Manufacturing

Hover Manufacturing was incorporated in Hong Kong as a limited liability company on 13 June 1997 with an initial registered share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On 10 February 2009, Hover Manufacturing increased its share capital to HK$8,000,000. After a number of shares issuances and transfers, on 26 March 2014, the Vendor became the sole shareholder of Hover Manufacturing, holding all 8,000,000 issued shares of Hover Manufacturing. Prior to Completion, the Target Group shall undertake Reorganisation and the entire issued share capital of Hover Manufacturing would be transferred from the Vendor to the Target Company.

Hover Manufacturing is an investment holding company.

Hover (Kunshan)

Hover (Kunshan) was established in the PRC as a limited liability company on 18 August 2006 with an initial registered capital of HK$8,000,000 and was wholly owned by Hover Manufacturing. The initial registered capital was fully paid by Hover Manufacturing on 6 June 2007.

On 21 April 2011, Hover (Kunshan) increased its registered capital to HK$30,000,000 and the additional capitals were fully paid on 18 July 2011.

Hover (Kunshan) runs a business in research and manufacture of semiconductors and cable components.

Kunshan Deqin

Kunshan Deqin was established in the PRC as a limited liability company on 2 November 2004 with an initial registered capital of RMB1,000,000. The initial registered capital was fully paid. Prior to becoming a member of the Target Group, Kunshan Deqin provided manufacturing support to the Target Group on lower-end networking cables.

On 4 March 2011, Hover (Kunshan) acquired the entire equity interest of Kunshan Deqin from the then shareholders of Kunshan Deqin, both Independent Third Parties.

On 7 April 2011, Kunshan Deqin increased its registered capital to RMB10,000,000 and the additional registered capital was fully paid.

Kunshan Deqin runs a business in processing and manufacture of metal hardware, electric components and machine equipment.

OVERVIEW

The Target Group is a long established cable manufacturer with its manufacturing facilities located in the PRC. Founded in 1993, the Target Group has over 26 years of business operation and currently owns three and leases another industrial complexes situated in Shanghai and Kunshan City, Jiangsu Province. As at the Latest Practicable Date, the Target Group focuses on the manufacturing of different networking cables with copper as the transmission media and has an annual production capacity of approximately 4 million kft of networking cables.

The networking cable products of the Target Group are marketed and sold to large enterprises including multinational corporations and which are usually the end users, such as international networking infrastructure companies, which mainly incorporate the Target Group's products in their networking solutions services. While the Target Group sells a small proportion of its products on the Target Group's brand names, 华讯 and LINGXUN, a majority of the networking cables are sold on the OEM basis. The major suppliers of the Target Group include sellers of copper, plastic materials and cable reels.

For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Target Group recognised revenue of approximately HK$1,328,298,000, HK$1,498,697,000, HK$1,676,557,000 and HK$735,340,000 and profit for the year/period of approximately HK$26,946,000, HK$33,586,000, HK$43,953,000 and HK$22,661,000, respectively.

COMPETITIVE STRENGTHS

The Target Group's management believes that the following competitive strengths have contributed to the Target Group's success and will continue to drive its future growth:

The Target Group has an established operating history and proven track record

The Target Group commenced its cable manufacturing business in 1993 and has accumulated more than 26 years of industry experience. Over the years, the Target Group was capable of producing different types of signal transmission cables. Before focusing on manufacturing copper networking cables in present years, the Target Group was a maker of one of the best known high-end audio and video cables, and the Target Group was at time a cable supplier for most of the prominent video game console developers in the world. The Target Group's persistence of upholding quality standards and consistence of compliance with different customers' specifications and requirements make the Target Group an excellent business-to-business partner. At present, the Target Group's networking cables are delivered to the highly respected networking infrastructure companies that have presence all around the world.

The Target Group has established its reputation in manufacturing high-end cable products that can meet the specifications and requirements for the top class corporations which incorporate the Target Group's networking cables into their products or network solutions.

The management of the Target Group believe that the Target Group will continue to appeal to the most prestigious networking companies and will maintain its ability to provide timely services and adapt to the ever changing technology.

The Target Group has strong research and development capability and supplies a wide range of networking cables

The Target Group has a strong research and development team to keep the Target Group's products up-to-date and incorporate the latest technologies for performance enhancement and satisfying customer's new requirements. The research and development team also facilitates the Target Group to develop new products with its customers which allows the Target Group to enjoy longer product life cycle. Besides, the Target Group has managed to receive different industry certifications, such as UL certification, for the products offered. The management of the Target Group considers that the efforts spent by the Target Group in product development and upholding stringent technological and quality standard are recognised by its customers and will bolster the Target Group's image, customers' confidence and marketing effectiveness.

In addition, the Target Group is a versatile manufacturer of networking cables and it offers a portfolio of networking cables that are in use nowadays, including the widely used Cat 5 to Cat 7 cables, as well as the development of next-generation of category of cables. The flexible manufacturing resources of the Target Group makes it a reliable and capable supplier for its key customers.

The Target Group has an experienced and professional management team

The Target Group's senior management possess relevant operational expertise and experience, and are familiar with the cable manufacturing industry, who enable them to successfully achieve a competitive position in the cable manufacturing industry. Each of the members of the Target Group's management team is an industry veteran and has been working in the network cable industry for over 20 years. For the biographical details of the senior management team, please refer to the section headed ''Directors and senior management of the Target Group'' in this circular.

Leveraging their foresight and in-depth industry knowledge, the Target Group's management team is able to formulate sound business strategies, assess and manage risks. Its engineering capability enables the Target Group to engage with and provide valuable and sound advice for the customers in the preliminary stages of the new product development process and design as well as develop a custom-made product based on the customers' technical, design and performance requirements.

The Target Group also encourages continuous professional development of the staff. They are carefully selected in hiring process with a focus on recruiting and training employees who have the potential to become long-term members of the management. Training programmes on technical knowledge are conducted as and when required so as to ensure that their employees are updated with the latest development in the industry where they operate. The Target Group's senior management team has regular interactive meetings with other senior employees to provide on the job training to ensure the Target Group's guidances and standards are met.

BUSINESS STRATEGIES

The Target Group's goal is to further enhance its leading position in the networking cable business and capture the opportunities arising from the upcoming 5G development and the advancement in networking communication technology.

Expand customer list

As at the Latest Practicable Date, other than the Group being a customer of the Target Group, each group has its own customers with no material overlapping. The Directors are of the view that customers of the Target Group and the Group may need both networking cable and cable assembly products. Following Completion, the Group and the Target Group are expected to investigate the product types that can be offered to each other's customers with an aim to commence cross selling.

Increase product offering

In view of the increasing networking data traffic demand, the rapid development of the 5G technology and the rise of internet-of-things devices, the Target Group plans to strengthen and increase its product offering in high-speed copper-based networking cables, including but not limited to Cat 8 cables, power over Ethernet cables and cables with HDBaseT applications. While some of these new applications are being developed and tested, the Enlarged Group will integrate the research and development workforce of both the Group and the Target Group to develop new networking cables as well as cable assembly products. The management of the Enlarged Group is strived to create long term value to the Shareholders.

THE TARGET GROUP'S PRODUCTS

The Target Group's principal products are various categories of networking cables, including Cat 5e, Cat 6, Cat 6A, Cat 7, Cat 7A and Cat 8 cables, which may be designed as different twisted-pair ("**TP**") cables, such as UTP, F/UTP, S/F/UTP and SFTP. The following provide a description of the above cable categories and designs:

Cat 5e cables

Cat 5e cable is a variant of the Cat 5 cable which provides performance of up to frequency of 100 MHz, where the "e" stands for "enhanced". The Cat 5e cable specification improves upon the Cat 5 cable specifications by revising and introducing new specifications to further mitigate the amount of electromagnetic interference.

Cat 6 cables

Cat 6 cable is a standardised TP cable for Ethernet and other network physical layers that is backward compatible with the Cat 5e cable standard. It has a standard performance of up to frequency of 250 MHz.

Cat 6A cables

Cat 6A cable has standard for enhanced performance for TP cable systems and has a performance for frequencies of up to 500 MHz, which is double of the Cat 6 cable. Compared to Cat 6 cable, Cat 6A cable also has an improved alien crosstalk specification.

Cat 7 cables

Cat 7 cable allows 10 Gigabit Ethernet over 100 metres of copper cabling. Similar to Cat 6 and Cat 5 cables, Cat 7 cables contain four twisted copper wire pairs and offer extensive shielding to reduce signal attenuation. With transmission frequencies of up to 600 MHz, Cat 7 cables are suitable for use in datacenters and large enterprise networks.

Cat 7A cables

Cat 7A cable is defined at frequencies up to 1000 MHz, suitable for multiple applications. Cat 7A cable was intended to support 40 Gigabit Ethernet.

Cat 8 cables

Cat 8 cable is defined up to 2,000 MHz with a distance with a range of 30 metres. Cat 8 cable standard is currently designed for data centers where distances between switches and servers are short.

Unshielded twisted-pair cables

Unshielded twisted-pair ("**UTP**") cable is a copper cable that consists of up to 100 UTPs surrounded by an outer jacket. UTP cables have no metallic shield and hence they are not protected against electrical interference. The twist has the function of reducing electromagnetic radiation.

Foiled twisted-pair cables

Foiled twisted-pair ("**FTP**") cable offers an additional layer of protection with shielding (also called screening) wrapped around the individual twisted wires which improves protection against electrical interference.

Shielded/screened or foiled unshielded twisted pair cables

Shielded/screened or foiled unshielded twisted pair ("**S/F/UTP**") cables offer an overall foil or braid screen covering the four pairs of unshielded twisted pairs.

Screened fully shielded twisted-pair cables

Screened fully shielded twisted-pair ("**SFTP**") is a type of cable that uses multiple versions of metal shielding to block outside electrical interference from disruption signals transmitted across the wires. One metal shielding is the electromagnetic shielding to add another layer of protection against electromagnetic interference. Another is the screened protection which is the outer layer of metal shielding that surrounds the entire set of twisted wires within the cable and is then covered by the cable's insulation.

There can be other specifications added in the networking cables including power over Ethernet cable solutions and high speed cable solutions.

The following table summarises the Target Group's product capability:

	Cable category					
Cable design type	**Cat 5e**	**Cat 6**	**Cat 6A**	**Cat 7**	**Cat 7A**	**Cat 8**
UTP	√	√	√			
FTP	√	√	√			
S/F/UTP	√	√	√			
SFTP			√	√	√	√

Power over Ethernet

The unused pair of wires in networking cables are treated as single conductor by power over Ethernet ("**PoE**") to carry electrical current. The Target Group's Cat 6, Cat 6A, Cat 7 and Cat 7A cables are designed to comply with PoE specifications for applications of 100 metres.

High speed cable solutions

The Target Group's high speed cable solutions provide up to four channels of data transfer in one pluggable interface and each channel is capable of transferring data up to 26 Gigabits per second.

In addition to the above, the Target Group is capable of supplying cables that comply with construction products regulation, HDBaseT standard and other major industrial standards.

Compliance with the quality and industry standards

The Target Group's cable products are optimised to comply with international safety and telecommunication standards, including those from the Telecommunications Industry Association, International Electrotechnical Commission and European Committee for Electrotechnical Standardisation.

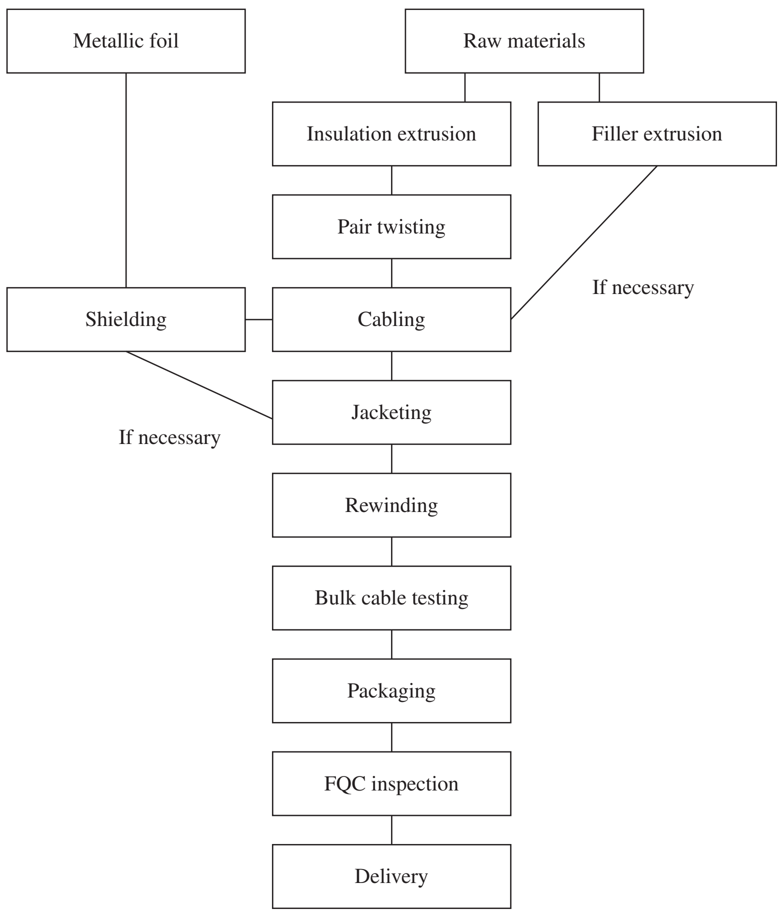
The Target Group's products also received the UL certifications from a reputed safety testing and certification organisation.

PRODUCTION

Production process

Before the production begins, the Target Group's production team procures the necessary and sufficient raw materials and ensures other resources such as labour and machinery for the production procedure.

The production process of networking cables can be described as highly automated and consists of the following steps:



Insulation extrusion

A process that melts plastic raw materials into a continuous profile, whereby the molten polymer is shaped and hardened on the copper wire when cooling.

Pair twisting

Insulated copper wires of the same diameter are cut to be at the same length and are twisted together to form twisted-pair wires. As a single networking cable normally consists of a number of twisted-pair wires, the pair twisting production lines are capable of forming twisted-pairs wires of different twist rates for the purposes of minimising crosstalk.

Cabling

The wires are grouped together to form a multi-unit cable core. The units are also twisted together on a rotating core truck to help control electrical interference and provide flexibility. Depending on customer's specifications, an additional insulation may be inserted in the rotating core where the wires are twisted out.

Jacketing

Jacketing includes gel-filling, armouring, jacketing and printing to produce the finished networking cable. Different colours of the jacket as specified by customer may be applied and controlled. The cables are then stored in a big cable reel.

Rewinding

This process unwinds the cables from the big cable reel into the customer's specified reels which also specify the cable length per reel for delivery. The process is also automated to increase cable production efficiency.

Bulk cable testing

The cables are normally tested for different properties of the cables such as electrical interference insulation, uniformity of the cable materials, mechanical and flammability.

Packaging and final quality control (FQC) inspection

Conduct overall quality checking which include the final product and packaging inspection in order to ensure the product appearance, cable size, colour and packaging comply with the specifications and standards.

Production facilities

The Target Group has production facilities in owned (with aggregate GFA of approximately 68,689.10 sq.m.) and leased premises located in Shanghai and Kunshan City, Jiangsu Province, which are primarily used for production, processing, warehouse, offices, dormitory and ancillary purposes. These premises with production facilities are located at close distances and traveling time by vehicle from one factory to any other factory is usually within an hour under normal traffic condition.

As at the Latest Practicable Date, the Target Group had major equipment and machinery including insulation and sheath extruding machines, cable making machines, pair twisting machines, plastic injection mould making machines, wire braiding machines, and cable rewinding machines. As at the Latest Practicable Date, the Target Group had 417 staff responsible for the production which work for 10 hours a shift and two shifts per day.

Production capacity

The table below sets out the Target Group's designed production capacity, actual production volume and utilisation rate for the periods indicated:

	Year ended 31 March			**Six months ended 30 September**
	2017	**2018**	**2019**	**2019**
Design annual (half year for the six months ended 30 September 2019) production capacity *(kft)*	3,873,443	4,139,016	4,036,328	2,028,787
Actual production capacity *(kft)*	2,939,819	2,951,739	2,759,508	1,335,619
Utilisation rate *(Note)*	75.9%	71.3%	68.4%	65.8%

Note: The utilisation rate equals the actual production capacity divided by the design annual production capacity.

The Target Group reviews the function and efficiency of its machinery and makes replacements regularly, which caused the slight change in design annual production capacity for the three years ended 31 March 2019 and the six months ended 30 September 2019. In addition, as there was rising trend for the production of Cat 6 and Cat 7 cables, machinery were adjusted and added for this purpose and some machinery for production of Cat 5 cables were replaced. Generally, it takes more time to produce Cat 7 cables than Cat 6 and Cat 5 cables, hence the actual production capacity in terms of length of cables reduced in the year ended 31 March 2019 due to the significantly more production orders for Cat 7 cables. The utilisation rate of the Target Group decreased slightly to 65.8% for the six months ended 30 September 2019 due to the economic uncertainties which affected the sales orders received from the customers.

Machinery and equipment

The principal production machines owned by the Target Group and used in its production process includes insulation extension machines, wire twisting machines, jacketing machines, cable winding machines, quality checking and testing machines, etc. These equipment were purchased by the Target Group from independent suppliers. For the three years ended 31 March 2019 and the six months ended 30 September 2019, total capital expenditures spent on acquisition of production machinery and equipment by the Target Group amounted to approximately HK$24,041,000, HK$43,405,000, HK$27,156,000 and HK$16,829,000, respectively. As at 30 September 2019, net book value of the production machinery and equipment amounted to approximately HK$364,991,000 and the production machinery and equipment had ages of 10 to 15 years. The production machinery and equipment are depreciated on reducing balance basis, as the case may be, over respective useful lives. Please refer to Note 16 of the Accountants' Report on the Target Group in Appendix II to the circular for further details of the treatment of depreciation.

The Target Group conducts regular maintenance on machinery and equipment, including checking for normal wear and tear, injecting lubricant, keeping records on machines configurations, adjustment settings, system maintenance, and care for fittings. The normal maintenance services are generally conducted 1 to 3 times a year. Maintenance costs incurred for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019 amounted to approximately HK$11,540,000, HK$13,594,000, HK$13,857,000 and HK$7,295,000, respectively. The Target Group had no material disruption of business operations or production processes as a result of insufficient equipment during the Track Record Period.

INVENTORY MANAGEMENT

The inventory of the Target Group mainly comprises raw materials, work in progress and finished products. Dedicated personnel are responsible for monitoring the inventory level to meet the delivery schedule and minimise waste level due to obsolete or damage. As at 31 March 2017, 2018 and 2019 and 30 September 2019, the inventory of the Target Group amounted to approximately HK$172,274,000, HK$280,504,000, HK$241,318,000, and HK$205,320,000, respectively, or 15.8%, 19.8%, 15.0% and 10.5% of its total current assets, respectively.

Raw materials

The Target Group has procurement plan for purchases of raw materials that are regularly used in the manufacturing of networking cables and normally, the Target Group keeps regular raw materials level sufficient for the its production plans in the next 7 to 15 days and such level should normally not exceed 2 months. The procurement plan is also mainly based on the prevailing sales order amount as the Target Group's products are mainly made to order. The Target Group's warehouse can keep the raw materials at the appropriate humidity level and at an optimal temperature. During the Track Record Period, the Target Group had not experienced any material delay in the delivery or insufficient raw materials that cause interruption in its production.

Finished products

The Target Group monitors the inventory level of finished goods and keeps an appropriate inventory level. Dedicated staff determine the required inventory level based on existing orders. The Target Group basically does not accumulate customer's finished products and keeps an insignificant amount of finished products of the Target Group's brands.

Vendor-managed inventory arrangements

Some of the major customers of the Target Group may enter into vendor-managed inventory arrangements with the Target Group whereby the Target Group should maintain certain level of inventory to be consigned to such customers at the designated warehouse facility. The ownership of the inventory should remain with the Target Group until the customers take possession. The customers will take record of any withdrawal of inventory and notify the Target Group of the level of inventory regularly.

SALES AND MARKETING

As at the Latest Practicable Date, the Target Group had 37 employees in its sales and marketing department which is responsible for sales and marketing. The sales and marketing department formulates marketing strategies and performs the following tasks:

Customer relationship management

The management of the Target Group considers that the customer relationships between the Target Group and its major customers are good. The management of the Target Group believes that owing to the Target Group's strict adherence to quality standard, responsiveness to customers' demand and technology update, and the investments in production machinery and production automation, the Target Group has been able to meet with the customers' different specifications and requirements, as well as co-operate with the customers to solve technical problems. As at the Latest Practicable Date, the Target Group has a team of 37 sales and marketing staff, responsible for sales and customer relationship management. Regular factory visits to the Target Group's production premises are organised to ensure that the Target Group's production techniques are satisfactory.

Marketing

The Target Group acquires new customers mainly by way of referrals from existing customers and suppliers. The Target Group also promotes its products by the use of its website, where information on its production facilities, technology, products and management are showcased. With respect to target potential customers, the Target Group's designated sales and marketing personnel generally maintain close contacts by emails, telephone calls and site visits. Given the Target Group's business-to-business nature, the overall expenses incurred on marketing were considered not material during the Track Record Period.

CUSTOMERS

The Target Group's key customers include network infrastructure providers, communications equipment manufacturers, cable management companies, and cable designers that operate globally or in the PRC.

The following table sets out a breakdown of the Target Group's revenue by geographical regions based on place of delivery:

	Year ended 31 March						Six months ended 30 September			
	2017		2018		2019		2018		2019	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
The PRC	565,716	42.6	714,902	47.7	879,199	52.4	487,198	54.5	384,194	52.2
Singapore	139,953	10.5	167,776	11.2	185,452	11.1	83,924	9.4	72,498	9.9
Hong Kong	135,263	10.2	182,227	12.2	175,334	10.5	92,644	10.4	77,563	10.5
India	104,672	7.9	44,079	2.9	25,547	1.5	14,706	1.6	8,004	1.1
The United States	90,663	6.8	90,812	6.1	85,039	5.1	41,498	4.6	50,505	6.9
The United Kingdom	76,919	5.8	96,266	6.4	129,516	7.7	64,098	7.2	67,350	9.2
Others	215,112	16.2	202,635	13.5	196,470	11.7	110,051	12.3	75,226	10.2
Total	1,328,298	100.0	1,498,697	100.0	1,676,557	100.0	894,119	100.0	735,340	100.0

The customers of the Target Group have stringent quality requirements on the networking cable products supplied by the Target Group and the Target Group's management is experienced in complying with different product specifications and performance requirements. The Target Group was able to maintain a long-lasting relationship with its major customers, and the top 5 customers for the Track Record Period had a business relationship with the Target Group ranging from 2 to 20 years.

Sales arrangements/contracts with major customers

The following tables set forth the details of the Target Group's five largest customers for each of the three years ended 31 March 2019 and the six months ended 30 September 2019:

For the year ended 31 March 2017

Rank	Customer	Background and principal business	Year of first becoming the customer of the Target Group	Credit terms	Revenue *HK$'000*	% of revenue of the Target Group
1	Customer A	A global leader in providing infrastructure solutions for communications network whose portfolio includes wireless, fibre optics and copper solutions. It is listed on NASDAQ and the revenue for the year ended 31 December 2018 exceeded US$4.5 billion.	2015	90 days	414,312	31.2
2	Customer B	A privately held international provider of infrastructure products and services for data networks and electrical power applications. The company is based in Illinois, the United States and has more than 60 years of history. It has more than 5,000 employees globally and operates in more than 100 countries.	2006	90 days	263,124	19.8
3	Customer C	A Swiss-headquartered technology group that designs and manufactures connectivity and sensor products for and is listed on the New York Stock Exchange. Its telecom, enterprise and wireless businesses were sold to Customer A in 2015. The Company's net sales exceeded US$13 billion in the fiscal year 2019.	2000	90 days	192,635	14.5
4	Customer D	A leading global provider of switches, sockets, miniature circuit breakers and distribution boards based in France. It operates in nearly 90 countries and has a workforce of over 38,000 staff. The company is listed on Euronext Paris and generated revenue of approximately €6.0 billion for the year ended 31 December 2018.	2008	120 days	137,262	10.3
5	Customer E	A global information technology infrastructure solution and services providers for data centers, local area networks and intelligent buildings that is headquartered in the United States. It has more than 116 years' history and holds over 400 patents specific to structured cabling and ISO 9001 world class manufacturing.	2001	90 days	129,297	9.7
	Total :				**1,136,630**	**85.5**

For the year ended 31 March 2018

Rank	Customer	Background and principal business	Year of first becoming the customer of the Target Group	Credit terms	Revenue *HK$'000*	% of revenue of the Target Group
1	Customer A	A global leader in providing infrastructure solutions for communications network whose portfolio includes wireless, fibre optics and copper solutions. It is listed on NASDAQ and the revenue for the year ended 31 December 2018 exceeded US$4.5 billion.	2015	90 days	560,218	37.4
2	Customer B	A privately held international provider of infrastructure products and services for data networks and electrical power applications. The company is based in Illinois, the United States and has more than 60 years of history. It has more than 5,000 employees globally and operates in more than 100 countries.	2006	90 days	305,333	20.4
3	Customer D	A leading global provider of switches, sockets, miniature circuit breakers and distribution boards based in France. It operates in nearly 90 countries and has a workforce of over 38,000 staff. The company is listed on Euronext Paris and generated revenue of approximately €6.0 billion for the year ended 31 December 2018.	2008	120 days	145,217	9.7
4	Customer E	A global information technology infrastructure solution and services providers for data centers, local area networks and intelligent buildings that is headquartered in the United States. It has more than 116 years' history and holds over 400 patents specific to structured cabling and ISO 9001 world class manufacturing.	2001	90 days	120,311	8.0
5	Customer C	A Swiss-headquartered technology group that designs and manufactures connectivity and sensor products for and is listed on the New York Stock Exchange. Its telecom, enterprise and wireless businesses were sold to Customer A in 2015. The Company's net sales exceeded US$13 billion in the fiscal year 2019.	2000	90 days	74,943	5.0
	Total :				**1,206,022**	**80.5**

For the year ended 31 March 2019

Rank	Customer	Background and principal business	Year of first becoming the customer of the Target Group	Credit terms	Revenue *HK$'000*	% of revenue of the Target Group
1	Customer A	A global leader in providing infrastructure solutions for communications network whose portfolio includes wireless, fibre optics and copper solutions. It is listed on NASDAQ and the revenue for the year ended 31 December 2018 exceeded US$4.5 billion.	2015	90 days	540,640	32.2
2	Customer B	A privately held international provider of infrastructure products and services for data networks and electrical power applications. The company is based in Illinois, the United States and has more than 60 years of history. It has more than 5,000 employees globally and operates in more than 100 countries.	2006	90 days	399,570	23.8
3	Customer D	A leading global provider of switches, sockets, miniature circuit breakers and distribution boards based in France. It operates in nearly 90 countries and has a workforce of over 38,000 staff. The company is listed on Euronext Paris and generated revenue of approximately €6.0 billion for the year ended 31 December 2018.	2008	120 days	149,950	8.9
4	Customer F	A Sino-Hong Kong equity joint venture which distributes data cable and LAN cables in the PRC and is based in Kunshan, Suzhou Province.	2018	150 days	110,642	6.6
5	Customer E	A global information technology infrastructure solution and services providers for data centers, local area networks and intelligent buildings that is headquartered in the United States. It has more than 116 years' history and holds over 400 patents specific to structured cabling and ISO 9001 world class manufacturing.	2001	90 days	80,314	4.8
	Total :				**1,281,116**	**76.3**

For the six months ended 30 September 2019

Rank	Customer	Background and principal business	Year of first becoming the customer of the Target Group	Credit terms	Revenue *HK$'000*	% of revenue of the Target Group
1	Customer A	A global leader in providing infrastructure solutions for communications network whose portfolio includes wireless, fibre optics and copper solutions. It is listed on NASDAQ and the revenue for the year ended 31 December 2018 exceeded US$4.5 billion.	2015	90 days	243,868	33.2
2	Customer B	A privately held international provider of infrastructure products and services for data networks and electrical power applications. The company is based in Illinois, the United States and has more than 60 years of history. It has more than 5,000 employees globally and operates in more than 100 countries.	2006	90 days	173,859	23.7
3	Customer D	A leading global provider of switches, sockets, miniature circuit breakers and distribution boards based in France. It operates in nearly 90 countries and has a workforce of over 38,000 staff. The company is listed on Euronext Paris and generated revenue of approximately €6.0 billion for the year ended 31 December 2018.	2008	120 days	65,588	8.9
4	Customer E	A global information technology infrastructure solution and services providers for data centers, local area networks and intelligent buildings that is headquartered in the United States. It has more than 116 years' history and holds over 400 patents specific to structured cabling and ISO 9001 world class manufacturing.	2001	90 days	49,486	6.7
5	Customer G	A limited liability company which distributes data cables and LAN cables in the PRC and is based in Huizhou, Guangdong Province	2018	90 days	31,883	4.3
	Total :				**564,684**	**76.8**

Note: Revenue amounts may aggregate amounts sold to the respective customer's parent company or its fellow subsidiaries, if applicable.

For the Track Record Period and up to the Latest Practicable Date, none of the directors of Target Company, their respective close associates or any shareholders of the Target Company who or which, own more than 5% of the issued share capital of the Target Company as at the Latest Practicable Date, had any interest in any of the five largest customers of the Target Group.

Overlapping of certain major customers as suppliers

During the Track Record Period, two of the major customers of the Target Group were also its suppliers. As designated by these customers, the Target Group purchased raw materials directly from them to manufacture the ordered networking cables.

Set out below are the revenue and purchase cost related to these customers which were also the suppliers during the Track Record Period:

	Year ended 31 March			**Six months ended 30 September**
	2017	**2018**	**2019**	**2019**
Revenue from these customers *(HK$'000)*	677,436	865,551	940,210	417,727
As a percentage of total revenue	51.0%	57.8%	56.1%	56.8%
Purchase from these customers *(HK$'000)*	12,263	17,798	39,509	13,952
As a percentage of total cost of goods sold	1.1%	1.4%	2.7%	2.2%

To the best knowledge and belief of the management of the Target Group, these entities and their ultimate beneficial owners are Independent Third Parties.

The management of the Target Group confirmed that, during the Track Record Period, the materials purchased from these customers and/or their related companies were not directly re-sold to these customers. The management of the Target Group also confirmed that the terms and the pricing policies of transactions with these entities were in line with the market and similar to those transactions with other customers and suppliers.

Pricing policy

The pricing of the Target Group's networking cable products is on a cost-plus basis with an aim to optimise the Target Group's profitability and sustainable growth. Since networking cables are usually classified by categories and each product has its own specifications, performance benchmarks and requirements, the pricing of each product is negotiated on arm's length and determined case-by-case with individual customers. The price of a product of the Target Group is set generally with reference to (i) product specifications, performance and quality requirements; (ii) manufacturing costs; (iii) delivery schedule and volume; (iv) prevailing price of major components such as copper and PVC; (v) price and availability of competitors; and (vi) payment terms and credibility of the customer. The management of the Target Group believes that the Target Group can generally pass on the risks arising from any fluctuation in the costs of raw materials to its customers during the Track Record Period.

Credit policy

The credit period offered by the Target Group to its customers generally ranges from 30 to 150 days. However, depending on a number of reasons including (i) length of relationship with the customer; (ii) past settlement record; (iii) financial standing of the customer; and (iv) size of the order placed by the customer, the credit period offered may accordingly be lengthened or shortened.

The Target Group's accounting department monitors settlement status of customers, especially overdue status of trade receivables. In the event of prolonged overdue, the Target Group would determine follow-up actions to collect such overdue payment, such as communication with the customers and sending payment reminders.

The customers of the Target Group usually settle payments by way of bank transfer, letter of credit or cheques. During the Track Record Period and up to the Latest Practicable Date, the Target Group did not encounter any material difficulties in collecting overdue payments which caused a material adverse impact to its business operations.

Delivery

The Target Group makes timely delivery of its finished products to the customers in the PRC by using logistics companies who are Independent Third Parties. For international customers, the finished products are delivered to the port in Shanghai for international shipment through logistics companies who are Independent Third Parties. The Target Group purchases transit insurance coverage for the products to be delivered.

For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, freight and transportation charges of the Target Group amounted to approximately HK$21,908,000, HK$20,300,000, HK$23,036,000 and HK$8,721,000, representing 1.6%, 1.4%, 1.4% and 1.2% of the Target Group's revenue, respectively.

After-sales services

The Target Group generally provides limited product warranties depending on the products and customers' specific requirements. Generally, the warranty period of the products covers 15 years or longer during which period the products if proven defective may be replaced. It is not uncommon in the industry for high-end networking cable manufacturers to warrant for long lasting performance or provide other specifications that may enhance the products. Products sold to customers are not returned except for instances of quality defects. All products returns are subject to the Target Group's approval. The Target Group incurred sales return for defective products of approximately HK$1,142,000, HK$1,026,000, HK$292,000 and HK$25,000, or 0.09%, 0.07%, 0.02% and 0.003% of the Target Group's revenue for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively.

For the Track Record Period and up to the Latest Practicable Date, the Target Group had not received any material complaints or product liability claims from its customers. There was also no provision made for warranty expenses for the aforesaid period accordingly.

KEY CONTRACTUAL TERMS WITH CUSTOMERS

The Target Group does not enter into any committed long-term sales agreement with its customers. However, the Target Group may enter into manufacturing agreements with its customers which govern the conduct of each sales transaction between the Target Group and its customers. The terms and conditions are set out in such manufacturing agreement or sales orders as agreed between the Target Group and its customers and the Target Group manufactures and delivers the networking cables to the customers according to the sales orders issued by its customers from time to time.

The terms and conditions of sales with different customers may be different subject to various factors, such as historical and general practice of the customers, business relationship, purchase amount, types of products, product specifications, etc. A summary of the key contractual terms with the Target Group's customers are set out below:

Key terms		Description
Scope	:	The description of the products, technical requirements of the products, including the performance requirements, certification requirements, packaging and labeling, quantities, etc.

Key terms		**Description**
Pricing	:	The unit price of the products, certain customers may adopt a pricing mechanism with the Target Group such that a base price is agreed every year with adjustments in accordance with the recognised copper wire and cable price indices.
Delivery	:	The products are required to be delivered to the designated location before the required or promised delivery date. Certain customers may impose liquidated damage of a percentage of the order value per day to the Target Group. The cost of delivery is normally included in the price of the sales order.
Quality provisions	:	The Target Group shall ensure the networking cables are manufactured in full accordance with the customer's product specific quality requirements. Customers may have periodic access to the Target Group's production premises for inspection for compliance with quality and environmental regulations.
Warranty	:	The Target Group shall warrant its networking cable products for a specified number of years against defects in material and workmanship.

PROCUREMENT AND SUPPLIERS

Raw materials for the Target Group's products are primarily copper, insulating materials, sheath materials such as PVC and packaging materials including cable reels. For the three years ended 31 March 2019 and the six months ended 30 September 2019, the total cost of raw materials accounted for 86.3%, 86.2%, 86.4% and 85.2% of the total cost of goods sold of the Target Group, respectively. During the Track Record Period, around 66% to 72% of the cost of raw materials was attributable to copper, and around 20% to 23% of the cost of raw materials was attributable to plastic materials. Price of copper, as a commodity, was relatively volatile during the Track Record Period, and was relatively higher during the year ended 31 March 2018 and lower during the year ended 31 March 2017.

The Target Group sources its raw materials from over 250 suppliers in the PRC, the United States, Hong Kong and other countries. The Target Group has procedures to select suppliers based on a set of criteria, including but not limited to track record, product quality, past relationship, price of the products, timeliness of delivery, financial strengths, and acceptable after-sales services. The suppliers may be required to source their raw materials from specified vendors.

The Target Group does not enter into any long term commitment with any of the material suppliers which require the Target Group to commit purchase of a minimum amount. Indicative purchase amounts may be specified in a framework agreement with a few major suppliers for them to prepare sufficient stocks for delivery. Such framework agreement also sets out key terms, among others, pricing mechanism, delivery, settlement mechanism, and quality provision. The Target Group places purchase order every occasion when it needs the supply of raw materials. Subsequent to the issue of purchase orders to the suppliers, the suppliers should deliver the specified products to the agreed place at the contracted price to the Target Group.

The purchase prices for the raw materials are agreed between the Target Group and its suppliers at the time the purchase order is made and are negotiated on arm's length. The Target Group manages fluctuations in raw materials costs by agreeing with customers that the product price is based on the benchmark price of the major raw material and setting wastage reduction target for its production lines. Please also refer to the paragraph headed ''Inventory management'' in this section above.

The suppliers of the Target Group typically offer a credit period ranging from 15 to 120 days. The payment terms with the Target Group vary and payments are mainly made through bank transfer in RMB and US$.

The Target Group has maintained long-term business relationships with its key suppliers in order to secure stable supply and timely delivery and in a cost-effective manner. The Target Group has quality control procedures in place to monitor the quality of the delivered products and keep the products at an appropriate condition. Please refer to the paragraph headed ''Quality control'' in this section below.

During the Track Record Period and up to the Latest Practicable Date, the Target Group had not encountered any difficulties in procuring the raw materials which are essential for the manufacturing process that resulted in a material interruption to the Target Group's operation or caused a material delay in its delivery schedule. In addition, the Target Group has maintained business relationship with several suppliers for the similar raw materials to diversify the risks of excessive dependence on a single supplier or group for suppliers.

The Target Group purchased approximately HK$634,170,000, HK$814,914,000, HK$806,996,000 and HK$366,720,000 from its top five suppliers for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, which represented 56.0%, 63.3%, 55.8% and 58.4% of the Target Group's total cost of goods sold for the corresponding year, respectively. The largest supplier of the Target Group accounted for 25.0%, 26.7%, 19.3% and 31.2% of the Target Group's cost of goods sold for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively. The table below sets out information relating to the Target Group's top five suppliers during the Track Record Period:

Year ended 31 March 2017

Supplier	**Background**	**Types of goods/ services provided by the suppliers**	**Purchase amount**	**% of cost of goods sold**	**Year of first becoming the supplier of the Target Group**
			HK$'000		
Supplier A	A manufacturer of bare copper wire, wire and cable and specialty steel that is listed on the Taiwan Stock Exchange	copper	282,340	25.0	2014
Supplier B	A group of PRC companies engaged in research and development and manufacture of copper conductors	copper	134,711	11.9	2012
Supplier C	A manufacturer and supplier of conductors based in the PRC	copper	90,847	8.0	2000
Supplier D	The Shanghai branch of a Japanese corporation that trades, among many products, power, energy and metals products.	copper	79,664	7.0	2016
Supplier E	A manufacturer of copper, nickel and silver plated wire in the PRC	copper	46,608	4.1	2001
Total			**634,170**	**56.0**	

Year ended 31 March 2018

Supplier	Background	Types of goods/ services provided by the suppliers	Purchase amount *HK$'000*	% of cost of goods sold	Year of first becoming the supplier of the Target Group
Supplier A	A manufacturer of bare copper wire, wire and cable and specialty steel that is listed on the Taiwan Stock Exchange	copper	343,124	26.7	2014
Supplier B	A group of PRC companies engaged in research and development and manufacture of copper conductors	copper	217,786	16.9	2012
Supplier D	The Shanghai branch of a Japanese corporation that trades, among many products, power, energy and metals products.	copper	118,532	9.2	2016
Supplier C	A manufacturer and supplier of conductors based in the PRC	copper	70,044	5.4	2000
Supplier E	A manufacturer of copper, nickel and silver plated wire in the PRC	copper	65,428	5.1	2001
Total:			**814,914**	**63.3**	

Year ended 31 March 2019

Supplier	Background	Types of goods/ services provided by the suppliers	Purchase amount *HK$'000*	% of cost of goods sold	Year of first becoming the supplier of the Target Group
Supplier B	A group of PRC companies engaged in research and development and manufacture of copper conductors	copper	279,835	19.3	2012
Supplier A	A manufacturer of bare copper wire, wire and cable and specialty steel that is listed on the Taiwan Stock Exchange	copper	276,418	19.1	2014
Supplier D	The Shanghai branch of a Japanese corporation that trades, among many products, power, energy and metals products.	copper	121,118	8.4	2016
Supplier E	A manufacturer of copper, nickel and silver plated wire in the PRC	copper	77,972	5.4	2001
Supplier C	A manufacturer and supplier of conductors based in the PRC	copper	51,653	3.6	2000
Total:			**806,996**	**55.8**	

Six months ended 30 September 2019

Supplier	Background	Types of goods/ services provided by the suppliers	Purchase amount *HK$'000*	% of cost of goods sold	Year of first becoming the supplier of the Target Group
Supplier B	A group of PRC companies engaged in research and development and manufacture of copper conductors	copper	196,015	31.2	2012
Supplier E	A manufacturer of copper, nickel and silver plated wire in the PRC	copper	71,654	11.4	2001
Supplier D	The Shanghai branch of a Japanese corporation that trades, among many products, power, energy and metals products.	copper	50,214	8.0	2016
Supplier F	A Sino-foreign joint venture enterprise which manufactures material for cable jacketing	sheath material	26,308	4.2	2011
Supplier A	A manufacturer of bare copper wire, wire and cable and specialty steel that is listed on the Taiwan Stock Exchange	copper	22,529	3.6	2014
Total:			**366,720**	**58.4**	

Note: Purchase amounts may aggregate amounts purchased from the respective supplier's parent company or its fellow subsidiaries, if applicable.

None of the directors and shareholders of the Target Company and their respective close associates who or which, own more than 5% of the issued share capital of the Target Company as at the Latest Practicable Date, had any interest in any of the top five suppliers of the Target Group during the Track Record Period and up to the Latest Practicable Date.

QUALITY CONTROL

The Target Group's products are subject to various industry standards, including production procedure, use of chemicals and raw materials, performance standards and technical specifications. Products of the Target Group are in general subject to warranty provisions against defective materials and workmanship. The Target Group has to maintain high quality standard for its products and minimise defects and returns of defective products to maintain good customer ratings and reputation.

The Target Group has set stringent production and quality control benchmark and procedures to ensure its products meet the industry standards and quality requirements, as well as the production produce can minimise wastage. On-the-job trainings are provided to production staff to ensure they are familiar with each of the production steps. The management of the Target Group also regularly visits the production facilities to review and inspect the production processes.

As at the Latest Practicable Date, the Target Group had 74 quality control staff to control the quality of procurement of raw materials, inspection of delivered materials, production and packaging quality control, as well as testing and final quality inspection. The quality control procedure of the Target Group covers all necessary aspects, including suppliers, raw materials, production, handling finished products until delivery to the customers and after-sales services.

The Target Group has obtained various international certifications for its quality control and safety systems which can demonstrate its efforts in pursuing quality assurance. Please refer to the paragraph headed "Certifications, awards and recognitions" in this section below for further details of the Target Group's certifications.

For the Track Record Period and up to the Latest Practicable Date, the Target Group had not had any material product recall or quality-related third party claim from its customers or end users of its products for any damage or loss sustained arising from any defective products other than insignificant product quality problems.

CERTIFICATIONS, AWARDS AND RECOGNITIONS

The table below sets out the details of some of the certifications the Target Group obtained for the operations and management system, as at the Latest Practicable Date:

Certification	Date of issue	Expiry date	Certifying organisation	Main content
ISO 14001: 2015	6 June 2017	5 June 2020	SGS United Kingdom Ltd	Design and manufacture of communication cables, electronic wires and cables, optical cables, communication cable assemblies, network cable assemblies
ISO 9001: 2015	13 June 2017	12 June 2020	SGS United Kingdom Ltd	Design and manufacture of communication cables, electronic wires and cables, optical cables, communication cable assemblies, network cable assemblies
ISO 9001: 2015	11 February 2018	8 January 2023	SGS United Kingdom Ltd	Design and manufacture of communication cables
ISO 14001: 2015	11 February 2018	8 January 2023	SGS United Kingdom Ltd	Design and manufacture of communication cables
GB/T 19001–2016/ISO 9001:2015	4 September 2019	3 September 2022	SHKC Certification Co., Ltd	Manufacture of semiconductor and electronic components (electronic wires, data cables and LAN cables)

The table below sets out the major awards and recognitions accredited to the Target Group as at the Latest Practicable Date:

Year of recognition/ award	Award/title	Recognising/awarding organisation or authority
1999	National Key New Products (國家重點新產品)	Ministry of Science and Technology of the People's Republic of China, State Taxation Administration, Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China, State Bureau of Quality and Technical Supervision, The State Environmental Protection Administration (中華人民共和國科學技術部, 國家税務總局, 中華人民共和國對外貿易經濟合作部, 國家質量技術監督局, 國家環境保護總局)
2000	National Torch Program Project Certificate (國家級火炬計劃項目證書)	Torch High-Tech Industry Development Center, Ministry of Science and Technology (科學技術部火炬高技術產業開發中心)
2001	National Key New Products (國家重點新產品)	Ministry of Science and Technology of the People's Republic of China, State Taxation Administration, Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China, State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine, The State Environmental Protection Administration (中華人民共和國科學技術部, 國家税務總局, 中華人民共和國對外貿易經濟合作部, 中華人民共和國國家質量監督檢驗檢疫總局, 國家環境保護總局)
2001	The Brand Name Products of Shanghai (上海名牌產品)	The Shanghai Brand Recommendation Committee* (上海市名牌產品推薦委員會)
2002	National Torch Program Hi-Tech Enterprise Certificate (國家火炬計劃重點高新技術企業)	Torch High-Tech Industry Development Center, Ministry of Science and Technology (科學技術部火炬高技術產業開發中心)

Year of recognition/ award	Award/title	Recognising/awarding organisation or authority
2002	Shanghai Model Staff Family (模範職工之家)	Shanghai Municipal Federation of Trade Unions (上海市總工會)
2003	2000–2002 China Top 100 Overseas Chinese Enterprises* (2000–2002全國百家明星僑資企業)	Top 100 Overseas Chinese Enterprise Selection Panel Overseas Chinese Affairs Office of the State Council (國務院僑務辦公室全國百家明星僑資企業評選委員會)
2007	Shanghai Municipal Enterprise Technology Center (上海市認定企業技術中心)	Shanghai State Tax Bureau, Shanghai Municipal Tax Service State Taxation Administration, Shanghai Municipal Finance Bureau, Shanghai Customs (上海市經濟委員會, 上海市國家稅務局, 上海市財政局, 上海海關)
2007	National Key New Products (國家重點新產品)	Ministry of Science and Technology of the People's Republic of China, Ministry of Commerce of the People's Republic of China, State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine, The State Environmental Protection Administration (中華人民共和國科學技術部, 中華人民共和國商務部, 中華人民共和國國家質量監督檢驗檢疫總局, 國家環境保護總局)
2008	Pioneer worker (工人先鋒號)	Shanghai Municipal Federation of Trade Unions (上海市總工會)
2012	Research and Development Institutions of Foreign Investment in Suzhou City (蘇州市研發外資機構)	Science and Technology Bureau of Suzhou (蘇州市科學技術局)
2014	Jiangsu Famous Trademark (2014–2017)	Jiangsu Administration for Industry and Commerce (江蘇省工商行政管理局)

Year of recognition/ award	Award/title	Recognising/awarding organisation or authority
2018	Pioneer worker (工人先鋒號)	Jiangsu Province Federation of Trade Unions (江蘇省總工會)
2019	The 10 Best Foreign Invested Enterprises (2018十佳外商投資企業)	Kunshan Municipal Government (昆山市委員會昆山市人民政府)
2019	The 10 Best Environment Friendly Enterprises (2018十佳生態環境友好型企業)	Kunshan Municipal Government (昆山市委員會昆山市人民政府)
2019	National Standard for Green Factories (綠色工廠)	Ministry of Industry and Information Technology of People's Republic of China (中華人民共和國工業和信息化部)
2019	Certificate of enterprise with credit in honoring contracts (守合同重信用企業公示證書)	Suzhou Administration of Market Regulation (蘇州市市場監督管理局)

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

The Target Group's PRC operations are subject to occupational health and safety laws and regulations set by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and the relevant government occupational health and safety authorities, such as National Health Commission of the PRC (國家衛生健康委員會) and Ministry of Emergency Management of the PRC (應急管理部). For further details, please refer to the section headed ''Regulatory overview relating to the Target Group'' in this circular.

For the purposes of ensuring compliance with the applicable laws and regulations, the Target Group's human resources department, which is responsible for the formulation and implementation of human resources policies, will from time to time make adjustment, if necessary, to its human resources policies to accommodate material changes to relevant labour and safety laws and regulations to ensure their compliance. The Target Group also seeks legal advice from external legal advisers on labour and safety related compliance matters as and when required.

To ensure a safe production and working environment for the Target Group's employees, the Target Group implements applicable safety guidelines and procedures in relation to its production processes, such as fire safety, electricity safety, warehouse safety, work-related injuries prevention, noise protection and emergency and evacuation procedures.

In the case of an accident or emergency, the Target Group immediately reports the incident to their administrative department and the appropriate responsive actions are taken. The department supervisor that is responsible shall record the accident in detail, including the location, date and time, causation and description of the injuries suffered, loss analysis and the responsive actions taken. The Target Group's administrative department informs the relevant authority of the workplace injuries and is responsible for the safety compliance record keeping.

For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, two, nil, four and three employees of the Target Group sustained personal injuries during the production processes of the Target Group, respectively. From 1 October 2019 to the Latest Practicable Date, four employees sustained personal injuries during the production processes of the Target Group. These injuries were primarily due to the employee's breach of safety guidelines and unfamiliarity with the production process, operation of machinery and safety requirements of the Target Group.

Relevant departments of the Target Group have informed the authorities immediately after the accidents occurred and as at the Latest Practicable Date, save for six accidents, all of the injured employees were compensated through mandatory occupation injury insurance. The management of the Target Group is of the view that the outstanding amount involved would be immaterial and would have no material impact on the Target Group.

The management of the Target Group confirms, and its PRC Legal Adviser is of the view, that the Target Group complies with the applicable health and safety laws and regulations in the PRC in all material respects, and that, during the Track Record Period and up to the Latest Practicable Date, it was not in breach of such laws and regulations. The Target Group has not encountered any safety-related accidents that had any material impact on its operations during the Track Record Period and up to the Latest Practicable Date.

The Target Group's operations are also subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC. The Target Group would be subject to fines, suspension of business or cessation of operations if there is any failure to comply with present or future laws and regulations.

The Target Group believes that its production processes do not generate waste that have any significant adverse effect on the environment and their environmental protection measures are adequate to comply with all applicable current local and national PRC regulations.

INSURANCE

The Target Group currently maintains property insurance, transit insurance, public liability insurance, product liability insurance and occupation injury insurance. In addition, the Target Group maintains credit insurance policies to insure against counter-party risk with its customers. The management of the Target Group considers that the insurance coverage for the Target Group is adequate and consistent with relevant industry practice. During the Track Record Period and up to the Latest Practicable Date, the Target Group had not made, and had not been the subject of, any material insurance claims.

INTELLECTUAL PROPERTY RIGHTS

As at Latest Practicable Date, the Target Group had 30 patents active in the PRC relating to manufacturing technology. As at the Latest Practicable Date, the Target Group had 6 registered trademarks in the PRC. The Target Group also has registered two domain names. For further details of the Target Group's intellectual properties, please see the paragraph headed "General Information — Intellectual Properties of the Target Group" in Appendix V to this circular.

The Target Group has not been involved in any material intellectual property rights infringement claims or litigation during the Track Record Period and up to the Latest Practicable Date.

PROPERTIES

As at the Latest Practicable Date, the Target Group owned the land use rights of three parcels of land and the buildings erected thereon with an aggregate GFA of 68,689.10 sq.m. The following table summarises the information regarding the Target Group's owned properties as at the Latest Practicable Date:

Address	Site area	GFA of the building(s)	Use of the property	Land nature	Expiry date
	(sq. m.)	*(sq. m.)*			
No. 5, Luopu Road, Anting Town, Jiading District, Shanghai, the PRC	26,795	15,608.42	Industrial use	Allocating and collective land	—
No. 88, Huaxun Road, Huaqiao Economic Development Zone, Kunshan City, Jiangsu Province, the PRC	68,116.7	46,936.61	Industrial use	State-owned land	24 March 2057
No. 910, Jimingtang South Road, Huaqiao Town, Kunshan City, Jiangsu Province, the PRC	9,268.10	6,144.07	Industrial use	Collective land	19 September 2054

As at the Latest Practicable Date, the Target Group entered into 3 tenancy agreements in relation to the lease of offices and factory. The following table summarises the information regarding the Target Group's leased properties as at the Latest Practicable Date:

Address	Approximate area *(sq. m.)*	Rent	Use of the property	Leased term
Units 601–610, 6/F Photonics Centre, 2 Science Park East Avenue, Hong Kong Science Park, New Territories, Hong Kong	446.8	Monthly rent of HK$128,000	Office	1 April 2019 to 31 March 2020
17/F, Block 20, Universal Hi-Tech Plaza, No. 958 Zhenbei Road, Shanghai	435	1 January 2019 – 31 December 2019: monthly rent of RMB50,278.75; 1 January 2020 – 31 December 2020: monthly rent of RMB52,925; 1 January 2021 – 31 December 2021: monthly rent of RMB55,571.25	Office	1 January 2019 to 31 December 2021
Rooms No.4 and No.5 and auxiliary room, No. 83 Shuanghua Road, Huaqiao Town, Kunshan City, Jiangsu Province	2,773.52	Yearly rent of RMB931,902.72	Factory	1 January 2020 to 31 December 2022

EMPLOYEES

As at the Latest Practicable Date, the Target Group had 705 employees of which 687 were based in the PRC, and 18 were based in Hong Kong.

The table below sets forth the aggregate number of employees, categorised by function and geographical location, as at the Latest Practicable Date:

	Number of employees	
	Hong Kong	**The PRC**
Function		
Production	—	417
Quality control and quality assurance	—	74
Procurement and logistic	1	52
Research and development	4	33
Administration and finance	5	82
Sales and marketing	8	29
Total	18	687

The Target Group recruits its employees based on a number of factors such as their working experience, educational background, qualifications or certifications possessed and vacancy.

The management of the Target Group believes that the experience and skills of its labour are crucial for maintaining its operation efficiency and the quality of its products. For those newly recruited employees, they are required to attend the orientation programme, which includes an introduction to corporate culture, workplace safety, products, operation manual, production process and rules of conduct. The Target Group also offers continuous training to existing employees to enhance their skills and knowledge for the latest trends and techniques in respect of the production process.

The Target Group enters into individual employment agreements with its employees, specifying terms regarding, among other things, salaries, benefits, training, workplace safety and hygiene, confidentiality obligations relating to trade secrets, non-competition and grounds for termination. The remuneration package of its employees includes salary, bonuses, paid leave, accommodation and allowances. Its employees also receive welfare benefits including medical care, retirement pension and other miscellaneous benefits, as well as social insurance and housing provident fund required by the PRC laws and mandatory provident funds required by Hong Kong laws and regulations, where applicable.

The Target Group has implemented an incentive programme to provide rewards with a view to attract, retain and incentivise employees who contribute significant value. The Target Group conducts an annual review and appraisal for its employees and offers bonus to employees with outstanding performance.

The Target Group has maintained good relationships with its employees. The management of the Target Group believes that its employees are among the most valuable assets and have contributed to the success of the Target Group. During the Track Record Period and up to the Latest Practicable Date, the Target Group had not been subject to any disruption to business operations of the Target Group due to labour disputes. The Target Group has adopted a labour union for its employees in the PRC.

RESEARCH AND DEVELOPMENT

The Target Group has a team of research and development staff who are assigned to cope with speedy changes on various industrial standards and certifications bodies such as UL, Intertek's ETL certification programme, Telecommunication Industry Association/Electronic Industries Alliance standards and IEC certification. The Target Group has objectives to update itself on new technical standards to better serve for customer's requests.

Thanks to the Target Group's research and development efforts, it was the first cable manufacturing company that was awarded the Restricted Substances Compliance Solutions (RSCS) approval from UL. The Target Group was also the first manufacturer in Asia which obtained UL certifications for Cat 5, Cat 5e, and Cat 6 cables. The Target Group is also capable of mass producing the newer Cat 7 and Cat 7A cables. The Target Group is also developing the latest Cat 8 cables. The development of new cables generally involves the use of cable materials and testing equipment as well as incurs expenses for registering patents. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Target Group's cost incurred in research and development amounted to approximately HK$14,211,000, HK$15,511,000, HK$19,761,000 and HK$14,262,000, respectively. Such expenses are charged to the combined statements of profit or loss of the Target Group during the relevant year/period.

MARKET AND COMPETITION

According to the CRI Report, in 2018, the global market size of LAN cables, the subset of networking cables which the Target Group principally manufactures and sells, reached US$6.79 billion. The growth of the LAN cable market size showed a CAGR of 10.7% from 2014 to 2018, while the market size of LAN cables in the PRC reached RMB18.10 billion, with a CAGR of 11.9% from 2014 to 2018. Such growth was mainly driven by the increasing demand of LAN cables for fixed broadband, consumer electronics, blockchain or cryptocurrencies applications and network attached storage.

There are over 1,000 LAN cable manufacturers in the world and more than half of the LAN cable manufacturers in the PRC. According to the CRI Report, the Target Group ranked fifth among the LAN cable manufacturers in the world, with a global market share of 3.2% in terms of revenue generated from the LAN cable manufacturing business for the period from April 2018 to March 2019.

The management of the Target Group believes that the Target Group is able to compete on the basis of its long history of cable manufacturing, its relatively large market value in the high-end LAN cable manufacturing business, its long-term business relationships with the major networking infrastructure companies in the world and its unremitting efforts in research and development to keep up its technologies and market trends. For details of the competitive strengths of the Target Group, please refer to the paragraph headed "Competitive strengths" in this section above. Please also refer to the section headed "Industry Overview" in this circular for the details of the industry where the Target Group operates its business and the competition it faces.

REGULATORY COMPLIANCE, LICENSES AND PERMITS

The directors of the Target Company, as advised by the PRC Legal Adviser, confirm that, during the Track Record Period and up to the Latest Practicable Date, the Target Group had complied with the relevant PRC regulatory requirements in all material aspects, and there were no non-compliance incident which constitute material non-compliance or systemic non-compliance. The directors of the Target Company, as advised by the PRC Legal Adviser, also confirm that the Target Group has obtained all the approvals, permits, consents, licenses and registrations required for its business and operations in the PRC and all of them are in force.

INTERNAL CONTROL

The Company has engaged the Sam K. M. Ng CPA Limited ("**IC Consultant**"), an independent internal control advisor, to perform evaluation of the adequacy and effectiveness of the Target Group's internal control system, including the areas of financial, operation, corporate governance, compliance and risk management under the Internal Control — 2013 Integrated Framework released by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of the IC Consultant's review, the IC Consultant has identified certain area of weaknesses or deficiencies in the internal control system and provided recommendation to the Target Group for addressing them. Details of the major findings and recommendations provided by the IC Consultant are set out below:

Major findings	**Recommendations**
The Target Group had yet to retain documentation for at least two offers received from external parties for the disposal of fixed assets.	The Target Group should enhance the fixed assets disposal policies and procedures regarding the retention of documentations on at least two offers received from external parties. The Target Group should retain comparison analysis for the sale of disposed fixed assets based on offers received and for future reference.

Major findings	Recommendations
The Target Group had yet to retain monthly inventory count report. It would be difficult for the management to verify if there are any discrepancies identified and any relevant follow up actions to be performed.	The Target Group should enhance the policies and procedures regarding to inventory count. The Target Group should retain the inventory count report and the reviewer of inventory count should countersign on the inventory count report as evidence for review.
The Target Group did not establish formal written policies and procedures regarding taxes.	The Target Group should establish written policies and procedures regarding taxes to ensure the practice is consistent and effective.

The IC Consultant performed its review for the period between 1 April 2018 to 31 March 2019 and a follow-up review to understand the status of the implementation status of remedial actions in September 2019. The Directors and the IC Consultant acknowledge that all recommendations provided by the IC Consultant had been adopted as at the Latest Practicable Date.

Based on the findings of the IC Consultant and the Target Group's adoption of the recommendation measures and remedial action to such findings, the Target Group considered that it has a sufficient and effective internal control system in place.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration or administrative proceedings pending or threatened against the Target Group or the directors of the Target Company which could have a material adverse effect on the Target Group's financial condition or results of operations.

THE CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, the Vendor, being a Controlling Shareholder of the Company, held the entire issued shares of the Target Company and the entire issued shares of Time Holdings, which owned 63.86% of the equity interest in the Company.

As at the Latest Practicable Date, the Vendor was owned as to 39.68% by Mr. Paul Lo, 20.14% by Nickson Holdings, 38.13% by GP Industries Limited (which is owned by 85.47% by Gold Peak Industries (Holdings) Limited), 1.09% by Mr. Cua Tin Yin Simon, 0.72% by Mr. Sy Yuk Tsan, 0.09% by Mr. Li Ping Kuen, 0.09% by Mr. Chan Ting Hei, 0.04% by Ms. Lo Ching Yee and 0.02% by Mr. Wong Wai Hung, respectively.

For the purpose of the Listing Rules, Mr. Paul Lo, Nickson Holdings, Gold Peak Industries (Holdings) Limited, GP Industries Limited, Mr. Cua Tin Yin Simon, Mr. Sy Yuk Tsan, Mr. Li Ping Kuen, Mr. Chan Ting Hei, Ms. Lo Ching Yee and Mr. Wong Wai Hung are a group of Controlling Shareholders by virtue of their holding interests through a common investment holding company, being the Vendor.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Target Group is capable of carrying on its business independently of, and does not place undue reliance on, the Controlling Shareholders of the Group, taking into account the following factors:

(i) Operational and administrative independence

The Target Group does not share any business operations with the Controlling Shareholders of the Company, save for the office sharing and administrative services arrangement between the Target Group and the Vendor.

During the Track Record Period and up to the Latest Practicable Date, the Target Group and the Vendor had arrangement on sharing the office premises in Hong Kong. The Target Group will continue to share the office premises with the Vendor upon Completion. In addition to the office sharing arrangement, the Vendor also provided certain administrative services to the Target Group which are administrative support in nature. Directors of the Target Company consider that the provision of administrative services by the Vendor represents a cost and operational efficient arrangement which is in the ordinary and usual course of the Target Group's business. For more details on the office sharing and administrative services arrangement between the Target Group and the Vendor, please refer to the section headed "Continuing Connected Transactions" in this circular.

(ii) Financial independence

The Company believes that following Completion, the business of the Target Group will be able to be funded independently by its operational cash flow and external banks and finance facilities without credit support from the Vendor.

As at 30 September 2019, the Target Group had banking borrowings with an aggregate principal amount of approximately HK$1,463,640,000 which were secured, among others, by personal guarantee by Mr. Paul Lo, corporate guarantee by the Vendor and Lighthouse Technologies Limited. To ensure the financial independence of the Target Group, the Target Group will obtain its own banking facilities upon the Completion and the abovementioned personal and corporate guarantees provided will be released and replaced by a corporate guarantee to be provided by the Company as soon as practicable upon Completion. During the Track Record Period, the Vendor had the function of central treasurer which had been collecting and assigning funds among different subsidiaries, and hence resulting in a balance of amount due from and to the Vendor. As at 30 September 2019, the Target Group recorded the amount due from the Vendor of approximately HK$1,207,655,000 and the amount due to the Vendor of approximately HK$217,743,000. After the Completion, the above function of the Vendor will be ceased and no more proceeds will be assigned to and from the Vendor. It is also expected that there will be no outstanding balance between the Vendor and the Target Group upon the Completion.

Having considered the above factors, the Directors consider that there is no financial dependence on the Controlling Shareholders of the Company upon Completion.

(iii) Management independence

Mr. Paul Lo, non-executive Director of the Group, is also a director of the Target Group and the Vendor. Mr. Sy Yuk Tsan, director of the Vendor, is also a director of the Target Group. Save for Mr. Paul Lo and Mr. Sy Yuk Tsan, none of the senior management team of the Target Group has an overlapping position in the Vendor. The directors of the Target Company are satisfied that the independent senior management team, is able to perform the managerial role in the Target Group independently.

Upon Completion, sales and purchases of networking cables or cable assemblies between the Group and the Target Group will no longer be subject to the connected transactions requirements under the Listing Rules. On 24 March 2020, the Target Group and the Vendor entered into the Proposed Continuing Connected Transactions, including (i) the office sharing costs paid by the Target Group to the Vendor (the "**Property Sharing Agreement**"); and (ii) the provision of office administrative support, information technology support and/or other services to the Target Group by the Vendor (the "**Administrative Services Agreement**"), which will be effective upon Completion. After Completion, the Proposed Continuing Connected Transactions carried out by the Target Group (as part of the Enlarged Group) will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will be subject to applicable or exemption of connected transactions requirements under the Listing Rules.

A summary of the above continuing connected transactions of the Enlarged Group with duration up to 31 March 2023 is set out as follows:

	Proposed annual cap for the year ending 31 March		
Nature of transaction	**2021**	**2022**	**2023**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Non-exempt continuing connected transaction			
Property Sharing Agreement	3,036	3,236	3,436
Fully-exempt continuing connected transaction			
Administrative Services Agreement	10,543	11,014	11,484

1. THE PROPERTY SHARING AGREEMENT

Date: 24 March 2020

Parties: the Target Company and the Vendor

Principal terms: Pursuant to the Property Sharing Agreement, the Target Group shares a portion of the Vendor's Hong Kong office and continues to pay annual sharing costs to the Vendor, for a term commencing from the Completion Date and ending on 31 March 2023.

Pricing policy: The annual sharing costs were determined after arm's length negotiations between the relevant parties with reference to the prevailing market rates of local properties in the neighbourhood with a similar scale and quality and the Target Group will also obtain listings of other acceptable office premises. The Target Group will compare such information to decide whether the quotation offered by the Vendor is no less favourable than those given by the real estate agent and whether the office sharing terms will continue to be fair and reasonable.

Reasons for the transaction: The Target Group had been sharing a portion of the Hong Kong office of the Vendor for use as headquarter since 1994 and does not have any plan to relocate its present headquarter shared with the Vendor.

Historical amounts:

	HK$'000
Year ended 31 March 2017	2,638
Year ended 31 March 2018	3,000
Year ended 31 March 2019	1,536
Six months ended 30 September 2019	768

Annual caps: Together with the Existing Property Sharing Agreement between the Group and the Vendor, the annual sharing costs payable by the Enlarged Group to the Vendor shall not exceed HK$3,036,000, HK$3,236,000 and HK$3,436,000 for the year ending 31 March 2021, 2022 and 2023, respectively.

Basis of caps: The annual caps were determined based on the historical transaction amounts between the Target Group and the Vendor taking into account the pricing policy of the Target Group as stated above and the prevailing market rates of the same or similar properties in the same locality.

2. THE ADMINISTRATIVE SERVICES AGREEMENT

Date: 24 March 2020

Parties: the Target Company and the Vendor

Principal terms: Pursuant to the Administrative Services Agreement, the Vendor will continue to provide services in ancillary to the office sharing arrangement under the Property Sharing Agreement, which includes office administrative support, information technology support and/or other services to the Target Group for a term commencing from the Completion Date and ending on 31 March 2023.

Pricing policy: The administrative services fees charged were determined on a cost basis whereby the costs are identifiable and are allocated to the parties and calculated based on actual consumption and/or the time spent by the staff on the provision of relevant services.

Reasons for the transaction: Given the Target Group had been sharing a portion of the Hong Kong office of the Vendor under the Property Sharing Agreement, the administrative arrangements between the Target Group and the Vendor as contemplated under the Administrative Services Agreement further enables the Target Group to enjoy cost saving by sharing the administrative costs of the Vendor and enhance operational convenience.

Historical amounts:

	HK$'000
Year ended 31 March 2017	10,710
Year ended 31 March 2018	11,250
Year ended 31 March 2019	5,664
Six months ended 30 September 2019	2,832

The decrease in historical amount for the year ended 31 March 2019 as compared to that for 2018 was due to the discontinuing of the management fee charged by the Vendor as a result of the management restructuring of the Target Group such that wages of the management of the division of the Target Group were then borne by itself instead of the Vendor. Previously, the management fee was charged by the Vendor for its central management services provided to the Target Group and other business units of the Vendor.

Annual caps: Together with Existing Administrative Services Agreement between the Group and the Vendor, the annual administrative services fees payable by the Enlarged Group to the Vendor shall not exceed HK$10,543,000, HK$11,014,000 and HK$11,484,000 for the year ending 31 March 2021, 2022 and 2023, respectively.

Basis of caps: The annual caps were determined based on the historical transaction amounts between the Target Group and the Vendor taking into account the pricing policy of the Target Group as stated above and the estimation of rising costs due to inflation.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Property Sharing Agreement are required to be aggregated with the transactions under the existing property sharing arrangements between the Group and the Vendor contemplated under the Existing Property Sharing Agreement (which are also continuing connected transactions for the Company). As each of the applicable percentage ratios (other than the profits ratio) in respect of the total annual sharing costs under the Property Sharing Agreement and the Existing Property Sharing Agreement will be less than 5%, the transactions contemplated under the Property Sharing Agreement and the Existing Property Sharing Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Administrative Services Agreement are required to be aggregated with the transactions under the Existing Administrative Services Agreement between the Group and the Vendor (which are also continuing connected transactions for the Company). As the administrative fees are identifiable and allocated to the Enlarged Group by the Vendor on a fair and equitable basis, the transactions contemplated under the Administrative Services Agreement and the Existing Administrative Services Agreement will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS' VIEWS

In the view of the Directors (including the independent non-executive Directors), it is in the interests of the Target Group (as part of the Enlarged Group) to continue with the Proposed Continuing Connected Transactions after Completion, and such transactions were entered into in the ordinary and usual course of business of the Enlarged Group on normal commercial terms, and the terms of such transactions and the relevant proposed annual caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. After the Completion, the Directors will continue to closely monitor the transactions contemplated under the Proposed Continuing Connected Transactions and the Enlarged Group will take necessary actions to ensure the compliance with applicable Listing Rules in relation to the Proposed Continuing Connected Transactions.

Directors with conflicted interest in the continuing connected transactions described in this section shall be required to abstain from voting on relevant Board resolutions in relation to such continuing connected transactions.

DIRECTORS

The following sets out certain information of the directors of the Target Company as of the date of this circular and their roles and responsibilities in the Target Group:

Name	Age	Present position in the Target Group	Date of joining Target Group	Date of appointment as director of the Target Company	Roles and responsibilities	Relationship with other directors and senior management
Mr. Paul Lo (羅仲煒)	71	Director	5 December 2006	5 December 2006	Overall strategic management and corporate development of the Target Group	N/A
Mr. Sy Yuk Tsan (施毓燦)	55	Director	31 January 2011	31 January 2011	Overall strategic management and corporate development of the Target Group	N/A

Mr. Paul Lo (羅仲煒), aged 71, is a director of the Target Company and its subsidiaries, Linkz (Shanghai), Linkz (HK), Linkz Ind (Suzhou) and Hover Manufacturing. On 5 December 2006, Mr. Paul Lo was appointed as a director of the Target Company. Mr. Paul Lo is responsible for the overall strategic management and corporate development of the Target Group.

Mr. Paul Lo has over 40 years of experience in the electronics industry. Mr. Paul Lo is the chairman and non-executive Director and a Controlling Shareholder of the Company. He is the chairman of Linkz Industries which is also a Controlling Shareholder of the Company. Mr. Paul Lo is one of the co-founders of and served as an executive director for Gold Peak, a company listed on the Main Board of the Stock Exchange from 1977 to 2011. From July 1990 to August 1997, Mr. Paul Lo also served as a director in GP Batteries International Limited, a company listed on the Mainboard of the Singapore Exchange Securities Trading Limited (stock code：GD8). From March 1998 to December 2014, Mr. Paul Lo was a supervisor of Lingsen Precision Industries, Ltd., a company listed on the Taiwan Stock Exchange Corporation (stock code：2369). Mr. Paul Lo is currently the general councilor of the Sixth Council of Guangdong Association of Enterprises with Foreign Investment and the Vice President of the Seventh Council of Huizhou Association of Enterprises with Foreign Investment of China.

Mr. Sy Yuk Tsan (施毓燦) ("**Mr. Sy**"), aged 55, is a director of the Target Company and its subsidiaries, Linkz (HK) and Linkz Technology. He also currently holds directorships in Linkz International, Huizhou Light Engine Limited* (惠州元暉光電股份有限公司) and Light Engine Limited* (元暉光電有限公司). On 31 January 2011, Mr. Sy was appointed as a director of the Target Company. Mr. Sy is responsible for the overall strategic management and corporate development of the Target Group.

Mr. Sy has over 30 years of experience in the electronics industry. Mr. Sy started his career with LTK Industries Limited (currently known as Linkz Industries) in July 1988 and worked in several positions before being promoted to sales manager in February 1990. He then worked in LTK International Limited (currently known as Linkz International) as general manager and as a vice president of its subsidiary in the U.S in 1993. He also took the position as general manager of LTK Industries Limited (currently known as Linkz Industries) in 1994. Mr. Sy joined COTCO Holdings Limited as general manager in 2005 and was later promoted to managing director in November of the same year. During the period of 2007 and 2019, Mr. Sy also worked for a multinational LED manufacturer company and held a number of positions during his course of employment with his last position as a special consultant.

Mr. Sy was awarded a master's degree in business administration from the Chinese University of Hong Kong in November 2001 and a degree of bachelor of science in engineering from the University of Hong Kong in November 1988. Mr. Sy was awarded Young Industrialist Award of Hong Kong in 2006.

SENIOR MANAGEMENT

The following table sets out certain information in respect of the senior management of the Target Group as of the date of this circular and their roles and responsibilities in the Target Group:

Name	Age	Present position	Date of joining Target Group	Date of appointment as senior management	Roles and responsibilities	Relationship with other Directors and senior management
Mr. Cao Zhenyi (曹振毅)	66	General Manager — Manufacturing of Networking Cables Business	1 February 2007	1 February 2007	Overseeing and managing the overall operation of the production facilities of the networking cables business	N/A
Mr. Li Put Tung (李渤東)	41	General Sales Manager of Networking Cables Business	1 February 2002	1 April 2013	Business development, sales and product strategies of the networking cables business	N/A
Mr. Ling Zhen (淩真)	45	Assistant Financial Controller of Networking Cables Business	13 September 1995	1 April 2011	Overseeing the function of finance, accounting and internal control of the networking cables business	N/A
Mr. Liu Yaliang (劉雅樑)	45	Deputy Chief Engineer of Networking Cables Business	16 March 2000	14 July 2008	Driving the product development and new technology of the networking cables business	N/A

Name	Age	Present position	Date of joining Target Group	Date of appointment as senior management	Roles and responsibilities	Relationship with other Directors and senior management
Mr. Fu Kuanlin (傅寬林)	49	Director of Manufacturing-Speciality Cables of Networking Cables Business	1 November 2019	1 November 2019	Product development, production and manufacturing process improvement of speciality cables	N/A
Mr. Li Yuebin (李岳斌)	55	General Manager of Linkz Ind (Suzhou)	12 June 2004	1 June 2007	Overseeing the management of Linkz Ind (Suzhou) and establishing and maintaining relationships with stakeholders	N/A
Mr. Yao Honglin (姚宏林)	54	Factory Manager of Linkz Ind (Suzhou)	1 November 1999	1 October 2011	Overseeing and managing the factory operations of Linkz Ind (Suzhou)	N/A
Mr. Qin Jianjun (秦建軍)	47	Factory Manager of Linkz (Shanghai)	16 March 2000	1 April 2010	Overseeing and managing the factory operations of Linkz (Shanghai)	N/A

Mr. Cao Zhenyi (曹振毅) (“**Mr. Cao**”), aged 66, is the general manager — manufacturing of the networking cables business of the Target Group. Mr. Cao is also the director of Linkz Ind (Suzhou), Linkz (Shanghai), Hover (Kunshan) and Kunshan Deqin. Mr. Cao is primarily responsible for overseeing and managing the overall operation of the production facilities of the networking cables business and the strategic development of the Target Group.

Mr. Cao has over 40 years of experience in the wires and cables industry. He has taken various positions in manufacturing and factory operations prior to joining Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司, currently known as Linkz (Shanghai)) in April 1994 with his last position held as assistant to general manager in December 2006. Mr. Cao later joined Hover (Kunshan) in February 2007 as general manager and continued working for Hover (Kunshan) after it was acquired by the Target Group in March 2014 and was promoted to his current position in April 2018.

Mr. Cao was awarded a higher diploma in Planning Statistics from Shanghai Luwan Sparetime University* (上海市盧灣區業餘大學) in January 1989.

Mr. Li Put Tung (李渤東) ("**Mr. Victor Li**"), aged 41, is the director of Hover Manufacturing, Linkz Ind (Suzhou) and Linkz (Shanghai). Mr. Victor Li was appointed as director of Hover Manufacturing in March 2014 and as director of Linkz Ind (Suzhou) and Linkz (Shanghai) in June 2017. He is also the general sales manager of the networking cables business of the Target Group. He is primarily responsible for business development, formulating sales and product strategies of the networking cables business.

Mr. Victor Li first joined LTK Industries Limited (currently known as Linkz Industries) in February 2002 as a project engineer and took various positions with his last position held as general sales manager of the networking cables business of Linkz Industries in April 2015 before transferring to his current role in April 2018.

Mr. Victor Li was awarded a master of science degree in Communications, Computer and Human Centred Systems (Multimedia Computer Systems) in July 2003 and a bachelor's degree of Engineering (Electronic and Communication Engineering) in July 2000 from the University of Birmingham.

Mr. Ling Zhen (凌真) ("**Mr. Ling**"), aged 45, is the assistant financial controller of the networking cables business of the Target Group. Mr. Ling is also the supervisor of Linkz Ind (Suzhou), Linkz (Shanghai), Hover (Kunshan) and Kunshan Deqin. He is primarily responsible for overseeing the function of finance, accounting and internal control of the networking cables business.

Mr. Ling started his career with Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司, currently known as Linkz (Shanghai)) in September 1995 and took various positions with his last position held as assistant to financial controller in December 2008 before he was appointed to his current position in April 2011.

Mr. Ling was awarded an associate degree in International Accounting and Finance from East China Normal University in July 1995. Mr. Ling also obtained an accountancy certificate issued and approved by the Ministry of Personnel and Ministry of Finance of the PRC in May 2002.

Mr. Liu Yaliang (劉雅樑) ("**Mr. Liu**"), aged 45, is the deputy chief engineer of the networking cables business of the Target Group. He is primarily responsible for driving the product development and new technology of the networking cables business.

Mr. Liu started his career with LTK Electric Wire (Huizhou) Limited (樂庭電線工業(惠州)有限公司) in July 1998 before he transferred to Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司, currently known as Linkz (Shanghai)) as an assistant engineer in the manufacturing department in March 2000 where he took various positions with his last position held as manager of the product development department in July 2006 before being appointed to his current position in July 2008.

Mr. Liu was awarded a bachelor's degree in Mechanical Electrical Engineering from Nanjing University of Science and Technology in July 1998.

Mr. Fu Kuanlin (傅寬林) ("**Mr. Fu**"), aged 49, is the director of manufacturing-speciality cables of the networking cables business of the Target Group. He is primarily responsible for the product development, production and manufacturing process improvement of the speciality cables of the networking cables business.

Mr. Fu has over 25 years of experience in wires and cables industry. Mr. Fu started his career with LTK Electric Wire (Huizhou) Limited (樂庭電線工業(惠州)有限公司) in July 1993 and was promoted to assistant quality assurance manager in April 1999 before he transferred to Shanghai LTK Electronic Cables Limited (上海樂庭電子線纜有限公司) with his last position held as factory manager in April 2007. He later took various management roles in different companies in the networking cables industry and rejoined Linkz Ind (Suzhou) in his current position in November 2019.

Mr. Fu was awarded a master degree in Business Administration from Xi'an Jiaotong University in June 2013 and a bachelor's degree in Mechanical Engineering — Mechanical Manufacturing Technology and Equipment from Hunan University in July 1993.

Mr. Li Yuebin (李岳斌) ("**Mr. Li**"), aged 55, is the director and general manager of Linkz Ind (Suzhou). Mr. Li first joined Linkz Ind (Suzhou) in September 2006 and was promoted to his current position in October 2011. He is primarily responsible for overseeing the management of Linkz Ind (Suzhou) and establishing and maintaining relationships with stakeholders.

Mr. Li has over 35 years of experience in audit and accounting and factory management. Mr. Li took various positions in accounting before joining Coretech Industries (Huizhou) Limited (高達(惠州)電纜製品有限公司) in February 1993 as an accounting supervisor. He was subsequently transferred to Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司, currently known as Linkz (Shanghai)) in June 2004 as audit manager. Mr. Li then transferred to Linkz Ind (Suzhou) in September 2006 which he was promoted to various roles with his last position held as factory manager before he was appointed to his current position in October 2011.

Mr. Li was awarded a master's degree in Business Administration from Macau University of Science and Technology in November 2003 and a higher diploma in Business Administration from Party School of Heilongjiang Provincial Committee of the Communist Party of China in June 1998.

Mr. Yao Honglin (姚宏林) ("**Mr. Yao**"), aged 54, is the factory manager of Linkz Ind (Suzhou). Mr. Yao first joined Linkz Ind (Suzhou) as an assistant factory manager in October 2011 before being appointed to his current position in April 2016. He is primarily responsible for overseeing and managing the overall factory operations of Linkz Ind (Suzhou).

Mr. Yao has over 30 years of experience in technology development, quality control and production management. Mr. Yao joined Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司, currently known as Linkz (Shanghai)) in November 1999 and was promoted to various roles with his last position held as deputy chief engineer — quality assurance for the networking cables business in April 2010 before he transferred to Linkz Ind (Suzhou) in October 2011.

Mr. Yao was awarded an associate degree in Mechanical Engineering — Mechanical Manufacturing Technology and Equipment from Nantong University (formerly known as Nantong Textile Engineering College) in July 1987. Mr. Yao obtained a Quality Professional certificate issued by the State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine in June 2002.

Mr. Qin Jianjun (秦建軍) ("**Mr. Qin**"), aged 47, is the factory manager of Linkz (Shanghai). Mr. Qin is primarily responsible for overseeing and managing the overall the factory operations of Linkz (Shanghai).

Mr. Qin has over 25 years of experience in the wires and cables industry. He started his career with LTK Electric Wire (Huizhou) Limited (樂庭電線工業(惠州)有限公司) in the production department in May 1994 and he transferred to Shanghai LTK Electric Wire Ltd. (上海樂庭電線工業有限公司, currently known as Linkz (Shanghai)) in March 2000 where he took various positions, with his last position held as assistant factory manager in April 2010 before he was appointed to his current role in October 2011.

Mr. Qin was awarded an associate degree in Economics and Management from Xi'an Politics Institute of the People's Liberation Army in June 2004.

The business of the Target Group will continue to be operated and managed by the existing management of the Target Group.

Save as disclosed above, no directors or members of the senior management of the Target Group held any directorships in any other listed companies within the three years immediately preceding the date of this circular, nor has he or she held any other positions with the Target Group or the Company.

Save as disclosed above, there is no other information relating to the relationship of any of the directors or members of the senior management of the Target Group with other directors or members of the senior management of the Target Group or any other information that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules. None of the directors or members of the senior management of the Target Group is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Target Group or the Group.

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 March 2019 and the six months ended 30 September 2019. The financial information has been prepared in accordance with HKFRS and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants. You should read the Accountant's Report on the Target Group included as Appendix II to this circular in its entirety and should not merely rely on the information contained in this section.

OVERVIEW

The Target Group is a long established networking cable manufacturer with its manufacturing facilities located in the PRC. Founded in 1993, the Target Group has over 26 years of business operation and currently owns three and leases another industrial complexes situated in Shanghai and Kunshan City, Jiangsu Province. As at the Latest Practicable Date, the Target Group focuses on the manufacturing of different networking cables with copper as the transmission media and has an annual production capacity of approximately 4 million kft of networking cables.

The networking cable products of the Target Group are marketed and sold to large enterprises including multinational corporations and which are usually the end users, such as international networking infrastructure companies, which mainly incorporate the Target Group's products in their networking solutions services. While the Target Group sells a small proportion of its products on the Target Group's brand names, 华讯 and LINGXUN, a majority of the networking cables are sold on the OEM basis. The major suppliers of the Target Group include sellers of copper, plastic materials and cable reels.

BASIS OF PREPARATION

The Target Company was incorporated and registered as an exempted company with limited liability in the BVI on 5 December 2006. Upon the Completion, the companies comprising the Target Group underwent the Reorganisation and the Target Company became the holding company of the subsidiaries comprising the Target Group. The principal steps of the Reorganisation involve:

1. Deregistration of Linkz Ind Tech by the Target Company;

2. Transfer of the entire issued share capital of Hover Manufacturing from the Vendor to the Target Company; and

3. Transfer of the business of trading of networking cables conducted by Linkz International to the Target Group by way of transfer of the Assets and Liabilities to Linkz Technology.

The Target Group resulting from the Reorganisation continued to be controlled by the Vendor and is regarded as a continuing entity. Accordingly, the combined statements of profit or loss and other comprehensive income, and the combined statements of cash flows of the Target Group for the Track Record Period have been prepared to include the results, changes in equity and cash flows and the combined statements of changes in equity of the entities now comprising the Target Group as if the group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position of the Target Group as at 31 March 2017, 2018 and 2019 and 30 September 2019 have been prepared to present the assets and liabilities of the entities now comprising the Target Group as if the current group structure upon completion of the Reorganisation had been in existence at those dates taking into account their respective dates of incorporation/establishment or their respective dates of disposal whichever is applicable.

However, for the purpose of preparation of the historical financial information of the Target Group, it also includes the financial information of the non-core business of Linkz International ("**Non-core Business**") that are not relevant to the business of trading of networking cables and the financial information of Linkz Ind Tech. As the carrying amounts of the assets and liabilities of the Non-core Business to be retained by Linkz International can only be determined upon completion of the Reorganisation, which is yet to be completed as at the end of the Track Record Period, such assets and liabilities are thus still included in the historical financial information of the Target Group as set out to the Accountants' Report on the Target Group in Appendix II in this circular, while its financial effect upon completion of the Reorganisation is reflected in note 3 in the unaudited pro forma financial information in Appendix III as part of the pro forma adjustments as if the Acquisition was completed on 30 September 2019. The carrying amounts of the assets and liabilities of such Non-core Business can be cross-referenced to Note 42 to the Accountants' Report on the Target Group in Appendix II in this circular.

For more information on the basis of preparation of the financial information included herein, please refer to Note 2 to the Accountants' Report on the Target Group set out in Appendix II to this circular.

KEY FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE TARGET GROUP

The results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Demand for networking cables

A majority of the Target Group's products are sold to networking infrastructure companies, and the development of telecommunication technology and the demand of networking infrastructure may have a direct impact on the demand of the Target Group's products. However, there is no assurance that the demand of networking infrastructure on networking cables will not substantially decrease or the Target Group will continue to develop new networking cables that can comply with the ever changing technological standards or there will be no adverse change in the demand of the Target Group's products. In addition, copper networking cables that the Target Group manufactures and sells are not the only type of networking cables for the transmission of network signals and there are other faster networking cables, such as optical fibres, that may in the future substitute the use of copper networking cables. A reduced demand due to economic reasons or availability of new viable substitutions could adversely affect the Target Group's results of operations and negatively affect its cash flow.

Product mix

The Target Group's networking cable products are divided into several categories based on industry standard, and different categories often carry different selling prices and the profit margin generally varies according to the technical specifications and performance requirements. The change in technology and demand of customers would result in change of demand of networking cables of different categories, which may include introducing new categories or obsoleting existing ones. Accordingly, the results of operations, including profit margin, of the Target Group may vary from period-to-period as a result of the changes in product mix with reference to the products placed by its customers.

Foreign currency risk

The Target Group's combined financial statements are prepared in Hong Kong dollars. In connection with the preparation of the combined financial statements, the results of operations of the PRC subsidiaries, which adopt RMB as the reporting currency, were translated into Hong Kong dollars using average rates. For the sales out of the PRC, they are generally settled in US$; and the manufacturing and material costs are generally settled in RMB, the Target Group would recognise exchange gain/loss as the exchange rate of RMB against US$ depreciates or appreciates. Fluctuations in the value of these exchange rates from one year to the next impact the combined results of operations and, depending on the magnitude of these fluctuations, could obscure underlying trends that would have been apparent if the combined financial statements had been prepared on a constant basis.

In addition, as sales to the customers for the products are generally denominated in RMB and US$ while the major costs for operations are denominated in RMB, the Target Group is exposed to foreign currency risk. Certain items in the combined statement of financial position are also denominated in currencies other than the currencies the Target Group's entities used to prepare for the financial statements. As a result, any significant fluctuations in the exchange rate in future will also have an impact on the reported costs and earnings, and therefore, the operation results as a result of the foreign exchange gain or loss recognised in the combined financial statements. For the years ended 31 March 2017 and 2019 and the six months ended 30 September 2019, the net foreign exchange gain amounted to approximately of HK$5,870,000, HK$953,000 and HK$11,611,000, respectively, while the Target Group recorded a foreign exchange loss of approximately HK$5,567,000 for the year ended 31 March 2018.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the foreign exchange rate on profit before taxation during the Track Record Period, holding all other variables constant.

To illustrate the potential effect on the Target Group's financial performance, the sensitivity analysis below shows the impact on the profit before taxation with a 1.0% and 2.8% increase or decrease in the net foreign exchange gains or losses for the periods as indicated 1.0% and 2.8% representing the historical percentage changes in average exchange rates of RMB against Hong Kong dollars during the Track Record Period:

Hypothetical fluctuations	**-2.8%**	**-1.0%**	**1.0%**	**2.8%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Decrease)/increase in net foreign exchange gain or exchange loss				
Year ended 31 March 2017	(164)	(59)	59	164
Year ended 31 March 2018	(156)	(56)	56	156
Year ended 31 March 2019	(27)	(10)	10	27
Six months ended 30 September 2019	(325)	(116)	116	325
Increase/(decrease) in profit before taxation				
Year ended 31 March 2017	(164)	(59)	59	164
Year ended 31 March 2018	156	56	(56)	(156)
Year ended 31 March 2019	(27)	(10)	10	27
Six months ended 30 September 2019	(325)	(116)	116	325

Cost of raw materials

Cost of raw materials is the major component of the Target Group's cost of goods sold. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, cost of raw materials accounted for 86.3%, 86.2%, 86.4% and 85.2% of the Target Group's cost of goods sold, respectively. Any unfavourable fluctuation in the market price of the raw materials may have a material adverse impact on the cost of goods sold. If the Target Group is unable to pass on the increased costs to the customers, its business, results of operations, financial condition and profitability may also be materially and adversely affected.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in costs of raw materials on profit before taxation during the Track Record Period, holding all other variables constant.

To illustrate the potential effect on financial performance, the sensitivity analysis below shows the impact on the profit before taxation with a 12.7% and 13.7% increase or decrease in the cost of raw materials for the periods as indicated 12.7% and 13.7% representing the change in cost of raw materials during the Track Record Period:

Hypothetical fluctuations	**-13.7%**	**-12.7%**	**12.7%**	**13.7%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Decrease)/increase in cost of raw materials				
Year ended 31 March 2017	(133,768)	(124,004)	124,004	133,768
Year ended 31 March 2018	(152,061)	(140,961)	140,961	152,061
Year ended 31 March 2019	(171,319)	(158,814)	158,814	171,319
Six months ended 30 September 2019	(73,416)	(68,057)	68,057	73,416
Increase/(decrease) in profit before taxation				
Year ended 31 March 2017	133,768	124,004	(124,004)	(133,768)
Year ended 31 March 2018	152,061	140,961	(140,961)	(152,061)
Year ended 31 March 2019	171,319	158,814	(158,814)	(171,319)
Six months ended 30 September 2019	73,416	68,057	(68,057)	(73,416)

Business relationships with customers

The Target Group's top five customers for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019 accounted for 85.5%, 80.5%, 76.3% and 76.8% of the Target Group's total revenue and such top customers remained dominant customers of the Target Group throughout the Track Record Period. Although the management of the Target Group considers that there is no undue dependency on any of the top customers, the change in relationship between the Target Group and its top customers may affect the business terms, profitability and results of operations of the Target Group.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Target Group has identified below the accounting policies that its management believes are the most critical to the combined financial statements. Notes 4 and 5 to the Accountants' Report on the Target Group included in Appendix II to this circular set out in detail the significant accounting policies and accounting judgments and estimates. These accounting policies require management of the Target Group to make judgments, estimates and assumptions, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The management of the Target Group will continue to evaluate the estimates and associated assumptions and base them on the historical experience and various other factors, including expectation of future events that they believe are reasonable under the circumstances. The following paragraphs summarise the critical accounting policies and estimates applied in the preparation of the Target Group's combined financial statements.

Revenue from contracts with customers

The Target Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- the Target Group's performance creates or enhances an asset that the customer controls as the Target Group performs; or
- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

The revenue of the Target Group is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from sales of goods to the Target Group's customers in connection with the production of networking cables are recognised when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Property, plant and equipment

Property, plant and equipment including buildings held for use in production of goods, or for administrative purpose are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of assets less their residual values over their estimated useful lives, using the straight-line method or reducing balance method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting periods, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

RESULTS OF OPERATION DURING THE TRACK RECORD PERIOD

The following table sets forth the Target Group's combined results of operation during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Continuing operation					
Revenue	1,328,298	1,498,697	1,676,557	894,119	735,340
Cost of goods sold	(1,131,447)	(1,287,182)	(1,447,539)	(771,545)	(628,747)
Gross profit	196,851	211,515	229,018	122,574	106,593
Other income	2,218	4,388	3,668	181	424
Other gains and losses	1,950	(5,653)	1,387	5,072	11,709
Distribution and selling expenses	(29,242)	(29,152)	(36,242)	(19,095)	(15,366)
Administrative expenses	(75,278)	(80,187)	(58,049)	(27,956)	(29,920)
Research and development expenses	(14,211)	(15,511)	(19,761)	(9,577)	(14,262)
Finance costs	(30,401)	(42,143)	(63,064)	(29,851)	(32,453)
Profit before taxation	51,887	43,257	56,957	41,348	26,725
Taxation	(10,275)	(9,671)	(13,004)	(10,426)	(4,064)
Profit for the year/period from continuing operation	41,612	33,586	43,953	30,922	22,661
Discontinued operation					
Loss for the year/period from discontinued operation	(14,666)	—	—	—	—
Profit for the year/period	26,946	33,586	43,953	30,922	22,661

Revenue

The Target Group derived revenue from manufacture and sales of networking cable products. The revenue primarily represents the amount received and receivable for the goods sold, net of discount and sales related taxes.

The tables below set forth the breakdown of revenue and volumes of products sold of the Target Group by (i) products types; and (ii) geographical regions during the Track Record Period:

(i) By product type

	Year ended 31 March									Six months ended 30 September					
	2017			2018			2019			2018			2019		
	'000 kft	*HK$'000*	*% of revenue*	*'000 kft*	*HK$'000*	*% of revenue*	*'000 kft*	*HK$'000*	*% of revenue*	*'000 kft*	*HK$'000* (unaudited)	*% of revenue*	*'000 kft*	*HK$'000*	*% of revenue*
Cat 5/5e cables	929	295,555	22.3	836	310,217	20.7	654	256,605	15.3	339	136,713	15.3	312	120,826	16.4
Cat 6/6A cables	1,915	913,840	68.8	1,869	1,001,464	66.8	1,879	1,035,780	61.8	901	508,009	56.8	880	476,538	64.8
Cat 7/7A cables	46	43,965	3.3	94	91,462	6.1	253	264,176	15.8	173	190,876	21.4	98	88,375	12.0
Others	53	74,938	5.6	84	95,554	6.4	65	119,996	7.1	37	58,521	6.5	26	49,601	6.8
Total	2,943	1,328,298	100.0	2,883	1,498,697	100.0	2,851	1,676,557	100.0	1,450	894,119	100.0	1,316	735,340	100.0

(ii) By geographical region

	Year ended 31 March									Six months ended 30 September					
	2017			2018			2019			2018			2019		
	'000 kft	*HK$'000*	*% of revenue*	*'000 kft*	*HK$'000*	*% of revenue*	*'000 kft*	*HK$'000*	*% of revenue*	*'000 kft*	*HK$'000* (unaudited)	*% of revenue*	*'000 kft*	*HK$'000*	*% of revenue*
The PRC	1,392	565,716	42.6	1,473	714,902	47.7	1,518	879,199	52.4	775	487,198	54.5	723	384,194	52.2
Singapore	255	139,953	10.5	288	167,776	11.2	278	185,452	11.1	124	83,924	9.4	115	72,498	9.9
Hong Kong	291	135,263	10.2	354	182,227	12.2	320	175,334	10.5	167	92,644	10.4	142	77,563	10.5
India	221	104,672	7.9	77	44,079	2.9	35	25,547	1.5	19	14,706	1.6	13	8,004	1.1
The United States	159	90,663	6.8	152	90,812	6.1	139	85,039	5.1	66	41,498	4.6	84	50,505	6.9
United Kingdom	167	76,919	5.8	177	96,266	6.4	220	129,516	7.7	109	64,098	7.2	109	67,350	9.2
Others	458	215,112	16.2	362	202,635	13.5	341	196,470	11.7	190	110,051	12.3	130	75,226	10.2
Total	2,943	1,328,298	100.0	2,883	1,498,697	100.0	2,851	1,676,557	100.0	1,450	894,119	100.0	1,316	735,340	100.0

The Target Group's revenue increased by 12.8% from approximately HK$1,328,298,000 for the year ended 31 March 2017 to HK$1,498,697,000 for the year ended 31 March 2018. Such increase was mainly due to an increase in average selling price of the products as the average price of copper, one of the major components of the Target Group's products, increased as compared with preceding year.

The Target Group's revenue then further increased by 11.9% to approximately HK$1,676,557,000 for the year ended 31 March 2019 which was mainly due to the significant increase in sales demand of Cat 7 cables (including Cat 7A cables) as a result of the rapid development of 5G cellular network technology in recent years and Cat 7 and Cat 7A cables have higher signal transmission speed than Cat 6 and Cat 5 cables in general. Regarding Cat 7 cables, the revenue increased by 188.8% from approximately HK$91,462,000 for the year ended 31 March 2018 to approximately HK$264,176,000 for the year ended 31 March 2019.

The Target Group's revenue decreased by 17.8% from approximately HK$894,119,000 for the six months ended 30 September 2018 to HK$735,340,000 for the same period of 2019. The decrease is mainly due to the decrease in sales demand of products, especially, Cat 7 cables (including Cat 7A cables) which the revenue decreased by 53.7% from approximately HK$190,876,000 for the six months ended 30 September 2018 to HK$88,375,000 for the six months ended 30 September 2019. The management of the Target Group is of the view that the sales demand of the six months ended 30 September 2019 was negatively affected by the uncertainties arising from the progress of the US-China trade deal negotiation.

Cost of goods sold

The Target Group's cost of goods sold primarily included raw materials, labour costs and various manufacturing overheads. The table below sets forth the breakdown of cost of goods sold of the Target Group during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cost of raw materials	976,409	1,109,933	1,250,506	670,292	535,880
Salaries and employee benefits expenses	62,205	67,640	77,745	40,541	37,817
Depreciation	30,816	28,993	31,432	16,034	15,180
Utilities expenses	28,013	27,538	28,139	14,995	13,684
Repair and maintenance	11,540	13,594	13,857	7,124	7,295
Subcontracting expenses	4,921	20,812	24,454	11,734	9,027
Freight and transportation charges	4,414	3,724	3,904	1,802	1,213
Consumable expenses	6,351	8,973	10,286	5,047	5,051
Other miscellaneous expenses	6,778	5,975	7,216	3,976	3,600
Total	1,131,447	1,287,182	1,447,539	771,545	628,747

Cost of raw materials

Raw materials primarily used in the production are mainly copper and plastic materials. The following table sets forth the cost of raw materials by nature during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Copper	648,189	791,733	889,800	481,882	376,527
Plastic materials	221,645	227,536	258,953	136,740	109,855
Others	106,575	90,664	101,753	51,670	49,498
Total	976,409	1,109,933	1,250,506	670,292	535,880

The Target Group's cost of goods sold increased by approximately HK$155,735,000 or 13.8%, from HK$1,131,447,000 for the year ended 31 March 2017 to approximately HK$1,287,182,000 for the year ended 31 March 2018 and further increased by approximately HK$160,357,000 or 12.5% to approximately HK$1,447,539,000 for the year ended 31 March 2019. The increase in cost of goods sold was mainly due to the increase in cost of raw materials as a result of the increase in the average price of copper, one of the major components of the Target Group's products. In addition, the subcontracting expenses also increased as the Target Group had decided to outsource the plastic pelletising process to a selected subcontractor in the PRC since January 2017, i.e. the last quarter of the year ended 31 March 2017, in order to enhance production capacity by assigning more production space for other more technical production processes, and the full year subcontracting expenses are mainly reflected in the years ended 31 March 2018 and 2019.

The Target Group's cost of goods sold decreased by approximately HK$142,798,000 or 18.5% from approximately HK$771,545,000 for the six months ended 30 September 2018 to approximately HK$628,747,000 for the six months ended 30 September 2019, which was in line with the decrease in the Target Group's revenue throughout the periods of comparison.

Gross profit and gross profit margin

The table below sets forth a breakdown of the Target Group's gross profit and gross profit margin by products during the Track Record Period:

	Year ended 31 March						Six months ended 30 September			
	2017		2018		2019		2018		2019	
	Gross profit HK$'000	*Gross profit margin*	*Gross profit HK$'000*	*Gross profit margin*	*Gross profit HK$'000*	*Gross profit margin*	*Gross profit HK$'000* (unaudited)	*Gross profit margin*	*Gross profit HK$'000*	*Gross profit margin*
Cat 5/5e cables	24,608	8.3%	21,846	7.0%	16,870	6.6%	8,271	6.0%	9,884	8.2%
Cat 6/6A cables	150,007	16.4%	143,287	14.3%	127,344	12.3%	59,149	11.6%	65,581	13.8%
Cat 7/7A cables	17,122	38.9%	23,370	25.6%	62,476	23.6%	44,839	23.5%	21,491	24.3%
Others	5,114	6.8%	23,012	24.1%	22,328	18.6%	10,315	17.6%	9,637	19.4%
Total	196,851	14.8%	211,515	14.1%	229,018	13.7%	122,574	13.7%	106,593	14.5%

The gross profit of the Target Group amounted to approximately HK$196,851,000, HK$211,515,000, HK$229,018,000 for the years ended 31 March 2017, 2018 and 2019, respectively. The increasing trends in the gross profit of the Target Group from the year ended 31 March 2017 to the year ended 31 March 2019, is mainly due to the increase in revenue as driven by the sales of Cat 7 and Cat 7A cables which have a higher profit margin among the products offered by the Target Group. However, the Target Group's gross profit margin decreased from 14.8% for the year ended 31 March 2017 to 14.1% for the year ended 31 March 2018 and further decreased to 13.7% for the year ended 31 March 2019 as a result of the increase in the price of raw materials for production and the increased in subcontracting expenses for certain outsourced production process.

The gross profit of the Target Group amounted to approximately HK$122,574,000 and HK$106,593,000 for the six months ended 30 September 2018 and 2019, respectively. The decrease in the gross profit of the Target Group is mainly due to the decrease in revenue because less sales orders were received from customers. However, the Target Group's gross profit margin increased from 13.7% for the six months ended 30 September 2018 to 14.5% for the six months ended 30 September 2019 as a result of the decrease of the price of raw materials.

Other income

The following table sets forth the breakdown of other income during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Bank interest income	294	332	270	130	161
Imputed interest income from deposits and prepayments for a life insurance policy	688	174	—	—	—
Government grants	986	3,583	3,053	—	174
Others	250	299	345	51	89
Total	2,218	4,388	3,668	181	424

The Target Group's other income amounted to approximately HK$2,218,000, HK$4,388,000 and HK$3,668,000 for the years ended 31 March 2017, 2018 and 2019, respectively. Such increase was mainly derived from various government grants which represented export and other incentive payment received by the Target Group from relevant government departments.

The other income increased from approximately HK$181,000 for the six months ended 30 September 2018 to approximately HK$424,000 for the corresponding period of 2019, which was mainly due to the receipts of government grants from relevant government departments.

Other gains and losses

The following table sets forth the breakdown of other gains and losses during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net foreign exchange gain/(loss) *(Note)*	5,870	(5,567)	953	5,032	11,611
(Loss)/gain on disposal/write off of property, plant and equipment	(2,470)	(86)	252	(49)	—
Fair value loss on foreign currency forward contracts	(1,450)	—	—	—	—
Gain on change in fair value of financial assets at fair value through profit or loss	—	—	182	89	98
Total	1,950	(5,653)	1,387	5,072	11,709

Note: The net foreign exchange gain/(loss) arose as the sales of products by the PRC subsidiaries of the Target Group out of the PRC are usually denominated in US$ whereas the major costs of its operation are denominated in Renminbi, leading to a gain or loss recognised on these transactions as a result of fluctuation of exchange rate between Renminbi and US$ from time to time.

The Target Group's other gains and losses decreased from a net gain of approximately HK$1,950,000 for the year ended 31 March 2017 to a net loss of approximately HK$5,653,000 for the year ended 31 March 2018, which were mainly attributable to the significant net foreign exchange loss for the year. Thereafter, the Target Group improved its other gains at approximately HK$1,387,000 for the year ended 31 March 2019 due to the net foreign exchange gain of approximately HK$953,000.

The other gains and losses increased from approximately HK$5,072,000 for the six months ended 30 September 2018 to approximately HK$11,709,000 for the corresponding period of 2019, which was mainly attributable to the improvement of net foreign exchange gains for the six months ended 30 September 2019.

Distribution and selling expenses

The following table sets forth the breakdown of distribution and selling expenses during the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries and employee benefits	4,468	4,529	8,938	4,596	4,511
Insurance expenses	2,863	3,080	3,253	1,529	1,413
Travelling and entertainment expenses	2,705	2,303	2,983	1,630	1,202
Freight charges and transportation charges	17,494	16,576	19,132	10,207	7,508
Rental expenses	—	—	161	—	—
Others	1,712	2,664	1,775	1,133	732
Total	29,242	29,152	36,242	19,095	15,366

The Target Group's distribution and selling expenses remained stable at approximately HK$29,242,000 and HK$29,152,000 for the years ended 31 March 2017 and 2018, respectively.

Thereafter, the distribution and selling expenses of the Target Group increased to approximately HK$36,242,000 for the year ended 31 March 2019, which was mainly attributable to (i) the increase in salaries and employee benefits due to the management restructuring of the Target Group such that wages of the management of the Target Group are borne by itself instead of the Vendor; and (ii) freight charges increased by approximately HK$2,556,000.

The distribution and selling expenses for the six months ended 30 September 2018 decreased from approximately HK$19,095,000 to approximately HK$15,366,000 for the corresponding period in 2019. Such decrease was mainly attributable from the decrease in sales orders which in turn reduced freight services during the period of comparison.

Administrative expenses

The following table sets forth the breakdown of administrative expenses for the Track Record Period:

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries and employee benefits	16,850	17,802	27,615	13,419	13,752
Rental expenses	59	69	104	53	50
Utilities expenses	2,296	1,938	1,459	711	773
Insurance expenses	402	451	573	251	295
Repairs and maintenance	1,059	2,618	2,041	1,066	1,177
Travelling and entertainment expenses	580	665	772	296	590
Motor vehicles expenses	450	475	553	361	278
Legal and professional fee	165	154	983	197	1,112
Office expenses	1,059	1,135	1,074	547	667
Depreciation	3,969	4,191	3,791	2,108	1,652
Bank charges	4,564	5,026	5,398	2,369	2,775
Other taxes expenses	2,321	2,436	2,357	1,229	1,094
Management fee*(Note)*	24,367	24,000	—	—	—
Administrative services fee*(Note)*	10,710	11,250	5,664	2,832	2,832
Office sharing expenses*(Note)*	2,638	3,000	1,536	768	768
Others	3,789	4,977	4,129	1,749	2,105
Total	75,278	80,187	58,049	27,956	29,920

Note: The management fee, administrative services fee and office sharing expenses were charged by the Vendor to reimburse the costs of management and administration provided by the Vendor to the Target Group. The management fee was charged by the Vendor for the central management services provided to the Target Group and other business units of the Vendor. The costs of the management services were allocated to the Target Group as management fee based on actual time spent by central management staff on the provision of such management services. For the administrative services fee, the Target Group paid the Vendor for the services ancillary to the head office shared with the Vendor, which included the provision of office administrative support, information technology support and/or such other services. The administrative fees charged were determined on a cost basis whereby the costs are identifiable and are allocated to the Target Group based on actual consumption and/or the time spent by the staff on the provision of relevant services.

In respect of the various administrative and management arrangements, the management of the Target Group considers that they would have incurred similar expenses as those administrative and management are charged based on actual consumption or time spent by those staff on the provision of services. Since 1 April 2018, the Target Group decided to discontinue the central management arrangement provided by the Vendor by handling relevant services with its independent and delineated management team. As a result, the Target Group's salaries and employee benefits expenses increased significantly, while the management fee ceased to be incurred and the administrative services fee reduced substantially during the year ended 31 March 2019.

For the year ended 31 March 2018, administrative expenses of the Target Group amounted to approximately HK$80,187,000, representing an increase of approximately HK$4,909,000, or 6.5%, as compared to approximately HK$75,278,000 for the year ended 31 March 2017. This increase was mainly attributable to an increase in repair and maintenance of approximately HK$1,559,000 incurred for the repairing programme for factory and staff dormitory in Shanghai.

For the year ended 31 March 2019, administrative expenses of the Target Group amounted to approximately HK$58,049,000, representing a decrease of approximately HK$22,138,000, or 27.6%, as compared to approximately HK$80,187,000 for the year ended 31 March 2018. The decrease was attributable to the net effect of (i) the discontinuing of the management fee charged by the Vendor due to the management restructuring of the Target Group such that wages of the management of the division of the Target Group are borne by itself instead of the Vendor; (ii) the decrease in administrative services fee of approximately HK$5,586,000; and (iii) the increase in salaries and employee benefits of approximately HK$9,813,000.

For the six months ended 30 September 2019, administrative expenses of the Target Group amounted to approximately HK$29,920,000, representing an increase of approximately HK$1,964,000, or 7.0%, from approximately HK$27,956,000 for the six months ended 30 September 2018. Such increase was mainly attributable to the increase in legal and professional fee of approximately HK$915,000 mainly for the consultancy fee paid in respect of marketing research and provision of technical advice on product development.

Research and development expenses

The following table sets forth the breakdown of research and development expenses for the Track Record Period:

	Year ended 31 March			**Six months ended 30 September**	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Material and design costs	6,985	8,999	11,016	5,263	8,946
Salaries and employee benefits expenses	2,211	2,390	4,043	2,075	2,158
Travelling and entertainment expenses	220	192	227	113	79
Testing expenses	3,370	2,798	3,390	2,026	2,705
Others	1,425	1,132	1,085	100	374
Total	14,211	15,511	19,761	9,577	14,262

The Target Group's research and development expenses increased by approximately HK$1,300,000 or 9.1%, from approximately HK$14,211,000 for the year ended 31 March 2017 to approximately HK$15,511,000 for the year ended 31 March 2018 and further increased by 27.4% to approximately HK$19,761,000. In view of the approaching 5G technology, more staff were hired in research and development department. Accordingly, more expenses on material and design costs and salaries and employee benefits expenses were incurred.

The Target Group's research and development expenses increased by approximately HK$4,685,000 or 48.9%, from approximately HK$9,577,000 for the six months ended 30 September 2018 to approximately HK$14,262,000 for the six months ended 30 September 2019, which is mainly due to the increase in the relevant expenses for the research, development and testing of products relating to 5G technology.

Finance costs

For the years ended 31 March 2017, 2018 and 2019, the finance costs of the Target Group amounted to approximately HK$30,401,000, HK$42,143,000 and HK$63,064,000, respectively, which were in line with the increase in bank borrowings throughout the years.

The finance costs for the six months ended 30 September 2018 increased from approximately HK$29,851,000 to approximately HK$32,453,000 for the corresponding period of 2019, which was in line with the increase in bank borrowings throughout the periods of comparison.

The finance costs during the Track Record Period included the finance costs related to bank borrowings obtained by Linkz International, which were utilised by the Vendor's other subsidiaries.

Income tax expenses

Taxation consists of current and deferred tax expenses for jurisdictions in which the Target Company and its subsidiaries are subject to profits tax. During the Track Record Period, The Target Group had operations in several jurisdictions and the income tax expenses arising from each jurisdiction was calculated at the prevailing rates in each relevant jurisdiction.

(i) BVI profits tax

Pursuant to the rules and regulations of the BVI, the Target Group is not subject to any income tax in the BVI.

(ii) Hong Kong profits tax

Under the Hong Kong law, the Target Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax at the statutory tax rate of 16.5%.

(iii) PRC enterprise income tax ("EIT")

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the PRC companies in the Target Group during the Track Record Period. The withholding tax is charged at 10% of dividend income received from subsidiaries incorporated in PRC for the year ended 31 March 2019 and the six months ended 30 September 2019.

Pursuant to the relevant laws and regulations in the PRC, one entity of the Target Group operating in the PRC was awarded the Advanced-Technology Enterprise Certificate and is eligible for tax concessionary rate of 15% for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019. Since 1 January 2019, another two entities operating in the PRC are qualified as small and micro enterprises and are entitled to a reduced EIT rate of 20% on 25% of its first RMB1 million taxable income. For the portion over first RMB1 million and up to RMB3 million, only 50% of the taxable income would be taxed at a reduced EIT rate of 20%.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim an additional 50%, 50%, 75% and 75% for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 and six months ended 30 September 2019, respectively of their research and development expense so incurred as tax deductible expenses when determining their assessable profits for the respective year/period ("**Super Deduction**"). The Target Group made its best estimate for the Super Deduction to be claimed for the Target Group's entities in ascertaining their assessable profits for that year/period ended.

The Target Group recorded income tax expenses of approximately HK$10,275,000, HK$9,671,000, HK$13,004,000 and HK$4,064,000 for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively. Its effective tax rate for the corresponding period was 19.8%, 22.4%, 22.8% and 15.2%, respectively.

During the Track Record Period and up to the Latest Practicable Date, the Target Group confirms that it had fulfilled all tax obligations and have not had any unresolved tax issues or disputes with the relevant tax authorities.

Discontinued Operation

Prior to the year ended 31 March 2017, the Target Group had the business of LED panel leasing and stock of LED indicator panels. On 22 March 2017, the management of the Target Group considered that the LED indicator panels leasing business was deteriorating and decided to focus its resources on manufacturing and sales of networking cables business. The LED indicator panels leasing business was ceased and the LED indicator panels were written off as the management of the Target Group considered that these LED indicator panels had no transferrable value given that new and advanced types of LED panels were widely adopted by the market. The cessation of the LED indicator panels leasing business was not expected to have any material impact on its continuing operations during the Track Record Period. The intra-group transactions between the discontinued operation and its continuing operations were immaterial. For more information, please refer to Note 13 to the Accountants' Report on the Target Group set out in Appendix II to this circular.

The following table sets forth the results of operation of the discontinued operation for the periods indicated:

	Year ended 31 March 2017
	HK$'000
Rental income	1,130
Administrative expenses	(5,040)
Loss on write off of property, plant and equipment	(10,756)
Loss for the year	(14,666)

Profit for the year/period and net profit margin

As a result of the foregoing, the Target Group's profit for the year increased from approximately HK$26,946,000 for the year ended 31 March 2017 to approximately HK$33,586,000 for the year ended 31 March 2018 and further increased to approximately HK$43,953,000 for the year ended 31 March 2019. The Target Group's net profit margin are 2.0%, 2.2% and 2.6% for the years ended 31 March 2017, 2018 and 2019, respectively, which remained stable throughout the three years ended 31 March 2019.

The Target Group's profit for the period decreased from approximately HK$30,922,000 for the six months ended 30 September 2018 to approximately HK$22,661,000 for the six months ended 30 September 2019. The Target Group's net profit margin are 3.5% and 3.1% for the six months ended 30 September 2018 and 2019, respectively, which remained stable throughout periods of comparison.

LIQUIDITY, FINANCE RESOURCES AND CAPITAL STRUCTURE

Cash flows

The Target Group's primary use of cash is to pay for the purchase of raw materials for production, employee salaries and purchase of equipment, to fund the working capital and other operating expenses, and to repay the borrowings as well as related interest expenses. The Target Group has historically financed its operations primarily through a combination of cash flow generated from the operating activities and external borrowings. The Target Group was able to repay its bank borrowings when they became due.

The following table sets forth a summary of the Target Group's cash flows during the Track Record Period.

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cash flows					
Net cash from/(used in) operating activities	62,262	(25,385)	148,429	207,386	280,974
Net cash used in investing activities	(69,322)	(220,806)	(234,089)	(327,341)	(652,922)
Net cash (used in)/from financing activities	(33,331)	317,056	74,541	23,834	330,824
Net (decrease)/increase in cash and cash equivalents	(40,391)	70,865	(11,119)	(96,121)	(41,124)
Cash and cash equivalents at beginning of the year/period	153,906	102,829	189,923	189,923	166,854
Effect of foreign exchange rate changes	(10,686)	16,229	(11,950)	(27,848)	(17,930)
Cash and cash equivalents at end of the year/period	102,829	189,923	166,854	65,954	107,800

Net cash generated from/(used in) operating activities

The cash inflow from operating activities primarily from the receipts from sales of the networking cable products. The cash outflow from operating activities primarily includes payments for purchases of raw materials, staff costs and other manufacturing overhead costs. During the Track Record Period, the net cash flows from operating activities represented profit before tax adjusted for income tax paid in both Hong Kong and the PRC, non-cash items and change in working capital.

For the six months ended 30 September 2019, the net cash generated from operating activities was approximately HK$280,974,000, as a result of operating cash inflow before movements in working capital of approximately HK$76,056,000 adjusting for the increase in working capital of approximately HK$221,752,000 and tax payment of approximately HK$1,654,000. Net increase in working capital was primarily the combined effects of (i) the decrease in trade and other receivables and inventories of approximately HK$224,570,000 and HK$24,827,000, respectively; and (ii) the decrease in trade and other payables of approximately HK$43,015,000.

For the year ended 31 March 2019, the net cash generated from operating activities was approximately HK$148,429,000, as a result of operating cash inflow before movements in working capital of approximately HK$155,049,000 adjusting for the increase in working capital of approximately HK$38,361,000 and tax payment of approximately HK$13,549,000. Net increase in working capital was primarily the combined effects of (i) the decrease in inventories of approximately HK$24,467,000; (ii) the increase in trade and other receivables of approximately HK$24,364,000; and (iii) the increase in trade and other payables of approximately HK$6,982,000.

For the year ended 31 March 2018, the net cash used in operating activities was approximately HK$25,385,000, as a result of operating cash inflow before movements in working capital of approximately HK$118,713,000 adjusting for the decrease in working capital of approximately HK$106,711,000 and tax payment of approximately HK$8,394,000. The net decrease in working capital was primarily the net effect of (i) the increase in inventories of approximately HK$88,593,000; (ii) the increase in trade and other receivables of approximately HK$31,511,000; and (iii) the decrease in trade and other payables of approximately HK$14,808,000.

For the year ended 31 March 2017, the net cash generated from operating activities was approximately HK$62,262,000, as a result of operating cash inflow before movements in working capital of approximately HK$116,801,000 adjusting for the decrease in working capital of approximately HK$22,255,000 and tax payment of approximately HK$6,432,000. The net decrease in working capital was primarily the net effect of (i) the increase in inventories of approximately HK$34,992,000; (ii) the increase in trade and other receivables of approximately HK$54,235,000; and (iii) the increase in trade and other payables of approximately HK$35,377,000.

Explanation of fluctuation of the aforesaid items from the combined statements of financial position during the Track Record Period are set out in the paragraph headed "Discussion of certain statements of financial position items" in this section below.

Net cash used in investing activities

The cash outflow in investing activities mainly consists of the advance to Linkz Industries, the placement of pledged bank deposits, payment for foreign currency forward contracts, deposits paid and the payment for purchase of property, plant and equipment. The cash inflow from investing activities mainly represents the repayment from Linkz Industries, interest received from bank deposits, the withdrawal of pledged bank deposits, the refund of deposits paid as well as the proceeds from disposal of the property, plant and equipment.

For the six months ended 30 September 2019, the Target Group's net cash used in investing activities was approximately HK$652,922,000, which primarily consisted of net amount of advance to Linkz Industries of approximately HK$634,371,000 and the payment for the purchase of property, plant and equipment of approximately HK$21,573,000, less net amount received from the release of pledged bank deposit of approximately HK$4,125,000.

For the year ended 31 March 2019, the Target Group's net cash used in investing activities was approximately HK$234,089,000, which primarily consisted of net amount of advance to Linkz Industries of approximately HK$257,048,000, net amount paid for pledged bank deposit of approximately HK$8,046,000 and the payment for the purchase of property, plant and equipment of approximately HK$34,374,000, less refund of deposits payment for the property, plant and equipment of approximately HK$61,990,000.

For the year ended 31 March 2018, the Target Group's net cash used in investing activities was approximately HK$220,806,000, which primarily consisted of net amount of advances to Linkz Industries of approximately HK$169,937,000, the payment for the purchase of property, plant and equipment of approximately HK$35,077,000 and deposit payment for the acquisition of property, plant and equipment of approximately HK$57,286,000, less net amount received from the release of pledged bank deposit of approximately HK$6,852,000 and refund of deposits payment for the property, plant and equipment of approximately HK$33,880,000.

For the year ended 31 March 2017, the Target Group's net cash used in investing activities was approximately HK$69,322,000, which primarily consisted of deposit paid and purchases of property, plant and equipment of approximately HK$75,441,000 and HK$16,036,000, respectively, payment for pledged bank deposits and foreign currency forward contracts of approximately HK$8,950,000 and HK$5,181,000, respectively, less net amounts repayments from Linkz Industries of approximately HK$35,406,000 and the proceeds from disposal of property, plant and equipment of approximately HK$586,000.

Net cash generated (used in)/from financing activities

The Target Group's cash inflow from financing activities mainly consist of proceeds from bank borrowings and the advances from Linkz Industries as well as its subsidiaries. The Target Group's cash used in financing activities mainly consisted of payment of interest on the bank borrowings, repayments of bank borrowings and repayment to Linkz Industries as well as its subsidiaries.

For the six months ended 30 September 2019, the Target Group's net cash generated from financing activities was approximately HK$330,824,000, which primarily consisted of the net borrowings from banks of approximately HK$363,608,000, less the payment of interest on bank borrowings of approximately HK$32,453,000.

For the year ended 31 March 2019, the Target Group's net cash generated from financing activities was approximately HK$74,541,000, which primarily consisted of the net borrowings from banks of approximately HK$148,162,000, less net amounts repaid to Linkz Industries as well as its subsidiaries of approximately HK$10,558,000 and the payment of interest on bank borrowings of approximately HK$63,064,000.

For the year ended 31 March 2018, the Target Group's net cash generated from financing activities was approximately HK$317,056,000, which primarily consisted of net borrowings from banks of approximately HK$359,094,000 and net amount advanced from Linkz Industries as well as its subsidiaries of approximately HK$105,000, less the payment of interest on bank borrowings of approximately HK$42,143,000.

For the year ended 31 March 2017, the Target Group's net cash used in financing activities was approximately HK$33,331,000, which primarily consisted of the net amount repaid to Linkz Industries and its subsidiaries of approximately HK$26,195,000 and the payment of interest on bank borrowings of approximately HK$30,401,000, less the net borrowings from banks of approximately HK$23,265,000.

NET CURRENT ASSETS AND LIABILITIES

The following table sets forth the breakdown of current assets and current liabilities as at the dates indicated.

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current assets				
Inventories	172,274	280,504	241,318	205,320
Trade and other receivables	596,085	651,736	656,481	417,489
Prepaid lease payments	490	542	507	—
Amount due from the Vendor	206,380	278,321	535,364	1,207,655
Taxation recoverable	—	—	443	—
Pledged bank deposits	8,720	2,382	10,245	5,643
Bank balances and cash	103,588	202,050	166,870	117,065
Total current assets	1,087,537	1,415,535	1,611,228	1,953,172
Current liabilities				
Trade and other payables	261,602	256,885	257,102	204,329
Contract liabilities	1,183	469	283	457
Amount due to the Vendor	283,133	283,231	272,673	217,743
Amount due to a fellow subsidiary	14	21	22	—
Taxation payable	2,146	1,552	623	2,228
Unsecured bank borrowing — amount due within one year	585,289	802,111	1,044,227	1,463,640
Lease liabilities	—	—	—	597
Total current liabilities	1,133,367	1,344,269	1,574,930	1,888,994
Net current (liabilities) assets	(45,830)	71,266	36,298	64,178

The financial position of the Target Group improved from net current liabilities position of approximately HK$45,830,000 as at 31 March 2017 to net current assets of approximately HK$71,266,000 as at 31 March 2018, which was primarily attributable to (i) the profitable operation which enhanced the overall assets base of the Target Group; and (ii) the increase in bank and cash balance as financed by bank borrowings granted by the financial institutions. Thereafter, the Target Group's net current assets position decreased to approximately HK$36,298,000 as at 31 March 2019 as certain of the abovementioned bank borrowing became due within one year according to the repayment schedule, which increased the balance of bank borrowing as classified in current liabilities. The financial position of the Target Group as at 30 September 2019 further improved to net current assets of approximately HK$64,178,000, which was primarily attributable to (i) the profitable operation which enhanced the overall assets base of the Target Group; and (ii) the decrease of amount due to the Vendor as a result of waiving the current account with Linkz Ind Tech by the Vendor of approximately HK$28,822,000.

DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

Property, plant and equipment

The following table sets out the respective carrying values of the Target Group's property, plant and equipment as at the respective dates as indicated:

	Buildings	Plant and machinery	Leasehold improvements	Tools and moulds	Motor vehicles	Furnitures, fixtures and equipments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at:							
31 March 2017	99,670	353,749	12,977	5,654	1,533	5,855	479,438
31 March 2018	105,184	409,312	17,384	6,393	1,769	5,510	545,552
31 March 2019	95,872	382,811	16,566	7,913	2,162	5,617	510,941
30 September 2019	89,632	364,991	15,696	10,799	2,048	5,550	488,716

The increase in net book value of the Target Group's property, plant and equipment from 31 March 2017 to 31 March 2018 from approximately HK$479,438,000 to approximately HK$545,552,000 was mainly attributable to the purchase of plant and machinery as well as the upward currency realignment as a result of the appreciation of the exchange rate of RMB against HK$ throughout the year. Thereafter, the net book value of property, plant and equipment as at 31 March 2019 decreased to approximately HK$510,941,000, primarily due to the downward currency realignment as a result of the depreciation of the exchange rate of RMB against HK$. Since further depreciation of the exchange rate of RMB against HK$ which led to the downward currency realignment, the net book value as at 30 September 2019 further decreased to approximately HK$488,716,000. For details of the addition and disposal of property, plant and equipment, please refer to Note 16 to the Accountants' Report on the Target Group in Appendix II to this circular.

Right-of-use assets

The right-of-use asset represents the carrying amounts of leasehold lands and leasehold properties in the PRC under operating lease arrangements. The following table sets out the respective carrying values of the Target Group's right-of-use assets as at the respective dates as indicated:

	Leasehold lands	Leasehold properties	Total
	HK$'000	*HK$'000*	*HK$'000*
As at:			
31 March 2017	—	—	—
31 March 2018	—	—	—
31 March 2019	—	—	—
30 September 2019	10,615	1,330	11,945

The net book value of the Target Group's right-of-use assets amounted to approximately nil, nil, nil and HK$11,945,000 as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, respectively. The increase for right-of-use assets as at 30 September 2019 was primarily due to the adoption of HKFRS 16 from 1 April 2019 by the Target Group. For details of the right-of-use assets, please refer to Note 17 to the Accountants' Report on the Target Group set out in Appendix II in this circular.

Prepaid lease payments

Prepaid lease payments represent prepayment for land use rights of the land on which the Target Group's factories are located in the PRC. As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group's prepaid lease payments amounted to approximately HK$12,123,000, HK$12,869,000, HK$11,545,000 and nil, respectively. The Target Group has adopted HKFRS 16 from 1 April 2019 and the relevant prepaid lease payments were transferred to the right-of-use assets. For more information relevant to the prepaid lease payments, please refer to Note 18 to the Accountants' Report on the Target Group set out in Appendix II in this circular.

Deposits paid for acquisition of property, plant and equipment

As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group had deposits paid for acquisition of property, plant and equipment of approximately HK$120,710,000, HK$128,224,000, HK$67,380,000 and HK$1,225,000, respectively. Such deposits primarily related to the purchase of plant and machinery.

Deposit and prepayment for a life insurance policy/Financial assets at fair value through profit or loss

The Target Group entered into the policy with an insurance company (the "**Policy**") to insure a director of a company of the Target Group, who is also a member of the senior management of the Target Group. Under the Policy, the beneficiary and policy holder is a subsidiary of the Target Company and the total insured sum is US$2,000,000 (equivalent to approximately HK$15,500,000). At the inception of the Policy, the Target Group paid an upfront payment of US$609,637 (equivalent to approximately HK$4,742,000) and a single premium charge of US$36,578 (equivalent to approximately HK$283,000). The Target Group will receive cash back based on the account value of the Policy at the date of withdrawal. The Target Group receives interests at interest rate guaranteed by the insurer.

The management of the Target Company expected that the Policy will be terminated at the 16th policy year in 2026 and there will be no surrender charge in accordance with the Policy. The expected life of the policy remained unchanged from the initial recognition and the management of the Target Group considered that the financial impact of the option to terminate the Policy was not significant.

The effective interest rate of the deposit is 4.69% and 3.31% for the years ended 31 March 2017 and 31 March 2018, respectively which was determined on initial recognition by discounting the estimated future cash receipts through the expected life of the Policy of 16 years. As at 31 March 2017 and 2018, the deposits and prepayment for a life insurance policy amounted to approximately HK$5,190,000 and HK$5,410,000, respectively.

At the date of initial application of HKFRS 9 on 1 April 2018, the Target Group reclassified the payments for life insurance policy previously carried at amortised cost to financial assets at fair value through profit or loss and remeasured at fair value. As at 31 March 2019 and 30 September 2019, the financial assets at fair value through profit or loss amounted to approximately HK$5,633,000 and HK$5,724,000, respectively.

Inventories

The Target Group's inventories primarily consist of raw materials, work in progress and finished goods. The following table sets forth a summary of the Target Group's inventories balance as at the dates indicated.

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	54,277	79,734	89,838	68,659
Work in progress	42,222	63,103	38,687	27,295
Finished goods	75,775	137,667	112,793	109,366
Total	172,274	280,504	241,318	205,320

The Target Group's inventories increased by approximately HK$108,230,000, or 62.8% from approximately HK$172,274,000 as at 31 March 2017 to approximately HK$280,504,000 as at 31 March 2018, primarily due to production requirements as the Target Group's procurement and manufacturing plans are largely in line with customers' orders.

The inventories decreased by approximately HK$39,186,000, 14.0% from approximately HK$280,504,000 as at 31 March 2018 to approximately HK$241,318,000 as at 31 March 2019 and further decreased to approximately HK$205,320,000 as at 30 September 2019, as a result of the decrease in production orders from customers.

The following table sets forth the Target Group's inventory turnover days for the periods indicated:

	Year ended 31 March			Six months ended 30 September
	2017	**2018**	**2019**	**2019**
Average inventory turnover days	51.5	64.2	65.8	65.0

Note: Average inventory turnover days is equal to the average inventory divided by cost of goods sold and multiplied by 365, 365, 365 and 183 days for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively. Average inventory equals inventories at the beginning of the year/period plus inventories at the end of the year/period and divided by two.

The Target Group's average inventory turnover days increased from 51.5 days for the year ended 31 March 2017 to 64.2 days for the year ended 31 March 2018, primarily due to the higher balance of inventories as at 31 March 2018 as a result of stocking up of inventories in order to meet the customers' orders. Thereafter, the Target Group's average inventory turnover days remained stable at approximately 65.8 days and 65.0 days for the year ended 31 March 2019 and the six months ended 30 September 2019, respectively.

Trade and other receivables

The Target Group's trade and other receivables consisted of trade and bills receivables as well as deposits, prepayments and other receivables. The following table sets out the breakdown of trade and other receivables as at the dates indicated.

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	458,515	491,375	499,793	369,724
Trade receivables from fellow subsidiaries	3,354	1,070	238	1,235
Bills receivables	—	153	770	3,359
Trade and bills receivables	461,869	492,598	500,801	374,318
Deposits and prepayments to suppliers	111,057	126,044	134,232	21,111
Other receivables	9,071	6,372	1,740	3,037
Value added tax receivable	6,298	11,589	11,350	6,672
Deposit and prepayments for a life insurance policy	56	38	—	—
Deposits and prepayments	9,629	15,095	8,487	12,466
Deposit and prepayments and other receivables	136,111	159,138	155,809	43,286
Trade and other receivables	597,980	651,736	656,610	417,604

Trade and bills receivables

During the Track Record Period, the Target Group's trade and bills receivables represented amounts receivable from its customers and related parties, less any identified impairment losses, for goods sold to them.

The Target Group's trade and bills receivables increased from approximately HK$461,869,000 as at 31 March 2017 to approximately HK$492,598,000 as at 31 March 2018 and further increased to approximately HK$500,801,000 as at 31 March 2019. Such increase was primarily in line with the trend of revenue in the three years ended 31 March 2019.

The trade and bills receivables then decreased to approximately HK$374,318,000 as at 30 September 2019, which is in line with the decrease in revenue for the six months ended 30 September 2019.

Aging analysis of trade receivables

The Target Group granted different credit periods, usually ranging from 30 days to 150 days, to its customers. Before accepting orders from any new customers, the Target Group has procedure to assess the credit quality of the potential customers and determine appropriate credit limits. The following table sets forth the aging analysis of its trade and bills receivables based on the invoice date, net of provision, as at the dates indicated:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	224,704	243,383	189,626	130,056
31–60 days	97,252	97,224	128,884	116,251
61–90 days	118,322	123,493	145,543	97,603
91–180 days	20,184	26,861	34,304	27,627
Over 180 days	1,407	1,637	2,444	2,781
	461,869	492,598	500,801	374,318

The following table sets forth the aging analysis of trade and bills receivables that are past due but not impaired for the dates indicated:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Overdue by:				
1–90 days	11,117	8,139	19,056	13,584
91–180 days	930	654	1,785	1,994
Over 180 days	363	916	1,880	718
	12,410	9,709	22,721	16,296

As at 31 March 2019 and 30 September 2019, included in the Target Group's trade and bills receivables balances are trade and bills receivables which are past due at the end of the respective reporting period. An amount of HK$3,665,000 and HK$2,712,000 have been past due 90 days or more and are not considered as in default based on available financial information available in the market, credibility and good repayment records of these customers. Estimated loss rates are based on historical estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the default rates are reassessed and changes in the forward-looking information are considered. The Target Group does not hold any collateral over the trade and bills receivables balances.

Debtors' turnover days

The following table sets forth the debtors' turnover days for the periods indicated:

	Year ended 31 March			Six months ended 30 September
	2017	**2018**	**2019**	**2019**
Debtors' turnover days *(Note)*	125.1	116.2	108.1	108.9

Note: Debtors' turnover days is equal to the average trade and bills receivables divided by revenue and multiplied by 365, 365, 365 and 183 days for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019. Average trade and bills receivables equals trade and bills receivables at the beginning of the year/period plus trade and bills receivables at the end of the year/period and divided by two.

In general, the fluctuation of the Target Group's debtors' turnover days was mainly due to the different credit periods granted to different customers. The debtor's turnover days decreased from approximately 125.1 days for the year ended 31 March 2017 to approximately 116.2 days for the year ended 31 March 2018 and subsequently decreased at approximately 108.1 days and 108.9 days for the year ended 31 March 2019 and the six months ended 30 September 2019, respectively, primarily due to the increase in sales to the major customers which have a shorter credit period.

Deposits, prepayments and other receivables

The Target Group's deposits, prepayments and other receivables consisted of (i) deposits and prepayments to suppliers; (ii) other receivables; (iii) value added tax receivables; and (iv) other deposits and prepayments. The deposits and prepayments primarily represented the prepayment to the suppliers for purchases of raw materials. The other receivables primarily represented the advances to staff for the payment of expenses for the Target Group's operations. The value added tax receivables represented the tax recoverable for the value added tax in the PRC. The other deposits and prepayment represented the prepayment of various expenses such as utility expenses and insurance expenses.

The Target Group's deposits, prepayments and other receivables increased by approximately HK$23,027,000, or 16.9%, from approximately HK$136,111,000 as at 31 March 2017 to approximately HK$159,138,000 as at 31 March 2018. Such increase was mainly due to the combined effect of (i) the increase of deposits and prepayments to suppliers of approximately HK$14,987,000; (ii) the increase of other deposits and prepayments of approximately HK$5,466,000; and (iii) the increase of value add tax receivable of approximately HK$5,291,000. Thereafter, the deposits, prepayment and other receivables of the Target Group remain relatively stable at approximately HK$155,809,000 as at 31 March 2019. The deposits, prepayments and other receivables then decreased to approximately HK$43,286,000 as at 30 September 2019. Such decrease was mainly due to the net combined effects of (i) the decrease of deposits and prepayments to suppliers of approximately HK$113,121,000; (ii) the decrease of value added tax receivable of approximately HK$4,678,000; and (iii) an increase of deposits and prepayments of approximately HK$3,979,000.

Pledged bank deposits

The Target Group's pledged bank deposits represented bank deposits placed in banks in order to secure certain bills payables issued by the banks under the general banking facilities granted to the Target Group. Such deposits carried fixed interest rate of 1.3% per annum and such bank deposits were pledged to the banks at 20% and 30% of the certain outstanding amount of bills payables granted to the Target Group. As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group's pledged bank deposits amounted to approximately HK$8,720,000, HK$2,382,000, HK$10,245,000 and HK$5,643,000, respectively.

Trade and other payables

The Target Group's trade and other payables consisted of (i) trade and bills payables; and (ii) accruals and other payables. The following table sets out the breakdown of trade and other payables as at the dates indicated.

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	68,745	81,123	97,599	122,850
Bill payables	172,492	150,379	132,912	48,440
Trade and bills payables	241,237	231,502	230,511	171,290
Other payables	1,153	1,149	1,073	2,727
Staff and other staff related cost	9,723	11,162	12,179	18,360
Accrued expenses	7,432	12,054	12,272	10,850
Other tax payables	2,057	1,018	1,067	1,102
Accruals and other payables	20,365	25,383	26,591	33,039
Trade and other payables	261,602	256,885	257,102	204,329

Trade and bills payables

The Target Group's trade and bills payables primarily consist of payables for the purchase of raw materials for production from its suppliers. The Target Group generally received credit terms of 15 days to 120 days from its suppliers.

As at 31 March 2017, 2018 and 2019, the Target Group's trade and bills payables remained relatively stable at approximately HK$241,237,000, HK$231,502,000, HK$230,511,000, respectively. The trade and bills payables then decreased by approximately HK$59,221,000 or 25.7% to approximately HK$171,290,000 as at 30 September 2019, primarily reflected the decrease in cost of raw materials throughout the six month period.

The following table sets forth an aging analysis of its trade and bills payables, based on the invoice date, as at the dates indicated.

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	124,152	136,163	109,603	98,259
31–60 days	46,604	12,268	41,100	28,780
61–90 days	40,514	52,769	18,884	8,710
91–180 days	29,659	29,959	60,594	19,249
181 days–1 year	—	—	128	16,292
Over 1 year	308	343	202	—
	241,237	231,502	230,511	171,290

The following table sets forth its creditors' turnover days for the periods indicated.

	Year ended 31 March			Six months ended 30 September
	2017	**2018**	**2019**	**2019**
Creditors' turnover days*(Note)*	73.5	67.0	58.2	58.5

Note: Creditors' turnover days is equal to the average trade and bills payables divided by cost of goods sold and multiplied by 365, 365, 365 and 183 days for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively. Average trade and bills payables equals trade and bills payables at the beginning of the year/period plus trade and bills payables at the end of the year/period and divided by two.

The creditors' turnover days of the Target Group decreased from approximately 73.5 days for the year ended 31 March 2017 to approximately 67.0 days for the year ended 31 March 2018 and subsequently decreased to approximately 58.2 days and 58.5 days for the year ended 31 March 2019 and the six months ended 30 September 2019, respectively, as less purchases were settled by bills payables, which generally took 180 days for settlement, throughout the periods. During the Track Record Period, the creditors' turnover days were shorter than the sum of inventory turnover days and debtors' turnover days. Having considered that (i) the quick assets of the Target Group as at 31 March 2019 could cover approximately 10 months of the average monthly working capital requirements of the Target Group with reference to the financial statements for the year ended 31 March 2019; (ii) the Target Group generated overall net cash inflow from operation (taking into account the net cash used in operating activities for the year ended 31 March 2018), together with its balance of bank balances and cash; (iii) despite of the high gearing ratio of the Target Group, the majority of the debt was bank borrowings of Linkz International, which will not be included in the Assets and Liabilities to be transferred to the Enlarged Group; and (iv) the Target

Group had sufficient amount of unutilised bank borrowings to support its operation, the management of the Target Group considers that the cashflows were manageable for the increasing scale of operation of the Target Group.

Accruals and other payables

The Target Group's accruals and other payables consisted of (i) other payables; (ii) salaries and staff related costs; (iii) accrued charges; and (iv) other tax payables. The other payables primarily represented general expenses payable for daily operation. The salaries and staff related cost primarily represented salaries payable to the staff and the accruals of the retirement benefits costs such as social insurance as well as housing provident fund. The accrued charges primarily represented the accruals of various expenses for the operation such as transportation expenses, insurance expenses and finance costs. Other tax payables represented tax payable for the value added tax in the PRC.

The Target Group's accurals and other payables increased by approximately HK$5,018,000, or 24.6%, from approximately HK$20,365,000 as at 31 March 2017 to approximately HK$25,383,000 as at 31 March 2018. Such increase was mainly due to (i) the increase in staff and other staff related cost of approximately HK$1,439,000; and (ii) the increase in accrued charges of approximately HK$4,622,000. Thereafter, the accurals and other payables remained stable at approximately HK$26,591,000 as at 31 March 2019.

The Target Group's accruals and other payables then increased by approximately HK$6,448,000, or 24.2% to approximately HK$33,039,000 as at 30 September 2019, mainly due to the increase in staff and other staff related cost of approximately HK$6,181,000.

Amount due from/(to) the Vendor and its subsidiary

The following table sets forth the details of the amount due from/(to) the Vendor and its subsidiary as at the dates indicated.

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due from the Vendor:				
The Vendor	206,380	278,321	535,364	1,207,655
Amount due to the Vendor:				
The Vendor	283,133	283,231	272,673	217,743
Amount due to the subsidiary of the Vendor:				
Linkz Inc.	14	21	22	—

The Vendor, as the holding company of its subsidiaries, including the Target Group, has the function of central treasurer which had been collecting and assigning funds based on the prioritisation of different subsidiaries' cashflow requirement and for their operating needs as well as general working capital during the Track Record Period. Since the Vendor is an investment holding company that has virtually no operation, the Vendor obtained bank borrowings through its operating subsidiaries, including the Target Group and Linkz International. The collection and assignment of funds by the Vendor aimed to utilise the available funding, including proceeds from bank borrowings, among the subsidiaries to support the funding needs of each other. During the Track Record Period, the Target Group received and provided funds to the Vendor under its central treasurer function, which resulted in the balance of amount due from/(to) the Vendor as at each of the reporting period. The amount due from/(to) the Vendor and its subsidiary are unsecured, non-trade and recoverable/ repayable on demand. As at 30 September 2019, the balance of amount due from the Vendor was substantially higher as fund was transferred to the Vendor as the Vendor was contemplating an investment. The amount due from the Vendor was mainly originated from the increased unsecured bank borrowings of Linkz International. The Assets and Liabilities do not consist of the unsecured bank borrowings of Linkz International, and hence such bank borrowings will not be assumed by the Enlarged Group following Completion. The Vendor expects that the amount due from it to the Target Group will be settled upon Completion. The Vendor will apply the proceeds of the Consideration to repay the short term bank borrowings of Linkz International.

Contract liabilities

The Target Group's contract liabilities represent deposits received from its customers in relation to purchase orders placed with the Target Group and the Target Group does not expect to refund any of the deposits. When the Target Group receives a deposit before commencement of the production activity, contract liabilities are recorded. As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group's contract liabilities amounted to approximately HK$1,183,000, HK$469,000, HK$283,000 and HK$457,000, respectively.

INDEBTEDNESS

The following tables sets forth the indebtedness of the Target Group as at the dates indicated:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to the Vendor *(Note)*	283,133	283,231	272,673	217,743
Amount due to a fellow subsidiary *(Note)*	14	21	22	—
Unsecured bank borrowings	602,789	1,009,611	1,119,227	1,463,640
Lease liabilities	—	—	—	1,352
Total	885,936	1,292,863	1,391,922	1,682,735

Note: The amounts due to the Vendor/a fellow subsidiary are unsecured and unguaranteed.

Unsecured bank borrowings

The following table sets forth a breakdown of the Target Group's unsecured bank borrowings as at the dates indicated:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts	759	12,127	16	9,265
Bank loans	369,767	724,944	714,041	929,146
Import/export trade borrowings	232,263	272,540	405,170	525,229
Total	602,789	1,009,611	1,119,227	1,463,640

The Target Group's bank borrowings increase from approximately HK$602,789,000 as at 31 March 2017 to approximately HK$1,009,611,000 as at 31 March 2018 generally due to the increase in bank borrowings to finance the Target Group daily operation and finance within the subsidiaries of the Vendor (excluding the Group and Target Group). The Target Group's bank borrowings further increased to approximately HK$1,119,227,000 and HK$1,463,640,000 as at 31 March 2019 and 30 September 2019, respectively, due to the increase in import/export trade borrowings to finance the purchases of raw materials and the increase in bank loans which was subsequently assigned to the Vendor.

Among the unsecured bank borrowings balance as at 31 March 2017, 2018, 2019 and 30 September 2019, approximately HK$351,877,000, HK$495,987,000, HK$453,411,000 and HK$489,073,000 were utilized by the Target Group, respectively, while the remaining amounts were assigned to the Vendor.

The Target Group's bank borrowings were denominated in Hong Kong dollars, Renminbi and US$. The range of effective interest rates on the borrowings as at 31 March 2017, 2018 and 2019 and 30 September 2019, respectively, is as follows:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
Effective interest rate:				
Fixed-rate borrowings	5.00%	5.00%	5.00%	5.00%
Variable-rate borrowings	1.90% to 5.00%	2.63% to 6.09%	3.29% to 6.29%	2.88% to 6.29%

As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group had pledged bank deposits placed in a bank to secure general banking facilities granted to the Target Group.

As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group's certain bank borrowings are secured by:

(i) personal guarantee executed by Mr. Paul Lo;

(ii) corporate guarantee executed by Linkz Industries; and

(iii) corporate guarantee executed by Lighthouse Technologies Limited.

For details of these guarantees, please refer to Notes 26, 33 and 39 to the Accountants' Report on the Target Group as set out in Appendix II of this circular. Save for the bank borrowings of Linkz International which are not included in Assets and Liabilities after the Reorganisation, all aforesaid personal and corporate guarantee executed will be released/ replaced upon the Completion.

The Target Group's bank borrowings contain certain standard covenants that are commonly found in lending arrangements with commercial banks. The directors of the Target Group have confirmed that they had not defaulted or delayed in any payment or breached any of the material covenants pertaining to the Target Group's bank borrowings during the Track Record Period.

Lease liabilities

As at 30 September 2019, the Target Group had lease liabilities for future minimum lease payments in respect of the leasehold properties. The following table sets forth the lease liabilities of the Target Group as at the dates indicated:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	—	—	—	597
Within a period of more than one year but not more than two years	—	—	—	594
Within a period of more than two years but not more than five years	—	—	—	161
Total	—	—	—	1,352

The Target Group's lease liabilities represented the present value of the lease payments that are not yet paid under the tenancy agreements for the office in the PRC, which were discounted by using the rate implicit in the lease. The lease liabilities of the leasehold properties was approximately nil, nil, nil and HK$1,352,000 as at 31 March 2017, 2018 and 2019 and 30 September 2019, respectively. The increase in lease liabilities as at 30 September 2019 was mainly due to the adoption of HKFRS 16 by the Target Group since 1 April 2019. For details of the lease liabilities, please refer to Note 27 to the Accountants' Report on the Target Group in Appendix II in this circular.

Financial guarantees and contingent liabilities

As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group had given cross guarantees of approximately HK$1,040,000,000, HK$385,000,000, HK$541,000,000 and HK$541,000,000, respectively to banks to secure certain general banking facilities granted to the Vendor, the Target Group and certain fellow subsidiaries. In addition, as at 31 March 2018 and 2019 and 30 September 2019, the Target Group has also given another guarantee of HK$63,000,000, HK$63,000,000 and HK$153,000,000 to a bank to secure another general banking facility granted to the Vendor. The management of the Target Group consider that the fair values of these guarantees were insignificant as at 31 March 2017, 2018 and 2019 and 30 September 2019. No provision of financial guarantee is recognised as at 31 March 2017, 2018 and 2019 and 30 September 2019. For details of the contingent liabilities, please refer to Note 33 to the Accountants' Report on the Target Group in Appendix II in this circular.

Disclaimer

Save as disclosed herein and apart from intra-group liabilities, the Target Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The directors of the Target Group confirm that there has not been any material change in the indebtedness and contingent liabilities as at the Latest Practicable Date.

CAPITAL EXPENDITURES

Capital expenditures

The following table sets out the Target Group's capital expenditures during the Track Record Period:

	Year ended 31 March			Six months ended 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditures				
Property, plant and equipment	30,828	51,384	34,830	23,009

The Target Group's capital expenditures during the Track Record Period principally represented the addition of property, plant and equipment. For the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, the Target Group incurred capital expenditures of approximately HK$30,828,000, HK$51,384,000, HK$34,830,000 and HK$23,009,000, respectively, primarily used for (i) the leasehold improvements for Target Group's factories in the PRC; and (ii) the purchase of plant and machinery.

COMMITMENTS

Capital commitments

The Target Group's capital commitments primarily related to acquisition of property, plant and equipment for production contracted for but not delivered as at the end of each reporting period. These commitments would be financed by the Target Group's internal resources. The following table sets forth the total amounts of capital commitments as at the dates indicated:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	31,450	66,114	16,430	397

Operating lease commitment

The Target Group leased manufacture premises under operating lease arrangement for a term ranging from one year to three years. The following table sets forth the commitments for future minimum lease payments as at the dates indicated:

	As at 31 March		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	450	1,176	1,480
In the second to fifth year inclusive	—	866	1,214
Total	450	2,042	2,694

RELATED PARTY TRANSACTIONS

During the Track Record Period, related party transactions of the Target Group primarily consisted of (i) management fee paid to the Vendor, which amounted to approximately HK$24,367,000, HK$24,000,000, nil and nil for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively; (ii) services fee paid to the vendor, which amounted to approximately HK$10,710,000, HK$11,250,000, HK$5,664,000 and HK$2,832,000, for the years ended 31 March 2017, 2018, 2019 and the six months ended 30 September 2019, respectively; (iii) rental expenses paid to the Vendor, which amounted to approximately HK$2,638,000, HK$3,000,000, HK$1,536,000 and HK$768,000, for the years ended 31 March 2017, 2018, 2019 and the six months ended 30 September 2019, respectively; (iv) sales of goods to members of the Group namely Time Interconnect Limited and Time Interconnect Technology (Huizhou) Limited (formerly known as Huizhou Time Wire Products Limited), which amounted to approximately HK$8,876,000, HK$15,191,000, HK$19,277,000 and HK$13,189,000, for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively; (v) purchases of goods from a member of the Group, namely, Time Interconnect Technology (Huizhou) Limited, which amounted to approximately HK$414,000, HK$80,000, HK$168,000 and HK$128,000, for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, respectively; and (vi) rental income received from a fellow subsidiary, Lighthouse Technologies Limited, which amounted to approximately HK$344,000 for the year ended 31 March 2017.

The Target Group is of the view that these transactions were conducted on an arm's length basis with normal commercial terms, and would not distort the Target Group's results of operations during the Track Record Period.

During the six months ended 30 September 2019, the Vendor has waived its current account with Linkz Ind Tech in the amount of approximately HK$28,822,000.

KEY FINANCIAL RATIOS

The following tables sets forth the key financial ratios of the Target Group as at the dates indicated or of the indicated periods.

	As at or for the year ended 31 March			As at or six months ended 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current ratio *(1)*	1.0	1.1	1.0	1.0
Quick ratio *(2)*	0.8	0.8	0.9	0.9
Gearing ratio *(3)*	161.1%	236.1%	254.0%	299.0%
Net debt to equity ratio *(4)*	142.2%	199.2%	223.6%	278.2%
Return on equity *(5)*	4.8%	6.2%	8.0%	8.1%*(8)*
Return on total assets *(6)*	1.6%	1.6%	2.0%	1.8%*(8)*
Interest coverage *(7)*	2.7 times	2.0 times	1.9 times	1.8 times

Notes:

1) Current ratio is calculated as total current assets divided by total current liabilities.

2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities.

3) Gearing ratio is calculated as total debt (summation of amount due to the Vendor, amount due to a fellow subsidiary and unsecured bank borrowings) divided by total equity and multiplied by 100%.

4) Net debt to equity ratio is calculated as total debt (summation of amount due to the Vendor, amount due to a fellow subsidiary and unsecured bank borrowings) less cash and cash equivalents divided by total equity and multiplied by 100%.

5) Return on equity equals annualised net profit attributable to the owners of the Target Group for the year divided by ending total equity attributable to the owners of the Target Group and multiplied by 100%.

6) Return on total assets equals annualised net profit for the year divided by ending total assets and multiplied by 100%.

7) Interest coverage equals profit before interest and tax divided by interest expenses.

8) These figures have been annualised to be comparable to prior years for reference only, but are not indicative of the actual results.

9) For the purpose of calculating the key financial ratios, the amounts were extracted from the balances as stated in the income statement or balance sheet during the Track Record Period or as at the respective year/period end date, which include the relevant assets and liabilities of the Non-core Business. For the carrying amounts of the assets and liabilities of the Non-core Business as at 30 September 2019, please refer to Note 3 as set out in Appendix III for the Unaudited Pro Forma Financial Information of the Enlarged Group in this circular.

Current ratio

Attributable to the profit earned during the year ended 31 March 2018, the Target Group's current ratio increased from 1.0 as at 31 March 2017 to 1.1 as at 31 March 2018, primarily due to the improvement in the net current assets position for the year as a result of (i) the profitable operation of the Target Group; and (ii) the increase in bank balances and cash as financed by bank borrowings granted by the financial institution. Thereafter, the current ratio slightly decreased to 1.0 as at 31 March 2019 as certain of the abovementioned bank borrowings become due within one year according to its repayment schedule, resulting in the increase in the bank borrowings as classified in current liabilities. Further, the current ratio of the Target Group remained stable at 1.0 as at 30 September 2019.

Quick ratio

As at 31 March 2017 and 2018, the Target Group's quick ratio remained relatively stable at 0.8 and 0.8, respectively. Thereafter, the quick ratio of the Target Group increased slightly to 0.9 and 0.9 as at 31 March 2019 and 30 September 2019, respectively, primarily due to the decrease in the balance of inventory as at 31 March 2019 as a result of the decrease in production orders from customers.

Gearing ratio

The Target Group's gearing ratio increased from 161.1% as at 31 March 2017 to 236.1% as at 31 March 2018. Such increase was mainly due to (i) the increase in the total debt as a result of the addition of the bank borrowings; and (ii) the decrease in the total equity resulting from the net effect of the declaration of the dividend to the shareholders by the members of the Target Group during the year. Attributable to the increase in total debts as a result of the addition of the bank borrowings, the Target Group's gearing ratio further increased to 254.0% as at 31 March 2019. Additional bank borrowings were obtained by the Target Group during the six months ended 30 September 2019, the Target Group's gearing ratio increased to 299.0% as at 30 September 2019.

Net debt to equity

The Target Group's net debt to equity ratio amounted to 142.2%, 199.2%, 223.6% and 278.2% as at 31 March 2017, 2018 and 2019 and 30 September 2019, respectively. The increase in the net debt to equity ratio as at 31 March 2018 was primarily due to the increase in net debt as the result of total debt being increased by approximately HK$406,927,000 but bank balances and cash having only increased by approximately HK$98,462,000. Thereafter, the increase in the net debt to equity ratio as at 31 March 2019 and 30 September 2019 were mainly attributable to the increase in the net debts by approximately HK$134,239,000 and HK$339,226,000 for the respective years.

Return on equity

The Target Group recorded an increase of return on equity from 4.8% for the year ended 31 March 2017 to 6.2% for the year ended 31 March 2018. Such increase was attributable to the increase in the net profits and the reduction of the total equity as a result of the dividend declared for the year ended 31 March 2018. The Target Group's return on equity further increased to 8.0% for the year ended 31 March 2019 which was attributable to the increase in the net profits for the year as compared to last financial year. The Target Group's return on equity for the six months ended 30 September 2019 remained stable at 8.1%.

Return on total assets

The Target Group's return on total assets remained stable at 1.6% and 1.6% for the years ended 31 March 2017 and 2018, respectively. Thereafter, the return on total assets further increase to 2.0% for the year ended 31 March 2019 primarily due to the increase in profit for the year. Further, the return on total assets of the Target Group decreased to 1.8%, primarily due to the increase in the total assets primarily due to the advance made to the Vendor and hence increased the respective balance due from the Vendor as at 30 September 2019 accordingly.

Interest coverage

The Target Group's interest coverage decreased from approximately 2.7 times for the year ended 31 March 2017 to approximately 2.0 times for the year ended 31 March 2018 and further decreased to approximately 1.9 times and 1.8 times for the year ended 31 March 2019 and the six months ended 30 September 2019, respectively. Such decrease was mainly attributable to the increase of finance costs as a result of the increase in bank borrowings throughout the years/period.

DIVIDEND

During the years ended 31 March 2017, 2018, 2019 and the six months ended 30 September 2019, Linkz International declared dividends of nil, HK$50,000,000, nil and nil, respectively, and Hover Manufacturing declared dividends of nil, HK$48,000,000, nil and nil, respectively, to their shareholders.

During the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019, Linkz (Shanghai) declared dividends of nil, nil, HK$27,761,000 and nil, respectively, Hover (Kunshan) declared dividends of nil, nil, HK$8,350,000 and nil, respectively and Kunshan Deqin declared dividends of nil, nil, HK$11,610,000 and nil, respectively, to their shareholders. For details, please refer to Note 15 to the Accountants' Report on the Target Group in Appendix II in the circular.

CHARGE OF ASSETS

Save for the bank deposits that were pledged in order to secure general banking facilities granted to the Target Group, the Target Group did not have any pledges of its assets as at 31 March 2017, 2018 and 2019 and 30 September 2019, respectively.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

The Target Group is, in the ordinary course of business, exposed to a variety of financial risks, including market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Target Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Target Group is mainly exposed to the foreign currency risk arising from the carrying amounts of the Target Group's monetary assets (mainly including trade and other receivables, amount due from the Vendor, pledged bank deposits and bank balances and cash) and monetary liabilities (mainly including trade and other payables, amounts due to the Vendor and a fellow subsidiary and unsecured bank borrowings) denominated in currencies other than the respective group entities' functional currencies at the end of each reporting period.

The Target Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management of the Target Group monitors the related foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Please also see Note 36 to the Accountants' Report on the Target Group included in Appendix II to this circular for further details regarding the foreign currency rate sensitivity analysis.

Interest rate risk

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate unsecured bank borrowings. Interest charged on the Target Group's borrowings are mainly at variable rates and are mainly at the interest rate offered by the HIBOR. The Target Group does not have a policy on cash flow hedges of interest rate risk. However, the Target Group's management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Target Group is also exposed to fair value interest rate risk in relation to the fixed rate pledged bank deposits. However, the Target Group's management considers the fair value interest rate risk on the fixed rate pledged bank deposits is insignificant as they are relatively short-term.

Please also see Note 36 to the Accountants' Report on the Target Group included in Appendix II in this circular for further details of the sensitivity analysis on interest rate.

Credit risk

As at 31 March 2017, 2018 and 2019 and 30 September 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group arising from the amount of financial guarantees provided by the Target Group. The Target Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts.

As at 31 March 2017, 2018 and 2019 and 30 September 2019, the Target Group has concentration of credit risk as 62%, 59%, 69% and 73% of trade receivables were due from the Target Group's five largest customers, respectively. The Target Group's concentration of credit risk by geographical location is mainly in the PRC which accounted for 47%, 44%, 34% and 48% of trade receivables as at 31 March 2017, 2018 and 2019 and 30 September 2019, respectively.

Other than the concentration of credit risk of trade receivables as disclosed above, the Target Group does not have any other significant concentration of credit risk, with exposures spread over a number of counterparties.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the Target Group's management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, the Target Group had not entered into any off-balance sheet arrangement.

EMPLOYEE AND REMUNERATION POLICIES

During the years ended 31 March 2017, 2018 and 2019 and the six months ended September 2019, the Target Group had an average total number of 676, 700, 776 and 719 employees. The total staff costs of the Target Group for the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019 were approximately HK$85,734,000, HK$92,361,000, HK$118,341,000 and HK$58,238,000, respectively. Remuneration for employees is determined in accordance with performance, professional experience, and the prevailing market conditions. Management of the Target Group reviews the Target Group's employee remuneration policy and arrangement on an annual basis.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as otherwise disclosed above and in this circular, the Target Group did not have any other significant investments, material acquisitions and disposals of subsidiaries and associated companies during the Track Record Period.

NO MATERIAL CHANGE

The directors of the Target Company have confirmed that, up to the date of this circular, there has been no material adverse change in the Target Group's financial or trading position since 30 September 2019, the end of period reported in the Accountants' Report on the Target Group, and there has been no event since 30 September 2019 which has materially affected the information shown in the Accountants' Report on the Target Group as set out in Appendix II of this circular.

Impact of the outbreak of the COVID-19 pandemic ("outbreak") on the Target Group

The recent outbreak has impacted the business operations of various enterprises in different manner. For instance, the PRC government has implemented various measures to combat against the outbreak in the PRC such as temporary suspension of work in various provinces and quarantine order imposed to restrict the entry into and exit of certain provinces since January 2020.

As a result of the above, the manufacturing activities of the Target Group have been temporarily suspended until the operation of its production facilities gradually resumed according to the government measures since February 2020. Hence, the production capacity of the Target Group has dropped temporarily but to a lesser extent due to its automated production lines. As at the Latest Practicable Date, the Directors confirm that the Target Group's production facilities have resumed normal operation by end of February 2020.

Despite of the outbreak, the demand from customers of the Target Group remained relatively stable and there was no significant decrease or cancellation of sales orders from its customers as at the Latest Practicable Date. However, as mentioned above, the production capacity of the Target Group has dropped temporarily. Thus, the delivery of products for certain orders has been slightly delayed. The Target Group has proactively liaised with its customers to adjust the delivery schedule in order to minimise the impact. As at the Latest Practicable Date, it is expected the delayed delivery schedule for those sales orders will resume normal by end of March 2020 for the Target Group.

In relation to the supply chain, the Target Group works out the procurement plan for raw materials according to the actual or projected production schedule generally. During the outbreak and up to the Latest Practicable Date, the Target Group has not experienced any material disruption of the supply chain or any material delay in logistics delivery from its suppliers.

The directors of the Target Group believe that the outbreak has not resulted in a material impact on the Target Group's operation and performance as at the Latest Practicable Date. Subject to the further development of the COVID-19 pandemic or changes in economic conditions arising thereof, should there be any material impact on the Target Group, the Company will announce updates by way of announcement as and when appropriate.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 March 2017, 2018 and 2019 and the unaudited condensed consolidated financial information of the Group for the six months ended 30 September 2019 are disclosed in the following interim report, annual reports, and the prospectus of the Company which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.time-interconnect.com/):

- The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2019 is disclosed in the 2019/2020 interim report of the Company published on 25 November 2019, from pages 29 to 56. Please also see below the link to the 2019/2020 interim report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1219/2019121900170.pdf

- The audited consolidated financial statements of the Group for the year ended 31 March 2019 is disclosed in the 2019 annual report of the Company published on 22 July 2019, from pages 105 to 207. Please also see below the link to the 2019 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0722/ltn20190722097.pdf

- The audited consolidated financial statements of the Group for the year ended 31 March 2018 is disclosed in the 2018 annual report of the Company published on 27 July 2018, from pages 58 to 119. Please also see below the link to the 2018 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0727/ltn20180727171.pdf

- The audited consolidated financial statements of the Group for the year ended 31 March 2017 is disclosed in the prospectus of the Company published on 30 January 2018, from pages I-1 to I-59 of Appendix I. Please also see below the link to the prospectus of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0130/ltn20180130005.pdf

2. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

As at 29 February 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding indebtedness as summarised below.

	As at 29 February 2020		
	The Group	The Target Group *(Note 1)*	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
Amount due to ultimate holding company — unsecured and unguaranteed	444	217,843	218,287
Unsecured bank borrowings — unsecured and guaranteed	57,701	1,384,586	1,442,287
Lease liabilities — secured and unguaranteed *(Note 2)*	39,486	1,140	40,626
Lease liabilities — unsecured and unguaranteed	—	2,843	2,843
	97,631	1,606,412	1,704,043

Notes:

1. Included the indebtedness of Non-core Business to be retained by Linkz International

2. Lease liabilities are secured by rental deposits

Unsecured bank borrowings — unsecured and guaranteed

The following table sets forth a breakdown of the Enlarged Group's unsecured bank borrowings as at the dates indicated:

	As at 29 February 2020		
	The Group	The Target Group *(Note)*	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
Bank overdrafts	—	10,838	10,838
Bank loans	50,000	822,401	872,401
Import/export trade borrowings	7,701	551,347	559,048
	57,701	1,384,586	1,442,287

Note: Included the indebtedness of Non-core Business to be retained by Linkz International

As at 29 February 2020, the Enlarged Group had unutilised banking facilities of approximately HK$817,651,000 available for drawdown, of which the unutilised banking facilities of the Group and the Target Group as at 29 February 2020 amounted to approximately HK$317,814,000 and HK$499,837,000, respectively.

As at 29 February 2020, the bank borrowings of the Group were secured by corporate guarantee executed by the Company, while the bank borrowings of the Target Group were secured by (i) personal guarantee executed by Mr. Paul Lo; (ii) corporate guarantee executed by Linkz Industries; (iii) corporate guarantee executed by subsidiaries of the Target Group; and (iv) corporate guarantee executed by Lighthouse Technologies Limited.

Financial guarantees and contingent liabilities

As at 29 February 2020, the Target Group had given cross guarantees of approximately HK$541,000,000 to banks to secure certain general banking facilities granted to the Vendor and the Target Group. In addition, the Target Group also given another guarantee of HK$153,000,000 to a bank to secure another general banking facility granted to the Vendor. The Group did not have any material contingent liabilities as at 29 February 2020.

Disclaimer

Save as disclosed herein and apart from intra-group liabilities, at the close of business on 29 February 2020, being the latest practicable date for determining indebtedness, the Group and the Target Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

After taking into account the effect of the Acquisition and the successful arrangement of the related funding requirements, the financial resources available to the Enlarged Group, the internally generated funds, existing bank balances and cash, available banking facilities and the existing credit facilities, for the working capital needs of the Enlarged Group, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2019 (being the date to which the latest published audited financial statements of the Group were made up).

5. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis of performance and other information of the Group for each of the years ended 31 March 2017, 2018 and 2019 and the six months ended 30 September 2019. Unless the context otherwise requires, capitalised terms used therein shall have the same meanings as those ascribed in the abovementioned interim report, annual reports and the prospectus of the Company.

(i) For the six months ended 30 September 2019

Financial review

Revenue

The Group's revenue for the six months ended 30 September 2019 slightly decreased by 4.0% to HK$801.9 million from HK$835.6 million in the previous financial period. One of the major reasons was RMB depreciation impact, during the six months ended 30 September 2019 the average foreign currency exchange rate from converting Renminbi into Hong Kong dollars was 4.8% lower than the same period last year. The Renminbi revenue converted in Hong Kong dollars decreased HK$18.9 million which represented 2.4% of the Group's revenue. Telecommunication, medical equipment and industrial equipment sectors were also affected by this impact and reduced revenue. Meanwhile, the trade and tariff disputes between the United States and China caused the overall slowdown of global macro-economy. It created different degree of impact on the telecommunication and industrial equipment sector.

Data centre sector: In April 2019, the Group has changed the supply source away from China for the certain major components of products to be shipped to the United States for avoidance of the additional tariffs. Besides, the Group also procured the "Country of origin and Marking Ruling" from the U.S. Customs and Border Protection for the fibre cable assembly products in February 2019. Accordingly, the fibre cable assembly products will not be subjected to additional tariffs when importing into the United States anymore even though the major components are purchased from China. The shipments of the data centre sector were back to the normal level as before the Sino-U.S. trade war since May 2019. The revenue has substantially increased by 22.5% to HK$396.5 million during the six months ended 30 September 2019 as compared to HK$323.7 million for the previous financial period.

Telecommunication sector: It recorded a decrease of revenue from HK$391.1 million in the previous financial period to HK$313.0 million for the six months ended 30 September 2019, representing a decrease of 20.0%. Besides the RMB depreciation impact, the decrease was mainly attributable to the impact from the United States had added the Company's largest customer to the entity list under Export Administration Regulations. The Company has been seeking for any kind of measures to mitigate the impact of trade war on its businesses.

Medical equipment sector: The revenue recorded a mild decrease of 12.6% from HK$74.8 million for the previous financial period to HK$65.4 million for the six months ended 30 September 2019. Such decrease was due to slowdown of orders by the largest medical equipment customer in order to consume the inventory backlog. Orders are expected to resume in the rest of the year.

Industrial equipment sector: The revenue dropped 41.3% from HK$46.0 million for the previous financial period to HK$27.0 million for the six months ended 30 September 2019. The decrease was mainly due to the turmoil from the Sino-U.S. trade war and the overall slowdown on the growth of the global economy.

Gross profit/margin

Gross profit for the six months ended 30 September 2019 was HK$174.8 million, a decrease of HK$9.6 million or 5.2% compared to the HK$184.4 million recorded in the previous financial period. Gross profit margin slightly decreased from 22.1% to 21.8%. Although the Group has 1.1% improvement on the cost of materials as a percentage of revenue due to the materials cost savings program during the financial period. But for the direct labour costs and manufacturing overheads as a percentage of revenue, they were higher than the same period last year due to the labour shortage and depreciation of new factory increase.

Other income

Other income comprising of primarily bank interest income, government grants, handling income was in aggregate HK$1.6 million for the six months ended 30 September 2019, representing a decrease of 52.9% as compared with the previous financial period due to the decrease of government grants and bank interest income.

Other gains and losses

Other gains and losses were recorded a loss of HK$2.3 million for the six months ended 30 September 2019 compared to a loss of HK$11.9 million for the previous financial period. Such loss was due to the exchange loss from RMB depreciation at HK$2.3 million, which was attributable to the Group's operations in the ordinary course of business, as compared to an exchange loss of HK$11.9 million in the previous financial period.

Distribution and selling expenses

Distribution and selling expenses decreased from HK$11.9 million to HK$11.6 million, a decrease of 2.5% compared with the previous financial period. It was mainly attributable to the decrease of freight and transportation cost. As a percentage of the Group's revenue, distribution and selling expenses remain stable at 1.4%, same as the last financial period.

Administrative expenses

Administrative expenses increased from HK$30.9 million to HK$32.4 million over the same period last year. The increase was mainly due to the increase of share option expenses HK$2.8 million. Administrative expenses as a percentage of revenue increased from 3.7% to 4.0% for the six months ended 30 September 2019.

Research and development expenses

During the six months ended 30 September 2019, the research and development expenses were HK$23.9 million, which represented a decrease of 5.2% compared with the previous financial period. It was mainly attributable to the decrease of materials cost and testing fee. Research and development expenses as a percentage of the Group's revenue remain stable at 3.0%, same as the last financial period. The Company continuously increased its efforts in research and development by expanding the team to further enhance its research and development capabilities in respect of launching new products and technologies.

Finance costs

The finance costs represent bank loan interest HK$1.1 million for bank borrowings and interest expenses HK$1.4 million on the lease liabilities under adoption of HKFRS 16, which is effective from 1 April 2019. For the six months ended 30 September 2019, the finance costs was recorded at HK$2.5 million against HK$1.1 million for the last financial period.

Taxation

Taxation represents the tax expenses arising from the assessable profit generated by the Group in Hong Kong and the PRC. Taxation was provided at the respective tax rate of 16.5% and 25% based on the profit from operating activities. Taxation charges increased from HK$18.5 million in the last financial period to HK$20.7 million in the six months ended 30 September 2019. The effective tax rate increased from 17.3% to 21.1%.

Profit for the period

Total profit of the Group for the six months ended 30 September 2019 was HK$77.4 million, a decrease of HK$11.0 million as compared to the last financial period. By excluding the professional fees for the Possible Acquisition, total profit was HK$83.0 million and net profit margin was recorded at 10.4% as compared to 10.6% in the previous financial period.

Liquidity and financial resources

As at 30 September 2019, the Group had bank balances and cash of HK$233.4 million, representing an increase of 4.3% as compared to HK$223.8 million as of 31 March 2019. It was mainly due to the increase in cash generated from operating activities during the six months ended 30 September 2019. As at 30 September 2019, the Group's bank loan was HK$65.6 million, an increase of 33.3% from HK$49.2 million as of 31 March 2019. The Group maintained sufficient banking facilities and did not have any outstanding long-term bank borrowings as at 30 September 2019.

Capital commitments

As at 30 September 2019, the Group had capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the property, plant and equipment in amount of HK$2.4 million.

Charge on group assets

Save for the bank deposits that were pledged in order to secure the bills payables issued by the bank under the general banking facilities granted to the Group, as at 30 September 2019 and 31 March 2019, banking facilities extended to the Group were not secured with the Group's assets. Pledged bank deposits amounted to HK$13.6 million and HK$16.3 million as at 30 September 2019 and 31 March 2019 respectively.

Gearing ratio

Gearing ratio is calculated as total debt (total of unsecured bank borrowings) divided by total equity and multiplied by 100%. As at 30 September 2019, the Group's gearing ratio was 11.5% as compared to 9.0% as of 31 March 2019.

Capital structure

The shares of the Company were successfully listed on the Main Board of The Stock Exchange on 13 February 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 30 September 2019, the Company's issued share capital was HK$18.4 million and the number of its issued ordinary shares were 1,840,000,000 of HK$0.01 each.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

Save as disclosed in the Company's published interim report for the six months ended 30 September 2019, the Group did not have any significant investments held, material acquisition or disposal of subsidiaries and associations for the six months ended 30 September 2019. There is no other plan for material investments or capital assets for the six months ended 30 September 2019.

Foreign exchange exposure

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi and Euro. The Group's management monitors the risk of related foreign exchange risk exposure by entering into forward foreign exchange contracts. Foreign currency exchange rates are volatile and may have an impact on the Group's results. The Group's management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

Treasury policies

As an internal treasury policy, the Group continues to implement a prudent policy on financial management policy and does not participate in any high risk speculative activities. However, the Group's management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Save for the net proceeds from the listing, the Group will also monitor and maintain a Hong Kong dollar cash balance in order to minimise the need for unnecessary foreign exchange conversion which may result in exchange loss.

The reporting currency of the Group is presented in Hong Kong dollars, as the Directors consider that it is more relevant to the users of the condensed consolidated financial statements as the Company listed its shares on the Stock Exchange.

Employee

As of 30 September 2019, the total headcount for the Group was approximately 2,161 employees (30 September 2018: approximately 1,955). Fair and competitive remuneration package and benefits are offered to employees as well as discretionary bonuses and share option. Various types of trainings were provided to the employees. Total employee benefit expenses including Directors' remuneration for the six months ended 30 September 2019 were approximately HK$118.1 million, as compared to approximately HK$99.9 million in the last financial period. Remuneration is determined with reference to performance skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

Contingent liabilities

As of 30 September 2019, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

(ii) For the year ended 31 March 2019

Financial review

Revenue

The Group's revenue for the year ended 31 March 2019 increased by 6.1% to HK$1,314.4 million from HK$1,238.4 million in the previous financial year. The increase in revenue was mainly driven by the higher sales in telecommunication and medical equipment sectors.

Telecommunication sector: It recorded an increase of revenue from HK$534.1 million for the previous financial year to HK$650.9 million for the year ended 31 March 2019, which represented an increase of 21.9%. Such increase was mainly attributable to the growing demand for new 5G products from its major customers in the sector, which remained as the main sales growth driver of the Group's revenue in terms of amount and percentage.

Data centre sector: The revenue recorded a decrease of 19.0% from HK$571.6 million for the previous financial year to HK$462.9 million for the year ended 31 March 2019. Such decrease was mainly attributable to the decline in demand for products from the Group's major customers in this sector.

Medical equipment sector: The revenue achieved a significant growth rate of 122.2% from HK$62.1 million for the previous financial year to HK$138.0 million for the year ended 31 March 2019. Such growth represented the highest growth rate among the Group's market sectors and the increase was mainly attributable to the robust demand for products from both existing customers and new customers.

Industrial equipment sector: The revenue dropped 11.3% from HK$70.6 million for the last financial year to HK$62.6 million for the year ended 31 March 2019. The decrease was mainly due to the turmoil from the Sino-U.S. trade war.

Gross profit/margin

Gross profit for the year ended 31 March 2019 was HK$279.3 million, an increase of HK$6.3 million or 2.3% compared to the HK$273.0 million recorded in the previous financial year. Gross profit margin slightly decreased from 22.0% to 21.2%. The change in gross profit and gross profit margin was mainly attributable to the change in product mix. Cost of materials as percentage of the Group's revenue was decreased as compared to the previous financial year as a result of its material cost savings program during the year. But for the direct labour costs and manufacturing overheads as a percentage of revenue, they were higher than last year due to the labour costs and depreciation increase.

Other income and other gain and loss

Other income and other gains and losses decreased from a gain HK$11.8 million for the year ended 31 March 2018 to a loss HK$4.9 million for the year ended 31 March 2019. Such decrease was mainly attributable to exchange loss of HK$9.8 million recognised for the year ended 31 March 2019, which arose from the Group's operations in the ordinary course of business, as compared with an exchange gain of HK$9.7 million in the last financial year.

Distribution and selling expenses

Distribution and selling expenses increased from HK$20.2 million to HK$23.2 million during the year ended 31 March 2019, an increase of 14.9% compared with the last financial year. It was mainly attributable to the increase of staff cost, travel and entertainment, freight and transportation cost. As a percentage of Group's revenue, distribution and selling expenses increased from 1.6% to 1.8%.

Administrative expenses

Administrative expenses increased from HK$34.4 million to HK$57.9 million over the last year. The increase was mainly due to the increase in staff cost, legal and professional fee, and depreciation. The staff cost increased due to headcount increase in I.T., salary and bonus increase, and the increase of share option expenses. The legal and professional fee increase was mainly due to expenses incurred in relation to the compliance of listing requirements and the acquisition of new factory. Administrative expenses as a percentage of revenue increased from 2.8% to 4.4%.

Research and development expenses

During the year ended 31 March 2019, the research and development expenses were HK$45.7 million, which represented an increase of 11.7% compared with the previous financial year. It was mainly attributable to the increase of staff cost, which including headcount increase and salary increment. Research and development expenses as a percentage of Group's revenue slightly increased from 3.3% to 3.5%. The Group continuously expanded the size of its research and development team to enhance its research and development capabilities in respect of launching new products and technologies.

Finance costs

The finance costs mainly represent bank loan interest for bank borrowings. In line with the decrease in bank loan, the finance costs decreased by 30.4% from approximately HK$2.3 million for the last financial year to HK$1.6 million for the year ended 31 March 2019

Taxation

Taxation represents the tax expenses arising from the assessable profit generated by the Group in Hong Kong and PRC. Taxation was provided at the respective tax rate of 16.5% and 25% based on the profit from operating activities. Taxation charges decreased from approximately HK$38.9 million in the last financial year to approximately HK$23.1 million in the year ended 31 March 2019. The effective tax rate decreased from 22.7% to 15.8%, due to overprovision tax amounting to HK$3.8 million in prior year and the additional tax deduction on research and development expenditures claim in the PRC amounting to approximately HK$5.6 million in the year ended 31 March 2019.

Profit for the year

Total profit for the year of the Company for the year ended 31 March 2019 was approximately HK$122.9 million, representing a decrease of HK$9.2 million or 7.0% as compared to the last financial year. Net profit margin dropped from 10.7% to 9.4%.

Liquidity and financial resources

As at 31 March 2019, the Group had bank balances and cash of HK$223.8 million, representing a decrease of 20.0% as compared to HK$279.6 million as of 31 March 2018. It was mainly due to HK$104.8 million was utilised from the net proceeds of HK$126.6 million received from the listing, and the increase in cash generated from operating activities during the current year. As at 31 March 2019, the Group's bank loan was HK$49.2 million, an increase of 18.6% from HK$41.5 million in the last financial year. The Group maintained sufficient banking facilities and did not have any outstanding long-term bank borrowings as at 31 March 2019.

Capital commitments

As at 31 March 2019, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the property, plant and equipment in amount of HK$3.6 million.

Charge on group assets

Save for the bank deposits that were pledged in order to secure the bills payables issued by the bank under the general banking facilities granted to the Group, as at 31 March 2019 and 2018, banking facilities extended to the Group were not secured with the Group's assets. Pledged bank deposits amounted to HK$18.0 million and HK$16.3 million as at 31 March 2018 and 2019 respectively.

Gearing ratio

Gearing ratio is calculated as total debt (summation of amount due to ultimate holding company, and unsecured bank borrowings) divided by total equity and multiplied by 100%. As at 31 March 2019, the Group's gearing ratio was 9.0% as compared to the last financial year 9.1%.

Capital structure

The shares of the Company were successfully listed on the Main Board of Stock Exchange on 13 February 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2019, the Company's issued share capital was HK$18.4 million and the number of its issued ordinary shares were 1,840,000,000 of HK$0.01 each.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

Save as disclosed in the Company's published annual report for the year ended 31 March 2019, the Group did not have any significant investments held, material acquisition or disposal of subsidiaries and associations for the year ended 31 March 2019. There is no other plan for material investments or capital assets as at 31 March 2019.

Foreign exchange exposure

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi and Euro. The Group's management monitors the risk of related foreign exchange exposure by entering into forward foreign exchange contracts. Foreign currency exchange rates are volatile and may have an impact on the Group's results. The Group's management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

Treasury policies

As an internal treasury policy, the Group continues to implement a prudent policy on financial management policy and does not participate in any high risk speculative activities. However, the Group's management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Save for the net proceeds from the listing, the Group will also monitor and maintain a Hong Kong dollar cash balance in order to minimise the need for unnecessary foreign exchange conversion which may result in exchange loss.

The reporting currency of the Group is presented in Hong Kong Dollars, as the Directors consider that it is more relevant to the users of the consolidated financial statements as the Company listed its shares on the Stock Exchange.

Employee

As of 31 March 2019, the total headcount for the Company was approximately 2,033, compared to 2,168 in the previous financial year. Fair and competitive remuneration package and benefits are offered to employees as well as discretionary bonuses and share option. Various types of trainings were provided to the employees. Total employee benefit expenses including Directors' remuneration for the year ended 31 March 2019 were approximately HK$201.6 million, as compared to approximately HK$156.7 million in the financial year 2018. Remuneration is determined with reference to performance skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice.

Contingent liabilities

As of 31 March 2019, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

(iii) For the year ended 31 March 2018

Financial review

Revenue

The Group's revenue for the year ended 31 March 2018 significantly increased by 43.2% to approximately HK$1,238.4 million from HK$864.6 million in the previous financial year. All of the Group's business sectors have different degrees of increase in revenue, and the increase in revenue was mainly driven by higher sales in data centre, telecommunication and medical equipment sectors.

The revenue of the data centre sector achieved a significant growth rate of 105.2% from approximately HK$278.6 million for the previous financial year to approximately HK$571.6 million for the year ended 31 March 2018. Such increase was mainly attributable to the growth in demand for products from one of the Group's major customers, which was the main sales growth driver of the Group's revenue in terms of amount and percentage, which represented 78.4% of the total increase in the Group's revenue.

For the telecommunication sector, although it contributed the lowest growth rate of 9.9% among other market sectors compared to the previous financial year, it still recorded an increase of revenue of approximately HK$47.9 million or 12.8% which represented the second largest increase of the total increase of the Group's revenue. The increase was driven by the sales of new 5G products in the last quarter of the year ended 31 March 2018.

The increase of revenue generated from the industrial equipment sector was relatively small, at 14.4%, from approximately HK$61.7 million for the previous financial year to approximately HK$70.6 million for the year ended 31 March 2018.

The revenue of the medical equipment sector increased by 63.0% to approximately HK$62.1 million in the year ended 31 March 2018 as compared to HK$38.1 million for the previous financial year. It is primarily attributable to the robust demand for products from existing and new customers.

Gross profit/margin

Gross profit for the year ended 31 March 2018 was approximately HK$273.0 million, an increase of HK$116.4 million or 74.3% compared to the HK$156.6 million recorded in the previous financial year. Gross profit margin also increased from 18.1% to 22.0%. The increase in gross profit and gross profit margin was mainly attributable to the change in product mix to products with relatively higher selling price, including those sold to data centre and medical equipment sectors. Cost of materials as percentage of the Group's revenue was decreased as compared to the previous financial year as a result of material cost savings program during the year. As for the direct labour costs and manufacturing overheads as a percentage of revenue, they were also lower than the same period last year as the Group continued to improve production yield and efficiency through automation and process improvement.

Other income and other gains and losses

Other income and other gains and losses increased from a loss of HK$0.2 million for the year ended 31 March 2017 to a gain of HK$11.8 million for the year ended 31 March 2018. Such increase was mainly attributable to exchange gain, which arises from the Group's operations in the ordinary course of business was HK$9.7 million, as compared with an exchange loss of HK$2.0 million in the last financial year.

Distribution and selling expenses

Distribution and selling expenses increased from HK$16.9 million to HK$20.2 million, an increase of 19.5% compared with the last financial year. It was mainly attributable to the increase of staff cost, credit and marine insurance, freight and transportation cost. As a percentage of the Group's revenue, distribution and selling expenses decreased from 2.0% to 1.6%.

Administrative expenses

Administrative expenses increased from HK$28.0 million to HK$34.4 million over the same period last year. The increase was mainly due to the increase in staff cost, auditors' remuneration and legal and professional fees. For the previous financial year, the vendor, the controlling shareholder, provided management services to Linkz Group (i.e. the vendor and its subsidiaries but excluding the

Group) and the Group and the management services were allocated to each member of Linkz Group and the Group. Commencing from the year ended 31 March 2018 (April 2017 onwards), the abovementioned management services ceased and the Group established a strong and independent team to oversee the business by employing certain management personnel including the Directors. Hence the Group incurred additional expenses for salaries and employee benefits compared with the last financial year, which include salaries and MPF contribution. The auditor's remuneration and the legal and professional fees (including compliance adviser, legal adviser, internal control and share registrars) also increased in accordance with the listing requirements. Even the administrative expenses increased by 22.9% as compared with the previous financial year, despite still being lower than the significant increase rate of the Group's revenue. Administrative expenses as a percentage of revenue decreased from 3.2% to 2.8%.

Research and development expenses

During the year ended 31 March 2018, the research and development expenses were HK$40.9 million, which represented an increase of 45.0% compared with the previous financial year. It was mainly attributable to the increase of staff cost, materials cost, testing fee and depreciation. Research and development expenses as a percentage of the Group's revenue remain stable at 3.3%, same as last financial year. The Group continuously expanded the size of its research and development team to enhance its research and development capabilities in respect of launching new products and technologies.

Imputed financial guarantee income

Imputed financial guarantee income represents the amortisation of the Group's financial guarantee liabilities arising from the financial guarantees provided by the Group to Linkz Industries as well as subsidiaries of Linkz Industries (other than the Group). Imputed financial guarantee income was recognised in profit or loss over the guarantee period on a straight-line basis. The imputed financial guarantee income decreased by 51.4% from HK$17.3 million for the previous financial year to HK$8.4 million for the year ended 31 March 2018 based on amortisation of existing financial guarantee liabilities. As the Group ceased to provide financial guarantee to Linkz Industries and its subsidiaries since August 2017, there is no more imputed financial guarantee income or loss since September 2017.

Listing expenses

The listing expenses incurred in connection with the Listing was approximately HK$49.2 million, which was borne by the then existing shareholder and who sold the sale shares during the share offering of the Company, and the Group in the ratio of 3:7, which amounted to approximately HK$14.7 million and HK$34.5 million, respectively. Of such amount borne by the vendor in connection with the sale of sale shares, approximately HK$7.4 million was set-off against the listing expenses of the Group and approximately HK$7.3 million was reimbursed by the vendor in its capacity as shareholder and was accounted for as capital contribution to the Group.

Of the aggregate listing expenses of approximately HK$49.2 million, approximately HK$7.4 million was borne by the vendor as stated above, and the Group charged approximately HK$24.4 million to profit or loss, while approximately HK$17.4 million was directly attributable to the issue of new shares and was accounted for as a deduction from equity in accordance with the relevant accounting standards.

Finance costs

The finance costs mainly represent bank loan interest for bank borrowings. In line with the decrease in bank loan, the finance costs decreased by 30.3% from approximately HK$3.3 million for the last financial year to HK$2.3 million for the year ended 31 March 2018.

Taxation

Taxation represents the tax expenses arising from the assessable profit generated by the Group in Hong Kong and PRC. Taxation was provided at the respective tax rate of 16.5% and 25% based on the profit from operating activities (listing expenses and imputed financial guarantee income are considered as non-deductible and non-taxable items, respectively for tax purpose). Taxation charges increased from approximately HK$15.7 million in the last financial year to HK$38.9 million for the year ended 31 March 2017. The effective tax rate increased from 16.1% to 22.7%, due to the increase in profit from the PRC at a higher tax rate.

Total profit for the year

Total profit for the year of the Company for the year ended 31 March 2018 was approximately HK$132.1 million, a substantial increase of HK$50.5 million or 61.9% as compared to the last financial year. By excluding the listing expenses and imputed financial guarantee income, net profit margin raised from 7.4% to 12.0%.

Liquidity and financial resources

As at 31 March 2018, the Group had bank balances and cash of HK$279.6 million, representing an increase of 553.3% as compared to HK$42.8 million as of 31 March 2017. It was mainly due to the net proceeds of HK$126.6 million received from the Listing, and the increase in cash generated from operating activities during the current year. As at 31 March 2018, the Group's bank loan was HK$41.5 million, a decrease of 47.1% from HK$78.4 million in the last financial year. The Group maintained sufficient banking facilities and did not have any outstanding long-term bank borrowings as at 31 March 2018.

Capital commitments

As at 31 March 2018, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the property, plant and equipment in amount of HK$3.29 million.

Charge on group assets

Save for the bank deposits that were pledged in order to secure the bills payables issued by the bank under the general banking facilities granted to us, as at 31 March 2018 and 2017, banking facilities extended to the Group were not secured with the Group's assets. Pledged bank deposits amounted to HK$8.7 million and HK$18.0 million as at 31 March 2017 and 2018 respectively.

Gearing ratio

Gearing ratio is calculated as total debt (summation of amount due to ultimate holding company, and unsecured bank borrowings) divided by total equity and multiplied by 100%. As at 31 March 2018, the Group's gearing ratio was 9.1% as compared to the last financial year of 118.6%.

Capital structure

The shares of the Company were successfully listed on the Main Board of Stock Exchange on 13 February 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 March 2018, the Company's issued share capital was HK$18.4 million and the number of its issued ordinary shares was 1,840,000,000 of HK$0.01 each.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

Save for the undertaking of the reorganisation in preparation for the listing as more particularly described in the prospectus, the Group did not have any significant investments held, material acquisition and disposal of subsidiaries and associations for the year ended 31 March 2018. There is no other plan for material investments or capital assets for the year ended 31 March 2018.

Foreign exchange exposure

Most of the Group's receipts and payments are denominated in US dollars, Hong Kong dollars, Renminbi and Euro. The Group's management monitors the risk of related foreign exchange risk exposure by entering into forward foreign exchange contracts. Foreign currency exchange rates are volatile and may have an impact on the Group's results. The Group's management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary.

Treasury policies

As an internal treasury policy, the Group continues to implement a prudent policy on financial management policy and does not participate in any high risk speculative activities. However, the Group's management monitors exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Save for the net proceeds from the Listing, the Group will also monitor and maintain a Hong Kong dollar cash balance in order to minimise the need for unnecessary foreign exchange conversion which may result in exchange loss.

The reporting currency of the Group is presented in Hong Kong dollars, as the Directors consider that it is more relevant to the users of the consolidated financial statements as the Company listed its shares on the Stock Exchange.

Employee

The average number of employees for the year ended 2018 was around 2,168, compared to 1,905 in the previous financial year. Fair and competitive remuneration package and benefits are offered to employees as well as discretionary bonuses. Staff related costs for the year ended 31 March 2018 were approximately HK$156.7 million, as compared to approximately HK$126.6 million in the financial year 2017.

Contingent liabilities

As of 31 March 2018, the Group had not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

(iv) For the year ended 31 March 2017

Financial review

Revenue

The Group's revenue decreased by approximately HK$47,022,000, or 5.2%, from approximately HK$911,593,000 for the year ended 31 March 2016 to approximately HK$864,571,000 for the year ended 31 March 2017. Such decrease was mainly due to different sales performance of different market sectors and the overall decrease in units of products sold. Sales performance in each of the market sectors as discussed below:

(i) Telecommunication sector

Revenue derived from telecommunication sector decreased from approximately HK$630,649,000 for the year ended 31 March 2016 to approximately HK$486,240,000 for the year ended 31 March 2017. Such decrease was due to (i) the decrease in sales volume by 26.1% resulting from the decrease in sales orders from the Group's largest customer as the largest customer had sudden larger demand in previous year, resulting in decrease of revenue from this customer by 16.2% and (ii) the translation of RMB, the currency of the sales in the PRC and was in general depreciating, to Hong Kong dollars, the reporting currency.

In addition, during the year ended 31 March 2016, one of the Group's major customers purchased a large quantity of LAN cables that the Group sourced from the Target Group. The purchase of LAN cables from this major customer became insignificant during the year ended 31 March 2017.

(ii) Data centre sector

Revenue generated from the data centre sector varied according to the demand of the customers. Revenue derived from data centre sector increased from approximately HK$154,167,000 for the year ended 31 March 2016 to approximately HK$278,477,000 for the year ended 31 March 2017. Such increase was mainly due to the increase in sales volume by 139.7% in relation to the delivery schedule of products to the Group's major customers in this sector. It was considered that overall amount of orders from customers in the two years remained relatively stable and the increase in revenue was the result of uneven orders and shipments, and the revenue recognition, throughout the year.

(iii) Industrial equipment sector

Revenue generated from the industrial equipment sector remained flat at approximately HK$61,979,000 and HK$61,726,000 for the year ended 31 March 2016 and 2017, respectively, primarily due to the decrease in sales orders from one of the Group's customers, which is a manufacturer of refrigeration systems, offset by the increase in sales to various smaller customers in this sector, including a new customer that the Group started to do business during the year.

(iv) Medical equipment sector

Revenue derived from medical equipment sector decreased from approximately HK$64,798,000 for the year ended 31 March 2016 to approximately HK$38,128,000 for the year ended 31 March 2017, due to the decrease in sales volume by 91.3%. In particular, one of the major customers in this sector had decreased demand on the Group's products as medical equipment generally have longer product life cycle, and its products used by the customer should follow the customer's product development schedule.

Gross profit and gross profit margin

Gross profit increased by approximately HK$14,088,000, or 9.9%, from approximately HK$142,556,000 for the year ended 31 March 2016 to approximately HK$156,644,000 for the year ended 31 March 2017. During the year ended 31 March 2016, one of the Group's major customers ordered a large quantity of LAN cables, apart from other cable assembly products. The sales of LAN cables are regarded as sales of copper cable assemblies in the telecommunication sector. The

LAN cables required minimal additional work from us and profit margin realised from the sales of LAN cables was marginal, around 2%, hence the overall gross profit margin for the year ended 31 March 2016 was lowered. If sales of LAN cables to the major customer were not taken into account, the gross margin of the Group for the year ended 31 March 2016 would improve to 16.6%. Although at a low margin, the Directors considered that the sales of these LAN cables to the major customer could open new business with it which may order other products of higher profitability. That major customer had also placed orders for other cable assembly products from the Group. The amount of similar sales of low margin products conducted by the Group for the year ended 31 March 2017 was insignificant. Further, a larger proportion of the products sold during the year ended 31 March 2017 were optical fibre cables for the data centre, which had higher complexity that required longer time or extra steps to produce such that the Group was able to apply higher profit margin for these more complex products.

Other income and gains and losses

Other income and other gains and losses decreased from a gain of approximately HK$1,309,000 for the year ended 31 March 2016 to a loss of approximately HK$199,000 for the year ended 31 March 2017 primarily due to the reclassification of translation reserves to profit or loss upon deregistration of the Group's subsidiaries during the year ended 31 March 2016.

Distribution expenses

The distribution and selling expenses decreased by approximately HK$1,199,000, or 6.6%, from approximately HK$18,114,000 for the year ended 31 March 2016 to approximately HK$16,915,000 for the year ended 31 March 2017 as a result of decrease in travelling and entertainment expenses of approximately HK$634,000 and the decrease in freight charges of approximately HK$425,000.

Administrative expenses

The administrative expenses decreased by approximately HK$2,740,000 or 8.9%, from approximately HK$30,725,000 for the year ended 31 March 2016 to approximately HK$27,985,000 for the year ended 31 March 2017, partly due to the translation of RMB to Hong Kong Dollars and decrease in office expenses.

Research and development expenses

The Research and development expenses increased by approximately HK$3,681,000, or 15.0%, from approximately HK$24,542,000 for the year ended 31 March 2016 to approximately HK$28,223,000 for the year ended 31 March 2017. The increase was primarily due to the increase in the salaries and employee benefits expenses with increased research and development staff and hence increased activities that incurred higher material and design costs.

Imputed financial guarantee income

Imputed financial guarantee income arising from the financial guarantee provided by the Group remained stable at approximately HK$16,239,000 and HK$17,299,000 for the year ended 31 March 2016 and 2017, respectively. Imputed financial guarantee income is affected by the initial recognition at fair value, which was determined by independent external valuer, and the amortisation of financial guarantee liabilities for the year.

Finance costs

Finance costs slightly decreased by approximately HK$327,000, or 9.1%, from approximately HK$3,604,000 for the year ended 31 March 2016 to approximately HK$3,277,000 for the year ended 31 March 2017. The decrease was primarily due to decrease in interest on revolving borrowings as a result of the net repayment for the year ended 31 March 2017.

Taxation

The taxation increased by approximately HK$4,140,000, or 35.9%, from approximately HK$11,520,000 for the year ended 31 March 2016 to approximately HK$15,660,000 for the year ended 31 March 2017. This increase was mainly attributable to the increase profit before taxation for the year ended 31 March 2017 by approximately HK$14,225,000 as a result of the reasons discussed above. The effective tax rate increased from 13.9% for the year ended 31 March 2016 to 16.1% for the year ended 31 March 2017. If the imputed financial guarantee income, which is non-taxable in nature, were excluded for illustration purpose only, the effective tax rate would be 17.2% and 19.6% for the year ended 31 March 2016 and 2017, respectively.

Profit for the year

Profit for the year increased by approximately HK$10,085,000, or 14.1%, from approximately HK$71,599,000 for the year ended 31 March 2016 to approximately HK$81,684,000 for the year ended 31 March 2017. If the imputed financial guarantee income were excluded for illustration purpose only, net profit would be approximately HK$55,360,000 and HK$64,385,000 for the years ended 31 March 2016 and 2017, respectively. Such increase was primarily due to an increase in the gross profit and gross profit margin as discussed above.

Liquidity and financial resources

As at 31 March 2017, the Group had bank balances and cash of HK$42,823,000, representing a decrease of 37.1% as compared to HK$68,038,000 as of 31 March 2016. As at 31 March 2017, the Group's bank loan was HK$78,420,000, representing an increase of 17.7% as compared to HK$66,654,000 as of 31 March 2016. Such increase was primarily due to the increase in import trade borrowings to finance the purchase of raw materials.

Capital commitments

As at 31 March 2017, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of the property, plant and equipment in amount of HK$0.7 million.

Charge on group assets

As at 31 March 2017, the Group had pledged bank deposits placed in a bank to secure general banking facilities granted to the Group, which amounted to approximately HK$8,731,000.

Gearing ratio

The gearing ratio increased from 35.9% as at 31 March 2016 to 118.6% as at 31 March 2017 primarily attributable to (i) the increase in balance due to the ultimate holding company resulting in the increase in the total debt; and (ii) the reduction of total equity due to the declaration of the interim dividend.

Capital structure

As the Company was incorporated in the Cayman Islands on 15 June 2017, no share of Company was issued as at 31 March 2017.

Significant investments held, material acquisition and disposals of subsidiaries and affiliated companies and plans for material investments or capital assets

Save for the undertaking of the reorganisation in preparation for the listing as more particularly described in the prospectus of the Company dated 30 January 2018, the Group did not have any significant investments held, material acquisition and disposal of subsidiaries and associations for the year ended 31 March 2017. There is no other plan for material investments or capital assets for the year ended 31 March 2017.

Foreign exchange exposure

The Group is mainly exposed to the foreign currency risk arising from the carrying amounts of the Group's monetary and monetary liabilities denominated in currencies other than the respective group entities' functional currencies at the end of each reporting period. As at 31 March 2017, the Group currently does not have a foreign currency hedging policy in respect of net foreign currency exposure. However, the management monitors the related foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Treasury policies

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations. The management also monitors the utilisation of borrowings and ensures compliance with loan covenants.

Employees

The average number of employees for the year ended 31 December 2017 was around 1,905. Fair and competitive remuneration package and benefits are offered to employees as well as discretionary bonuses. For the year ended 31 March 2017, staff related costs amounted to approximately HK$126.6 million.

Contingent liabilities

Financial guarantee and contingent liabilities represent the financial guarantee liability recognised in respect of guarantees provided by the Group to financial institutions in relation to banking facilities granted to the Vendor and its subsidiaries. The financial guarantee liabilities amounted to approximately HK$8,712,000 as at 31 March 2017. For details regarding to the contingent liabilities, please refer to Note 28 of the Accountants' Report in Appendix I to the prospectus of the Company dated 30 January 2018.

6. BUSINESS OVERVIEW AND PROSPECTS

The Group is a well-established supplier of customised cable assemblies which produces products based on the specifications and designs provided by individual customers. The cable assemblies of the Group are purchased by a number of established PRC and international customers. The Group's cable assemblies products can be broadly categorised as (i) copper cable assemblies; and (ii) optical fibre cable assemblies, with reference to the respective transmission medium inside the cable. The Group's products are supplied to customers from broadly four sectors, including (i) telecommunication; (ii) data centre; (iii) industrial; and (iv) medical equipment. The Directors are of the view that the rapid development of the 5G mobile communication standards will bring in higher demand for both networking cable products and cable assemblies for telecommunication and data centre sectors. In this regard, the Group's plan in expanding its production capacity is already underway after the acquisition of two industrial buildings in Huizhou in 2018, details of which were disclosed in the Company's circular to the Shareholders dated 7 September 2018. In addition, the Directors also expect that, with reference to the increasing popularity of IoT products, the 5G networking technology will facilitate further applications of IoT which in turn also requires new networking cable products and cable assembly products in different sectors, especially industrial and medical equipment sectors. The Enlarged Group will direct its resources towards research and development of new products that can meet such demands for IoT applications. Currently, the Group has been looking into the technical issues of PoE cables and hybrid cables. The Enlarged Group will thus review its strategies and work closely with its customers to serve them better with new products.

Following the Acquisition, the overall dependence on any single key customer of the Enlarged Group will be significantly reduced. The Enlarged Group will focus its efforts on developing the cable business and enhancing long-term shareholders value.

Impact of the outbreak of the COVID-19 pandemic ("outbreak") on the Group

The recent outbreak has impacted the business operations of various enterprises in different manner. For instance, the PRC government has implemented various measures to combat against the outbreak in the PRC such as temporary suspension of work in various provinces and quarantine order imposed to restrict the entry into and exit of certain provinces since January 2020.

As a result of the above, the manufacturing activities of the Group has been temporarily suspended until the operation of its production facilities gradually resumed according to the government measures since February 2020. Hence, the production capacity of the Group has dropped temporarily. As at the Latest Practicable, the Directors confirm that the Group's production facilities have resumed full operation by mid-March 2020.

Despite of the outbreak, the demand from customers of the Group remained relatively stable and there was no significant decrease or cancellation of sales orders from its customers as at the Latest Practicable Date. However, as mentioned above, the production capacity of the Group has dropped temporarily. Thus, the delivery of products for certain orders has been slightly delayed. The Group has proactively liaised with its customers to adjust the delivery schedule in order to minimise the impact. As at the Latest Practicable Date, it is expected the delayed delivery schedule for those sales orders will resume normal in April 2020 for the Group.

In relation to the supply chain, the Group works out the procurement plan for raw materials according to the actual or projected production schedule generally. During the outbreak and up to the Latest Practicable Date, the Group has not experienced any material disruption of the supply chain or any material delay in logistics delivery from its suppliers.

The Directors believe that the outbreak has not resulted in a material impact on the Group's operation and performance as at the Latest Practicable Date. Subject to the further development of the COVID-19 pandemic or changes in economic conditions arising thereof, should there be any material impact on the Group, the Company will announce updates by way of announcement as and when appropriate.

The following is the text of a report set out on pages II-1 to II-75, received from the Target Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF COMBINED GROUP TO THE DIRECTORS OF TIME INTERCONNECT TECHNOLOGY LIMITED

Introduction

We report on the historical financial information of Linkz Cables Limited (the "Target Company") and its subsidiaries (together, the "Combined Group") set out on pages II-4 to II-75, which comprises the combined statements of financial position of the Combined Group as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the statements of financial position of the Target Company as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Combined Group for each of the three years ended 31 March 2019 and six months ended 30 September 2019 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-75 forms an integral part of this report, which has been prepared for inclusion in the circular of Time Interconnect Technology Limited (the "Company") dated 30 March 2020 (the "Circular") in connection with the proposed acquisition of Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Combined Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of

Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Combined Group's financial position as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, of the Target Company's financial position as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019 and of the Combined Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Combined Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 September 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing ("HKSAs") and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page II-4 as were considered necessary.

Dividends

We refer to note 15 to the Historical Financial Information which contains information about the dividends declared and paid by group entities comprising the Combined Group in respect of the Relevant Periods and no dividend was declared or paid by the Target Company in respect of the Relevant Periods and state that no dividend was declared or paid by the Target Company since its incorporation.

No historical financial statements for the Target Company

No financial statements have been prepared for the Target Company since its date of incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 March 2020

HISTORICAL FINANCIAL INFORMATION OF THE COMBINED GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on audited consolidated financial statements of Linkz Cables Limited and its subsidiaries, audited consolidated financial statements of Hover Manufacturing Company Limited and its subsidiaries and audited consolidated financial statements of Linkz International Limited and its subsidiary for the Relevant Periods. These financial statements have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March			Six months ended 30 September	
		2017	2018	2019	2018	2019
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Continuing Operation						
Revenue	6	1,328,298	1,498,697	1,676,557	894,119	735,340
Cost of goods sold		(1,131,447)	(1,287,182)	(1,447,539)	(771,545)	(628,747)
Gross profit		196,851	211,515	229,018	122,574	106,593
Other income	7	2,218	4,388	3,668	181	424
Other gains and losses	8	1,950	(5,653)	1,387	5,072	11,709
Distribution and selling expenses		(29,242)	(29,152)	(36,242)	(19,095)	(15,366)
Administrative expenses		(75,278)	(80,187)	(58,049)	(27,956)	(29,920)
Research and development expense		(14,211)	(15,511)	(19,761)	(9,577)	(14,262)
Finance costs	9	(30,401)	(42,143)	(63,064)	(29,851)	(32,453)
Profit before taxation	10	51,887	43,257	56,957	41,348	26,725
Taxation	12	(10,275)	(9,671)	(13,004)	(10,426)	(4,064)
Profit for the year/period from continuing operation		41,612	33,586	43,953	30,922	22,661
Discontinued operation	13					
Loss for the year/period from discontinued operation		(14,666)	—	—	—	—
Profit for the year/period		26,946	33,586	43,953	30,922	22,661

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Other comprehensive (expense) income					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating foreign operations	(33,618)	62,126	(42,295)	(58,997)	(37,067)
Total comprehensive (expense) income for the year/period	(6,672)	95,712	1,658	(28,075)	(14,406)
Profit (loss) for the year/period attributable to owners of the Target Company					
— from continuing operation	40,844	33,159	43,460	30,508	22,384
— from discontinued operation	(14,666)	—	—	—	—
	26,178	33,159	43,460	30,508	22,384
Profit for the year/period attributable to non-controlling interest					
— from continuing operation	768	427	493	414	277
	768	427	493	414	277
	26,946	33,586	43,953	30,922	22,661
Total comprehensive income (expense) for the year/period attributable to owners of the Target Company					
— from continuing operation	7,807	94,247	1,859	(27,557)	(14,119)
— from discontinued operation	(14,666)	—	—	—	—
	(6,859)	94,247	1,859	(27,557)	(14,119)
Total comprehensive income (expense) for the year/period attributable to non-controlling interest					
— from continuing operation	187	1,465	(201)	(518)	(287)
	(6,672)	95,712	1,658	(28,075)	(14,406)

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 30 September
		2017	2018	2019	2019
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*16*	479,438	545,552	510,941	488,716
Right-of-use assets	*17*	—	—	—	11,945
Prepaid lease payments	*18*	11,633	12,327	11,038	—
Deposits paid for acquisition of property, plant and equipment		120,710	128,224	67,380	1,225
Deposit and prepayments for a life insurance policy	*19*	5,190	5,410	—	—
Financial assets at fair value through profit or loss ("FVTPL")	*19*	—	—	5,633	5,724
Rental deposits	*20*	—	—	129	115
Other receivable	*20*	1,895	—	—	—
		618,866	691,513	595,121	507,725
Current assets					
Inventories	*21*	172,274	280,504	241,318	205,320
Trade and other receivables	*20*	596,085	651,736	656,481	417,489
Prepaid lease payments	*18*	490	542	507	—
Amount due from ultimate holding company	*22*	206,380	278,321	535,364	1,207,655
Taxation recoverable		—	—	443	—
Pledged bank deposits	*23*	8,720	2,382	10,245	5,643
Bank balances and cash	*23*	103,588	202,050	166,870	117,065
		1,087,537	1,415,535	1,611,228	1,953,172

		As at 31 March			As at 30 September
		2017	2018	2019	2019
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade and other payables	*24*	261,602	256,885	257,102	204,329
Contract liabilities	*25*	1,183	469	283	457
Lease liabilities	*27*	—	—	—	597
Amount due to ultimate holding company	*22*	283,133	283,231	272,673	217,743
Amount due to a fellow subsidiary	*22*	14	21	22	—
Taxation payable		2,146	1,552	623	2,228
Unsecured bank borrowings — amount due within one year	*26*	585,289	802,111	1,044,227	1,463,640
		1,133,367	1,344,269	1,574,930	1,888,994
Net current (liabilities) assets		(45,830)	71,266	36,298	64,178
Total assets less current liabilities		573,036	762,779	631,419	571,903
Non-current liabilities					
Unsecured bank borrowings — amount due after one year	*26*	17,500	207,500	75,000	—
Lease liabilities	*27*	—	—	—	755
Deferred tax liabilities	*28*	5,554	7,585	8,455	8,768
		23,054	215,085	83,455	9,523
Net assets		549,982	547,694	547,964	562,380
Capital and reserves					
Share capital	*29*	10,390	10,390	10,390	10,390
Reserves		531,405	527,652	529,511	544,214
Equity attributable to owners of the Target Company		541,795	538,042	539,901	554,604
Non-controlling interest		8,187	9,652	8,063	7,776
Total equity		549,982	547,694	547,964	562,380

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

		As at 31 March			As at 30 September
		2017	2018	2019	2019
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset					
Investments in subsidiaries	*40*	244,089	244,089	244,089	244,089
Current assets					
Other receivables	*20*	6	7	8	—
Bank balances and cash	*23*	10	12	12	18
		16	19	20	18
Current liabilities					
Amount due to ultimate holding company	*22*	243,783	243,793	243,805	217,743
Amounts due to subsidiaries	*22*	—	—	—	17,957
Amount due to a fellow subsidiary	*22*	—	—	—	8,115
		243,783	243,793	243,805	243,815
Net current liabilities		(243,767)	(243,774)	(243,785)	(243,797)
Total assets less current liabilities		322	315	304	292
Net assets		322	315	304	292
Capital and reserves					
Share capital	*29*	390	390	390	390
Reserves	*30*	(68)	(75)	(86)	(98)
Total equity		322	315	304	292

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company									
	Share capital *HK$'000*	General reserve *HK$'000* *(note a)*	Other reserve *HK$'000* *(note b)*	Capital revaluation reserve *HK$'000* *(note c)*	Enterprise expansion reserve *HK$'000* *(note a)*	Translation reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*	Non-controlling interest *HK$'000*	Total equity *HK$'000*
At 1 April 2016	10,390	8,677	–	112,000	7,182	62,366	348,039	548,654	8,000	556,654
Profit for the year	–	–	–	–	–	–	26,178	26,178	768	26,946
Exchange differences arising on translating foreign operations	–	–	–	–	–	(33,037)	–	(33,037)	(581)	(33,618)
Total comprehensive (expense) income for the year	–	–	–	–	–	(33,037)	26,178	(6,859)	187	(6,672)
At 31 March 2017	10,390	8,677	–	112,000	7,182	29,329	374,217	541,795	8,187	549,982
Profit for the year	–	–	–	–	–	–	33,159	33,159	427	33,586
Exchange differences arising on translating foreign operations	–	–	–	–	–	61,088	–	61,088	1,038	62,126
Total comprehensive income for the year	–	–	–	–	–	61,088	33,159	94,247	1,465	95,712
Dividends paid *(note 15)*	–	–	–	–	–	–	(98,000)	(98,000)	–	(98,000)
At 31 March 2018	10,390	8,677	–	112,000	7,182	90,417	309,376	538,042	9,652	547,694
Profit for the year	–	–	–	–	–	–	43,460	43,460	493	43,953
Exchange differences arising on translating foreign operations	–	–	–	–	–	(41,601)	–	(41,601)	(694)	(42,295)
Total comprehensive (expense) income for the year	–	–	–	–	–	(41,601)	43,460	1,859	(201)	1,658
Transfer	–	3,805	–	–	1,577	–	(5,382)	–	–	–
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	(1,388)	(1,388)
At 31 March 2019	10,390	12,482	–	112,000	8,759	48,816	347,454	539,901	8,063	547,964
Profit for the period	–	–	–	–	–	–	22,384	22,384	277	22,661
Exchange differences arising on translating foreign operations	–	–	–	–	–	(36,503)	–	(36,503)	(564)	(37,067)
Total comprehensive (expense) income for the period	–	–	–	–	–	(36,503)	22,384	(14,119)	(287)	(14,406)
Waiver of current account by ultimate holding company	–	–	28,822	–	–	–	–	28,822	–	28,822
At 30 September 2019	10,390	12,482	28,822	112,000	8,759	12,313	369,838	554,604	7,776	562,380
At 1 April 2018	10,390	8,677	–	112,000	7,182	90,417	309,376	538,042	9,652	547,694
Profit for the period (unaudited)	–	–	–	–	–	–	30,508	30,508	414	30,922
Exchange differences arising on translating foreign operations (unaudited)	–	–	–	–	–	(58,065)	–	(58,065)	(932)	(58,997)
Total comprehensive (expense) income for the period (unaudited)	–	–	–	–	–	(58,065)	30,508	(27,557)	(518)	(28,075)
Transfer (unaudited)	–	3,153	–	–	1,603	–	(4,756)	–	–	–
Dividend paid to non-controlling interest (unaudited)	–	–	–	–	–	–	–	–	(1,411)	(1,411)
At 30 September 2018 (unaudited)	10,390	11,830	–	112,000	8,785	32,352	335,128	510,485	7,723	518,208

Notes:

(a) The general reserve and enterprise expansion reserve are non-distributable and the transfer to these reserves are determined according to the relevant laws in the People's Republic of China (the "PRC") and by the board of directors of the PRC subsidiaries in accordance with the Articles of Association of these subsidiaries. They can be used to make up for previous years' losses or convert into additional capital of the PRC subsidiaries of the Target Company.

(b) The ultimate holding company has waived its current account with Linkz Industries Technology Limited.

(c) Capital revaluation reserve represents the difference between the consideration paid by Linkz Industries Limited, the ultimate holding company, for the acquisition of equity interest in a subsidiary, Hover Manufacturing Company Limited, and its carrying amount.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Operating activities					
Profit for the year/period	26,946	33,586	43,953	30,922	22,661
Adjustments for:					
Taxation	10,275	9,671	13,004	10,426	4,064
Interest income from bank deposits	(294)	(332)	(270)	(130)	(161)
Interest expenses	30,401	42,143	63,064	29,851	32,453
Depreciation of property, plant and equipment	39,749	33,184	35,223	18,142	16,573
Depreciation of right-of-use assets	—	—	—	—	564
Amortisation of life insurance expenses	184	38	—	—	—
Imputed interest income from deposit placed for life insurance policy	(688)	(174)	—	—	—
Gain on changes in fair value of financial assets at FVTPL	—	—	(182)	(89)	(98)
Loss (gain) on disposal/write-off of property, plant and equipment	13,226	86	(252)	49	—
Amortisation of prepaid lease payments	516	511	509	259	—
Fair value loss on foreign currency forward contracts	1,450	—	—	—	—
Operating cash flows before movements in working capital	121,765	118,713	155,049	89,430	76,056
(Increase) decrease in inventories	(34,992)	(88,593)	24,467	38,822	24,827
(Increase) decrease in trade and other receivables	(54,235)	(31,511)	(24,364)	21,090	224,570
Increase (decrease) in trade and other payables	35,377	(14,808)	6,982	65,526	(43,015)
Increase (decrease) in contract liabilities	779	(792)	(156)	(319)	190
Cash generated from (used in) operations	68,694	(16,991)	161,978	214,549	282,628
Hong Kong Profits Tax paid	(509)	(1,266)	(1,866)	(278)	(390)
PRC Enterprise Income Tax paid	(5,923)	(7,128)	(11,683)	(6,885)	(1,264)
Net cash from (used in) operating activities	62,262	(25,385)	148,429	207,386	280,974

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Investing activities					
Purchases of property, plant and equipment	(16,036)	(35,077)	(34,374)	(16,724)	(21,573)
Proceeds from disposal of property, plant and equipment	586	430	3,566	368	—
Withdrawal of pledged bank deposits	—	16,440	11,609	2,042	9,613
Placement of pledged bank deposits	(8,950)	(9,588)	(19,655)	(7,696)	(5,488)
Payment for foreign currency forward contracts	(5,181)	—	—	—	—
Deposit paid for acquisition of property, plant and equipment	(75,441)	(57,286)	(447)	—	(1,264)
Refund of deposits paid for property, plant and equipment	—	33,880	61,990	16,100	—
Interest received from bank deposits	294	332	270	130	161
Repayment from ultimate holding company	207,094	181,994	231,292	29,955	257,644
Advance to ultimate holding company	(171,688)	(351,931)	(488,340)	(351,516)	(892,015)
Net cash used in investing activities	(69,322)	(220,806)	(234,089)	(327,341)	(652,922)
Financing activities					
Advance from ultimate holding company	139	98	1,365	—	45
Repayment to ultimate holding company	(3,838)	—	(11,923)	(10,593)	(80)
Repayment to a fellow subsidiary	(22,510)	—	—	—	(22)
Advance from a fellow subsidiary	14	7	1	1	—
New bank borrowings raised	2,436,124	3,045,426	2,944,822	1,831,829	1,870,438
Repayment of bank borrowings	(2,412,859)	(2,686,332)	(2,796,660)	(1,767,552)	(1,506,830)
Interest paid	(30,401)	(42,143)	(63,064)	(29,851)	(32,453)
Payment of lease liabilities	—	—	—	—	(274)
Net cash (used in) from financing activities	(33,331)	317,056	74,541	23,834	330,824
Net (decrease) increase in cash and cash equivalents	(40,391)	70,865	(11,119)	(96,121)	(41,124)
Cash and cash equivalents at beginning of the year/period	153,906	102,829	189,923	189,923	166,854
Effect of foreign exchange rate changes	(10,686)	16,229	(11,950)	(27,848)	(17,930)
Cash and cash equivalents at end of the year/ period	102,829	189,923	166,854	65,954	107,800
Analysis of the balance of cash and cash equivalents					
Bank balances and cash	103,588	202,050	166,870	76,723	117,065
Bank overdrafts	(759)	(12,127)	(16)	(10,769)	(9,265)
	102,829	189,923	166,854	65,954	107,800

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

Linkz Cables Limited (the ''Target Company'') was incorporated and registered as an exempted company with limited liability in the British Virgin Islands (''BVI'') on 5 December 2006. The ultimate and immediate holding company is Linkz Industries Limited (''Linkz Industries''), which is incorporated in Hong Kong. Its ultimate controlling shareholder is Mr. Lo Chung Wai, Paul, who is also the director of the Target Company.

The Target Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 40. The addresses of the registered office and the principal place of business of the Target Company are 2nd Floor, Abbott Building, Road Town, Tortola, British Virgin Islands and Unit 601, Photonics Centre, 2 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong, respectively.

The Historical Financial Information is presented in Hong Kong dollars (''HK$'') while the functional currency of the Target Company is United States dollars (''USD''). The reason for selecting HK$ as the Target Company's presentation currency is that the directors of the Target Company consider that it is more relevant to the users of the Historical Financial Information as the holding company is a Hong Kong company.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and the principle of merger accounting under Accounting Guideline 5 ''Merger Accounting for Common Control Combination (''AG 5'')'' issued by HKICPA.

The Target Company and its subsidiaries resulting from reorganisation (the ''Combined Group'') are under the common control by Linkz Industries. Prior to the reorganisation, the Target Company, Hover Manufacturing Co., Ltd. (''Hover Manufacturing'') and Linkz International Limited (''Linkz International'') were directly wholly owned subsidiaries of Linkz Industries. As part of the reorganisation, the entire equity interest in Hover Manufacturing held by Links Industries, is transferred to the Target Company and the operating business of Linkz International is transferred to Linkz Technology Limited (''Linkz Technology''), a wholly owned subsidiary of the Target Company as detailed in Step 3 below. The reorganisation will be implemented before the completion of the Company's acquisition of the Target Company (the ''Date of the Reorganisation''). Since then, the Target Company became the holding company of the companies now comprising the Combined Group on the Date of the Reorganisation. Major steps of the reorganisation (''Combined Group Reorganisation'') include the following:

Step 1: On 3 January 2020, a wholly owned subsidiary of the Target Company, Linkz Industries Technology Limited is deregistered.

Step 2: On the Date of the Reorganisation, the entire issued share capital in Hover Manufacturing is transferred from Linkz Industries to the Target Company.

Step 3: On the Date of the Reorganisation, pursuant to the sales and purchase agreement dated 24 March 2020 (the ''Agreement'') entered into between Time Interconnect Technology Limited and Linkz Industries in relation to the acquisition of the entire issued share capital of the Target Company and the companies to be subsidiaries of Target Company upon Completion of the reorganisation (the ''Transaction''), Linkz International transferred its business of trading of networking cables by way of transfer of certain assets and liabilities (mainly comprised property, plant and equipment, trade and other receivables, inventories, trade and other payables, etc) to Linkz Technology at a consideration equivalent to the carrying amounts of these assets and liabilities at the Date of the Reorganisation (''Assets and Liabilities Transfer''). Upon completion of Assets and Liabilities Transfer, the operating business in Linkz International is transferred to Linkz Technology and Linkz International did not form part of the Combined Group by then.

The Combined Group resulting from the Combined Group Reorganisation continued to be controlled by Linkz Industries and is regarded as a continuing entity. Accordingly, the combined statements of profit or loss and other comprehensive income, and the combined statements of cash flows of the Combined Group for the Relevant Periods have been prepared to include the results, changes in equity and cash flows and the combined statements of changes in equity of the entities now comprising the Combined Group as if the group structure upon the completion of the Combined Group reorganisation had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position of the Combined Group as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019 have been prepared to present the assets and liabilities of the entities now comprising the Combined Group as if the current group structure upon completion of the Combined Group reorganisation had been in existence at those dates taking into account their respective dates of incorporation/establishment or their respective dates of disposal whichever is applicable. The Historical Financial Information also includes the non-core business of Linkz International that does not form part of the business of trading of networking cables and the financial information of Linkz Industries Technology Limited. After the Assets and Liabilities Transfer as described in Step 3 above, the non-core business retained by Linkz International will no longer form part of the Combined Group, and Linkz Industries Technology Limited will no longer form part of the Combined Group as it was deregistered on 3 January 2020 as described in Step 1 above as part of Combined Group Reorganisation. In addition, the financial information of Linkz Inc. is not consolidated in accordance with Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements" issued by the HKICPA as the effect of which is immaterial.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Combined Group has consistently applied HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations) issued by HKICPA that are effective for the accounting period beginning on 1 April 2019 throughout the Relevant Periods except that the Combined Group adopted HKFRS 9 "Financial Instruments" since 1 April 2018, applied HKAS 39 "Financial Instruments: Recognition and Measurement" for the years ended 31 March 2017 and 31 March 2018 and adopted HKFRS 16 "Leases" on 1 April 2019. Specifically, the Combined Group has adopted HKFRS 15 "Revenue from Contracts with Customers" on a consistent basis throughout the Relevant Periods. The accounting policies for financial instruments under HKFRS 9 and HKAS 39 are set out in note 4 below.

HKFRS 9 "Financial Instruments" and the related amendments

Since 1 April 2018, the Combined Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Combined Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Summary of effects arising from initial application of HKFRS 9

(a) Classification and measurement of financial assets

The management of the Combined Group reviewed and assessed the Combined Group's financial assets and financial liabilities as at 1 April 2018 based on the facts and circumstances that existed at that date. All financial assets previously classified as loans and receivables are now classified as financial assets at amortised cost or financial assets at FVTPL. There is no material impact on the measurement on the Combined Group's financial assets as at 1 April 2018.

(b) Impairment under ECL model

As at 1 April 2018, the management of the Combined Group reviewed and assessed the Combined Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

The Combined Group has applied the HKFRS 9 simplified approach to measure ECL using a lifetime ECL for trade and bills receivables (including trade receivables, trade receivables from fellow subsidiaries and bills receivables). To measure the ECL, the Combined Group assessed individually for trade and bills receivables. ECL for other financial assets at amortised cost, including other receivables, rental deposits, amount from ultimate holding company, deposit for life insurance, pledged bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

For financial guarantees provided to the ultimate holding company of HK$242,529,000 and HK$301,245,000 as at 31 March 2019 and 30 September 2019, the Combined Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is assessed on 12m ECL basis.

As at 1 April 2018, the management of the Combined Group reviewed and assessed the Combined Group's existing financial assets and the financial guarantees for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment allowance was recognised at 1 April 2018.

(c) Financial assets designated as at FVTPL

At the date of initial application of HKFRS 9, deposit and prepayments for a life insurance policy of HK$5,448,000 has been classified as financial assets at FVTPL as these financial assets have contractual right to cash flows that do not represent contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The fair value change related as at 1 April 2018 was insignificant and no adjustment was made to the opening accumulated profits.

HKFRS 16 "Leases"

The Combined Group has applied HKFRS 16 "Leases" on 1 April 2019. HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretation when it becomes effective. HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

The Combined Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)–Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Combined Group has not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Combined Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and recognise the right-of-use asset at an amount equal to lease liabilities without restating comparative information.

Details of these new requirements are described in note 4.

Upon the application of HKFRS 16, the Combined Group recognises the right-of-use asset of HK$1,720,000 on 1 April 2019 at an amount equal to the lease liability, which is measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application, and adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the combined statement of financial position immediately before the date of initial application.

When measuring lease liabilities, the Combined Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The incremental borrowing rate applied is 4.75%.

	At 1 April 2019
	HK$'000
Operating lease commitments disclosed as at 31 March 2019	2,694
Less: Practical expedient — leases with lease term ending within 12 months from the date of initial application	831
	1,863
Lease liabilities discounted at relevant incremental borrowing rate as at 1 April 2019	1,720
Analysed as:	
Current	573
Non-current	1,147
	1,720

The carrying amount of right-of-use assets for own use as at 1 April 2019 comprises the following:

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	1,720
Reclassified from prepaid lease payments *(Note a)*	11,545
Adjustments on rental deposits at 1 April 2019 *(Note b)*	9
	13,274
By class:	
Leasehold land	11,545
Leasehold properties	1,729
	13,274

The following adjustments were made to the amounts recognised in the combined statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 March 2019	Adjustments	Carrying amounts under HKFRS 16 at 1 April 2019
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Prepaid lease payments *(Note a)*	11,038	(11,038)	—
Right-of-use assets *(Notes a and b)*	—	13,274	13,274
Rental deposits *(Note b)*	129	(9)	120
Current assets			
Prepaid lease payments *(Note a)*	507	(507)	—
Current liabilities			
Lease liabilities	—	(573)	(573)
Non-current liabilities			
Lease liabilities	—	(1,147)	(1,147)

Notes:

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 March 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$507,000 and HK$11,038,000 respectively were reclassified to right-of-use assets.

(b) Before the application of HKFRS 16, the Combined Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$9,000 was adjusted to refundable rental deposits paid and right-of-use assets.

The transition to HKFRS 16 resulted in no material impact on accumulated profits at 1 April 2019.

New and amendments HKFRSs in issue but not yet effective

The Combined Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the management of the Combined Group anticipate that the application of all other new and amendments to HKFRSs and interpretation will have no material impact on the financial statements of the Combined Group in the foreseeable future.

Amendments to HKFRS 3 *Definition of a Business*

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The application of the amendments is not expected to have significant impact on the financial position and performance of the Combined Group but may affect the presentation and disclosures in the financial statements.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Combined Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Combined Group but may affect the presentation and disclosures in the financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Combined Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information have been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Combined Group takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payments", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 April 2019) or HKAS 17 "Leases" (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of combination

The Historical Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company (its subsidiaries). Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Combined Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Combined Group obtains control over the subsidiary and ceases when the Combined Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the combined statement of profit or loss and other comprehensive income from the date the Combined Group gains control until the date when the Combined Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Combined Group and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Combined Group and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Combined Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Combined Group are eliminated in full on combination.

Non-controlling interest in a subsidiary is presented separately from the Combined Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The combined statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

Investments in subsidiaries

Investments in subsidiaries are included in the Target Company's statements of financial position at cost less any identified impairment loss.

Revenue from contracts with customers

The Combined Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Combined Group's performance as the Combined Group performs;
- the Combined Group's performance creates or enhances an asset that the customer controls as the Combined Group performs; or
- the Combined Group's performance does not create an asset with an alternative use to the Combined Group and the Combined Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Combined Group's obligation to transfer goods or services to a customer for which the Combined Group has received consideration (or an amount of consideration is due) from the customer.

A point in time revenue recognition

The revenue of the Combined Group is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from sales of goods to the Combined Group's customers in connection with the production of networking cables are recognised when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Property, plant and equipment

Property, plant and equipment including buildings held for use in production of goods, or for administrative purpose are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Ownership interests in leasehold land and building

When the Combined Group makes payments for a property interest which includes both leasehold land and building elements. Specifically, the entire consideration (including any lump-sum upfront payments) is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the combined statements of financial position and is amortised over the lease term on a straight-line basis. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire property is generally classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of items of assets less their residual values over their estimated useful lives, using the straight-line method or reducing balance method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Combined Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Combined Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Combined Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

The Combined Group applies the short-term lease recognition exemption to leases of warehouse and staff quarter that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Combined Group; and
- an estimate of costs to be incurred by the Combined Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Combined Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Combined Group presents right-of-use assets as a separate line item on the combined statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Combined Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Combined Group under residual value guarantees;
- the exercise price of a purchase option if the Combined Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Combined Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Combined Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Combined Group presents lease liabilities as a separate line item on the combined statements of financial position.

The Combined Group as a lessee (prior to 1 April 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Government grants

Government grants are not recognised until there is reasonable assurance that the Combined Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Combined Group with no future related costs are recognised in profit or loss in the Relevant Periods in which they become receivable.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the Relevant Periods in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial assets or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9 initial recognition of a financial asset the Combined Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Combined Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Combined Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes interest earned but excludes any dividend earned on the financial asset and is included in the other gains and losses line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3)

The Combined Group performs impairment assessment under ECL model on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amount due from ultimate holding company, pledged bank deposits and bank balances) and other items (financial guarantee contracts) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Combined Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Combined Group always recognises lifetime ECL for trade receivables. The ECL on these assets is assessed individually.

For all other instruments, the Combined Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Combined Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Combined Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Combined Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Combined Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Combined Group has reasonable and supportable information that demonstrates otherwise.

The Combined Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Combined Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Combined Group, in full.

Irrespective of the above, the Combined Group considers that default has occurred when a financial asset is more than 90 days past due unless the Combined Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(iv) Write-off policy

The Combined Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Combined Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Combined Group in accordance with the contract and the cash flows that the Combined Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Combined Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Combined Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Combined Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for financial guarantee contracts, the Combined Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 April 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposit and prepayments for a life insurance policy, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Deposit and prepayments for a life insurance policy (before application of HKFRS 9 on 1 April 2018)

The life insurance policy (the ''Policy'') exposes the insurer to significant insurance risk. The Policy is initially recognised at the gross premium paid at inception of the Policy and are subsequently measured at the account value of the Policy (the ''Account Value''). Account value is the cash value net of surrender charge. Changes to the Account Value at the end of each reporting period (representing imputed interest income after deducting the annual cost of insurance and other applicable charges) are recognised in profit or loss. In the event of death of the insured person, the surrender of the Policy, or the Policy matures, the Policy will be derecognised and any resulting gain or loss will be recognised in profit or loss.

Impairment of financial assets (before application of HKFRS 9 on 1 April 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimate future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Combined Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets 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. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with 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 Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a fellow subsidiary/ultimate holding company and unsecured bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially measured at their fair values and are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKFRS 9 (since 1 April 2018) or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 April 2018); and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition

The Combined Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Combined Group derecognises financial liabilities when, and only when, the Combined Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designed and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Impairment loss on assets other than financial assets

At the end of the reporting period, the Combined Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Combined Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In addition, the Combined Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Combined Group compares the carrying amount of a group of cashgenerating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. An impairment loss its recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in each of the reporting period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Company's foreign operations are translated into the presentation currency of the Target Company (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

Provisions

Provisions are recognised when the Combined Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Combined Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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 added to 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 reporting periods in which they are incurred.

Retirement benefits costs

Payments to government-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before taxation" as reported in the combined statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Combined Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical 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 assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Combined Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Combined Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Combined Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temparary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Combined Group's accounting policies, which are described in Note 4, the management of the Combined Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumption concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is described below.

Impairment assessment of trade receivables

Before the application of HKFRS 9 on 1 April 2018, in determining the recoverability of the trade receivables, the Combined Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the end of each reporting period.

As at 31 March 2017 and 31 March 2018, the carrying amounts of trade receivables are HK$461,869,000 and HK$492,598,000 respectively. Details of trade receivables are set out in note 20. No loss allowance was recognised during the years ended 31 March 2017 and 31 March 2018.

The information about the impairment assessment are disclosed in note 20.

Upon application of HKFRS 9, the management of the Combined Group estimates the amount of lifetime ECL of trade receivables (including trade and bills receivables and trade receivables from fellow subsidiaries) based on individual assessment, after considering the financial background and the historical settlement records, including the past due dates and default rates of each trade receivable. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. As at 31 March 2019 and 30 September 2019, the carrying amounts of trade receivables are HK$500,801,000 and HK$374,318,000 and no loss allowance was recognised during the year ended 31 March 2019, six months ended 30 September 2018 (unaudited) and 30 September 2019. The information about the impairment assessment of ECL on the Combined Group's trade receivables are disclosed in notes 20 and 36.

Assessment of the net realisable value of inventories

Inventories are stated at the lower of cost and net realisable values. The management of the Combined Group is required to exercise judgement in estimating the net realisable value with reference to the ageing analysis of inventories and recent or subsequent usages or sales of inventories. Where the expectation on net realisable value is lower than the cost for certain items, a write down of inventories may arise.

As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the carrying amounts of inventories are HK$172,274,000, HK$280,504,000, HK$241,318,000 and HK$205,320,000. During the years ended 31 March 2017, 31 March 2018, 31 March 2019 and six months ended 30 September 2018 (unaudited) and 30 September 2019, no obsolete inventories are written off.

Estimated useful lives of property, plant and equipment

The Combined Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment as disclosed in note 16. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Combined Group.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable by the Combined Group in respect of the manufacturing and sales of Lan cable products during the years ended 31 March 2017, 31 March 2018, 31 March 2019 and six months ended 30 September 2018 and 30 September 2019. For the purposes of resources allocation and performance assessment, the chief operating decision maker (i.e. the management of the Combined Group) reviews the overall results and financial position of the Combined Group as a whole prepared based on same accounting policies as set out in note 4. Accordingly, the Combined Group has only one single operating segment and no further analysis of this single segment is presented.

The revenue of the Combined Group derives from manufacturing and sales of Lan cable products. The Combined Group's revenue is fixed price and short term contracts.

All the revenue of the Combined Group is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from sales of goods to the Combined Group's customers in connection with the production of Lan cable products are recognised when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

All sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment information

Revenue from its major products

The following is an analysis of the Combined Group's revenue by products:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cat 6/6A cables	913,840	1,001,464	1,035,780	508,009	476,538
Cat 5/5e cables	295,555	310,217	256,605	136,713	120,826
Cat 7/7A cables	43,965	91,462	264,176	190,876	88,375
Others	74,938	95,554	119,996	58,521	49,601
	1,328,298	1,498,697	1,676,557	894,119	735,340

Geographical information

Information about the Combined Group's revenue from external customers presented based on the geographic location of the operations of the customers is as follows:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
PRC	565,716	714,902	879,199	487,198	384,194
Singapore	139,953	167,776	185,452	83,924	72,498
Hong Kong	135,263	182,227	175,334	92,644	77,563
India	104,672	44,079	25,547	14,706	8,004
The United States of America	90,663	90,812	85,039	41,498	50,505
United Kingdom	76,919	96,266	129,516	64,098	67,350
Others	215,112	202,635	196,470	110,051	75,226
	1,328,298	1,498,697	1,676,557	894,119	735,340

Information about the Combined Group's non-current assets (excluding rental deposits, other receivable, deposit and prepayments for a life insurance policy and financial assets at FVTPL) is presented based on the geographical location of the assets:

	Year ended 31 March			Six months ended 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	587,602	678,570	582,502	495,257
Hong Kong	24,179	7,533	6,857	6,629
	611,781	686,103	589,359	501,886

Information about major customers

Revenues from customers of the corresponding years/periods contributing over 10% of the total revenue of the Combined Group during the Relevant Periods are as follows:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Customer A	414,312	560,218	540,640	260,315	243,868
Customer B	263,124	305,333	399,570	188,153	173,859
Customer C	192,635	N/A*	N/A*	N/A*	N/A*
Customer D	137,262	N/A*	N/A*	N/A*	N/A*

* The corresponding revenue did not contribute over 10% of the total revenue of the Combined Group for the respective year/period.

7. OTHER INCOME

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Bank interest income	294	332	270	130	161
Imputed interest income from deposits and prepayments for a life insurance policy	688	174	—	—	—
Government grants *(note)*	986	3,583	3,053	—	174
Others	250	299	345	51	89
	2,218	4,388	3,668	181	424

Note: Government grant represent export and other incentive payment received by the Combined Group from relevant government departments. There is no unfulfilled conditions attached to these grants.

8. OTHER GAINS AND LOSSES

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net foreign exchange gain (loss)	5,870	(5,567)	953	5,032	11,611
(Loss) gain on disposal/write off of property, plant and equipment	(2,470)	(86)	252	(49)	—
Fair value loss on foreign currency forward contracts	(1,450)	—	—	—	—
Gain on change in fair value of financial assets at FVTPL	—	—	182	89	98
	1,950	(5,653)	1,387	5,072	11,709

9. FINANCE COSTS

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interest on bank overdrafts and bank borrowings	30,401	42,143	63,064	29,851	32,413
Interest on lease liabilities	—	—	—	—	40
	30,401	42,143	63,064	29,851	32,453

10. PROFIT BEFORE TAXATION

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Continuing operation					
Profit before taxation has been arrived at after charging:					
Directors' emoluments *(note 11)*	—	—	—	—	—
Other staff costs	78,859	82,782	106,645	54,912	52,134
Retirement benefits schemes contributions for other staff	6,875	9,579	11,696	5,719	6,104
Total staff costs	85,734	92,361	118,341	60,631	58,238
Less: included in cost of goods sold	(62,205)	(67,640)	(77,745)	(40,541)	(37,817)
Less: included in research and development expenses	(2,211)	(2,390)	(4,043)	(2,075)	(2,158)
	21,318	22,331	36,553	18,015	18,263
Depreciation of property, plant and equipment *(note 16)*	34,785	33,184	35,223	18,142	16,573
Depreciation of right-of-use assets *(note 17)*	—	—	—	—	564
Less: included in cost of goods sold	(30,816)	(28,993)	(31,432)	(16,034)	(15,180)
	3,969	4,191	3,791	2,108	1,957
Amortisation of life insurance expenses	184	38	—	—	—
Amortisation of prepaid lease payment *(note 18)*	516	511	509	259	—
Auditor's remuneration	846	811	754	380	373
Cost of inventories recognised as an expense	1,131,447	1,287,182	1,447,539	771,545	628,747
Operating lease rental in respect of rented premises	3,353	3,854	2,895	1,377	—
Short-term leases expense	—	—	—	—	1,348
Research and development expenses	14,211	15,511	19,761	9,577	14,262

11. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES ' EMOLUMENTS

(a) Directors' and executive's emoluments

The emoluments were paid or payable to these directors of the Target Company (including emoluments for services as employees/directors of the group entities prior to becoming directors of the Target Company) by the entities comprising the Combined Group during the Relevant Periods are as follows:

For the year ended 31 March 2017

	Fees	Salaries and allowance	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors					
Lo Chung Wai, Paul	—	—	—	—	—
Sy Yuk Tsan	—	—	—	—	—
Ho Chun Chung, Patrick	—	—	—	—	—
Cua Tin Yin, Simon	—	—	—	—	—
	—	—	—	—	—

For the year ended 31 March 2018

	Fees	Salaries and allowance	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors					
Lo Chung Wai, Paul	—	—	—	—	—
Sy Yuk Tsan	—	—	—	—	—
Ho Chun Chung, Patrick	—	—	—	—	—
Cua Tin Yin, Simon	—	—	—	—	—
	—	—	—	—	—

For the year ended 31 March 2019

	Fees	Salaries and allowance	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors					
Lo Chung Wai, Paul	—	—	—	—	—
Sy Yuk Tsan	—	—	—	—	—
Ho Chun Chung, Patrick	—	—	—	—	—
Cua Tin Yin, Simon (resigned on 2 May 2018)	—	—	—	—	—
	—	—	—	—	—

For the six months ended 30 September 2018 (unaudited)

	Fees	Salaries and allowance	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors					
Lo Chung Wai, Paul	—	—	—	—	—
Sy Yuk Tsan	—	—	—	—	—
Ho Chun Chung, Patrick	—	—	—	—	—
Cua Tin Yin, Simon (resigned on 2 May 2018)	—	—	—	—	—
	—	—	—	—	—

For the six months ended 30 September 2019

	Fees	Salaries and allowance	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors					
Lo Chung Wai, Paul	—	—	—	—	—
Sy Yuk Tsan	—	—	—	—	—
Ho Chun Chung, Patrick (resigned on 1 July 2019)	—	—	—	—	—
	—	—	—	—	—

Certain directors of the Combined Group are also directors of the ultimate holding company and received their emoluments from ultimate holding company for the years ended 31 March 2017, 31 March 2018 and 31 March 2019 and six months ended 30 September 2018 (unaudited) and 30 September 2019.

The directors' emoluments shown above were for their services in connection with the management of the affairs of the Combined Group and the Target Company.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Combined Group, none was directors of the Target Company for the years ended 31 March 2017, 31 March 2018, 31 March 2019 and six months ended 30 September 2018 (unaudited) and 30 September 2019 whose emoluments are included in the disclosures above. The emoluments of the five highest paid employees who are neither a director nor the chief executive of the Target Company are as follows:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries and allowance	2,692	2,901	5,271	2,646	2,696
Performance related incentive payments	669	712	1,704	855	882
Retirement benefits scheme contributions	294	319	198	100	102
	3,655	3,932	7,173	3,601	3,680

The performance related bonus are determined with reference to the operating results and individual performance during the Relevant Periods.

The number of the highest paid employees who are not directors of the Target Company whose remuneration fell within the following bands is as follows:

	Number of individuals				
	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018** (unaudited)	**2019**
Nil to HK$1,000,000	5	5	2	4	4
HK$1,000,001 to HK$1,500,000	—	—	1	1	1
HK$1,500,001 to HK$2,000,000	—	—	1	—	—
HK$2,500,001 to HK$3,000,000	—	—	1	—	—
	5	5	5	5	5

Certain employees of the Combined Group are also employees of the ultimate holding company and received their emoluments for the years ended 31 March 2017 and 31 March 2018. Such amounts are reimbursed through charge of management fee to the Combined Group by the ultimate holding company, as disclosed in note 39.

During the Relevant Periods, no emoluments were paid by the Combined Group to the directors of the Target Company or the five highest paid individuals (including directors, chief executive and employees), as an inducement to join or upon joining the Combined Group or as compensation for loss in office. None of the directors of the Target Company waived any emoluments during the Relevant Periods.

12. TAXATION

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Hong Kong Profits Tax					
Current tax	1,093	1,530	1,596	729	395
PRC Enterprise Income Tax ("EIT")					
Current tax	9,133	6,425	7,274	5,943	3,356
Overprovision in respect of prior years	(459)	(315)	(390)	—	—
Withholding tax	—	—	3,654	3,654	—
	9,767	7,640	12,134	10,326	3,751
Deferred tax *(note 28)*	508	2,031	870	100	313
	10,275	9,671	13,004	10,426	4,064

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of subsidiaries operating in Hong Kong for the Relevant Periods.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the Relevant Periods. The withholding tax is charged at 10% of dividend income received from subsidiaries incorporated in PRC for the year ended 31 March 2019 and six months ended 30 September 2018.

Pursuant to the relevant laws and regulations in the PRC, one entity of the Combined Group operating in the PRC was awarded the Advanced-Technology Enterprise Certificate and is eligible for tax concessionary rate of 15% for the years ended 31 March 2017, 31 March 2018, 31 March 2019 and six months ended 30 September 2018 and 30 September 2019. Since 1 January 2019, another two entities operating in the PRC are qualified as small and micro enterprises and are entitled to a reduced EIT rate of 20% on 25% of its first RMB 1 million taxable income. For the portion over first RMB 1 million and up to RMB 3 million, only 50% of the taxable income would be taxed at a reduced EIT rate of 20%.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim an additional 50%, 50%, 75%, 75% and 75% for the years ended 31 December 2017, 31 December 2018, 31 December 2019 and six months ended 30 September 2018 and 30 September 2019 respectively of their research and development expense so incurred as tax deductible expenses when determining their assessable profits for the respective year/period ("Super Deduction"). The Combined Group has made its best estimate for the Super Deduction to be claimed for the Combined Group's entities in ascertaining their assessable profits for the respective year/period ended.

Taxation for the Relevant Periods can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before taxation	51,887	43,257	56,957	41,348	26,725
Tax charge at Hong Kong Profits Tax at 16.5%	8,561	7,137	9,398	6,822	4,410
Tax effect of expenses not deductible for tax purposes	532	880	438	223	165
Tax effect of income not taxable for tax purposes	(114)	(42)	(343)	(21)	(218)
Effect of tax concessions	(255)	(215)	(319)	(289)	(86)
Effect of different tax rates of subsidiaries in jurisdiction other than Hong Kong	2,096	1,342	1,595	1,055	699
Effect of deductible temporary difference not recognised	—	791	—	—	—
Utilisation of deductible temporary difference previously not recognised	(319)	—	(451)	(249)	(453)
Overprovision in respect of prior years	(459)	(315)	(390)	—	—
Super Deduction for research and development expenses	(339)	(530)	(746)	(403)	(302)
Effect of withholding tax on dividend income from PRC subsidiaries	—	—	3,654	3,654	—
Others	572	623	168	(366)	(151)
Taxation for the year/period	10,275	9,671	13,004	10,426	4,064

13. DISCONTINUED OPERATION

The discontinued operation represented leasing of LED indicators panels.

On 22 March 2017, the management considered deterioration of the LED indicator panels and an amount of HK$10,756,000 was written off during the year ended 31 March 2017. The write-off was recognised during the year ended 31 March 2017.

The loss for the year from the discontinued leasing LED panels operation is set out below.

	Year ended 31 March 2017 HK$'000
Rental income	1,130
Administrative expenses	(5,040)
Loss on write off of property, plant and equipment	(10,756)
Loss for the year	(14,666)

Loss for the year from discontinued operations has been arrived at after charging:

	Year ended 31 March 2017 HK$'000
Depreciation of property, plant and equipment	4,964
Loss on write off of property, plant and equipment	10,756
Auditors' remuneration	30

No tax charge or credit arose on loss on discontinuance of the operations:

During the year ended 31 March 2017, the discontinued operation contributed HK$2,527,000 to the Combined Group's net operating cash inflows and paid HK$2,503,000 in respect of financing activities.

14. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful with regard to the Combined Group Reorganisation and the results for the Relevant Periods that is on a combined basis as set out in note 2.

15. DIVIDENDS

During the year ended 31 March 2017, 2018 and 2019 and six months ended 30 September 2018 and 30 September 2019, Linkz International Limited declared dividends of nil, HK$50,000,000, nil, nil (unaudited) and nil, respectively, and Hover Manufacturing Company Limited declared dividends of and nil, HK$48,000,000, nil, nil (unaudited) and nil, respectively, to their shareholder. The rate of dividends and numbers of shares ranking for the dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

During the year ended 31 March 2017, 2018 and 2019 and six months periods ended 30 September 2018 and 30 September 2019, Linkz Industries (Shanghai) Limited declared dividends of nil, nil, HK$27,761,000, HK$27,761,000 (unaudited) and nil, respectively, Hover (Kunshan) Electronic Material Company Limited declared dividends of nil, nil, HK$8,350,000, HK$8,350,000 (unaudited) and nil respectively and 昆山德勤機械有限公司 declared dividends of nil, nil, HK$11,610,000, HK$11,619,000 (unaudited) and nil, respectively, to their shareholders. The rate of dividends and numbers of shares ranking for the dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

No dividend was paid or declared by the Target Company during the Relevant Periods.

16. PROPERTY, PLANT AND EQUIPMENT

THE COMBINED GROUP

	Buildings	Plant and machinery	Leasehold improvements	Tools and moulds	Motor vehicles	Furnitures, fixtures and equipments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 April 2016	154,346	634,220	20,656	17,009	6,816	95,161	928,208
Currency realignment	(7,644)	(36,249)	(1,365)	(1,028)	(410)	(1,815)	(48,511)
Additions	—	24,041	4,358	1,498	202	729	30,828
Disposals/write off	—	(23,259)	—	(1,247)	(188)	(66,366)	(91,060)
At 31 March 2017	146,702	598,753	23,649	16,232	6,420	27,709	819,465
Currency realignment	13,839	63,340	2,815	1,801	691	2,980	85,466
Additions	529	43,405	4,816	1,354	558	722	51,384
Disposals/write off	—	(1,788)	—	(70)	(404)	(96)	(2,358)
At 31 March 2018	161,070	703,710	31,280	19,317	7,265	31,315	953,957
Currency realignment	(9,685)	(43,085)	(1,476)	(1,237)	(462)	(1,992)	(57,937)
Additions	—	27,156	2,118	2,954	1,041	1,561	34,830
Disposals/write off	—	(5,888)	—	—	(667)	(148)	(6,703)
At 31 March 2019	151,385	681,893	31,922	21,034	7,177	30,736	924,147
Currency realignment	(7,948)	(39,225)	(1,793)	(1,366)	(431)	(1,835)	(52,598)
Additions	—	16,829	1,191	4,031	242	716	23,009
At 30 September 2019	143,437	659,497	31,320	23,699	6,988	29,617	894,558
ACCUMULATED DEPRECIATION							
At 1 April 2016	46,556	246,031	9,809	11,048	4,940	71,574	389,958
Currency realignment	(2,725)	(14,488)	(640)	(668)	(304)	(1,383)	(20,208)
Provided for the year	3,201	26,355	1,503	1,203	420	7,067	39,749
Eliminated on disposals/write off	—	(12,894)	—	(1,005)	(169)	(55,404)	(69,472)
At 31 March 2017	47,032	245,004	10,672	10,578	4,887	21,854	340,027
Currency realignment	5,033	26,608	1,265	1,192	525	2,413	37,036
Provided for the year	3,821	24,127	1,959	1,205	448	1,624	33,184
Eliminated on disposals/write off	—	(1,341)	—	(51)	(364)	(86)	(1,842)
At 31 March 2018	55,886	294,398	13,896	12,924	5,496	25,805	408,405
Currency realignment	(3,480)	(18,000)	(844)	(824)	(349)	(1,641)	(25,138)
Provided for the year	3,107	27,235	2,304	1,021	468	1,088	35,223
Eliminated on disposals/write off	—	(4,551)	—	—	(600)	(133)	(5,284)
At 31 March 2019	55,513	299,082	15,356	13,121	5,015	25,119	413,206
Currency realignment	(3,173)	(17,363)	(812)	(791)	(302)	(1,496)	(23,937)
Provided for the period	1,465	12,787	1,080	570	227	444	16,573
At 30 September 2019	53,805	294,506	15,624	12,900	4,940	24,067	405,842

	Buildings *HK$'000*	Plant and machinery *HK$'000*	Leasehold improvements *HK$'000*	Tools and moulds *HK$'000*	Motor vehicles *HK$'000*	Furnitures, fixtures and equipments *HK$'000*	Total *HK$'000*
CARRYING VALUES							
At 31 March 2017	99,670	353,749	12,977	5,654	1,533	5,855	479,438
At 31 March 2018	105,184	409,312	17,384	6,393	1,769	5,510	545,552
At 31 March 2019	95,872	382,811	16,566	7,913	2,162	5,617	510,941
At 30 September 2019	89,632	364,991	15,696	10,799	2,048	5,550	488,716

Depreciation is provided to write off the cost of items of property, plant and equipment, using straight-line method or reducing balance method over the following useful lives:

Straight-line method:

Leasehold improvements	Over the term of the lease or 5–15 years, whichever is shorter
Tools and moulds	5–10 years
Motor vehicles	5 years
Furnitures, fixtures and equipment	5 years

Reducing balance method:

Buildings	30 years
Plant and machinery	10–15 years

17. RIGHT-OF-USE ASSETS

The Combined Group leased several assets including leasehold lands and leasehold properties for its operations. The lease terms ranges from 3 to 50 years throughout the Relevant Periods.

The Combined Group does not have the option to purchase the leasehold lands and leasehold properties for a nominal amount at the end of lease terms.

	Leasehold lands *HK$'000*	Leasehold properties *HK$'000*	Total *HK$'000*
As at 1 April 2019			
Carrying amount	11,545	1,729	13,274
As at 30 September 2019			
Carrying amount	10,615	1,330	11,945

The total cash outflow for lease amounts to HK$1,662,000 for the six months ended 30 September 2019.

	Leasehold lands	Leasehold properties	Total
	HK$'000	*HK$'000*	*HK$'000*
For the six months ended 30 September 2019			
Depreciation charge for right-of-use assets	258	306	564
Exchange realignment	672	93	765
	930	399	1,329
Interest expenses as lease liabilities	—	40	40

None of the leases for leasehold lands and leasehold properties expired for the six months ended 30 September 2019. There is no addition to right-of-use assets for the six months ended 30 September 2019.

Expense relating to leases with lease term end within 12 months of the date of initial application of HKFRS 16 is HK$1,348,000 for the six months ended 30 September 2019.

18. PREPAID LEASE PAYMENTS

THE COMBINED GROUP

	As at 31 March		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Land use rights situated in the PRC			
At 1 April	13,432	12,123	12,869
Currency realignment	(793)	1,257	(815)
Released to profit or loss	(516)	(511)	(509)
At 31 March	12,123	12,869	11,545
Analysed for reporting purposes as:			
Non-current assets	11,633	12,327	11,038
Current assets	490	542	507
	12,123	12,869	11,545

The prepaid lease payments are amortised using straight-line method over the remaining term of lease.

19. DEPOSIT AND PREPAYMENTS FOR A LIFE INSURANCE POLICY/FINANCIAL ASSETS AT FVTPL

THE COMBINED GROUP

The Combined Group entered into a policy with an insurance company to insure a director of a company of the Combined Group (the "Policy"). Under the Policy, the beneficiary and policy holder is a subsidiary of the Combined Group and the total insured sum is USD2,000,000 (equivalent to HK$15,500,000). At the inception of the policy, the Combined Group paid an upfront payment of USD609,637 (equivalent to HK$4,741,757) and a single premium charge of USD36,578 (equivalent to HK$283,480). The Combined Group will receive cash back based on the account value of the Policy at the date of withdrawal. The Combined Group receives interests at interest rates guaranteed by the insurer.

The management of the Target Company expected that the Policy will be terminated at the 16th policy year in 2026 and there will be no surrender charge in accordance with the Policy. The expected life of the policy remained unchanged from the initial recognition and the management of the Combined Group considered that the financial impact of the option to terminate the Policy was not significant.

The effective interest rate of the deposit is 4.69% and 3.31% for the years ended 31 March 2017 and 31 March 2018 respectively which was determined on initial recognition by discounting the estimated future cash receipts through the expected life of the policy of 16 years. Imputed interest income of HK$688,000 and HK$174,000 was recognised for the years ended 31 March 2017 and 31 March 2018 respectively.

At the date of initial application of HKFRS 9 on 1 April 2018, the Combined Group reclassified the payments for life insurance policy previously carried at amortised cost to financial assets at FVTPL and remeasured at fair value. The management of the Combined Group consider that the carrying amount of the abovementioned life insurance policy which is measured at the account value of the policy approximates its fair value as at 31 March 2019 and 30 September 2019.

	As at 1 April 2018	As at 31 March 2019	As at 30 September 2019
	HK$'000	*HK$'000*	*HK$'000*
Financial assets mandatorily measured at FVTPL:			
Deposit and prepayments for a life insurance policy	5,448	5,633	5,724
Analysed for reporting purposes as:			
Non-current assets	5,448	5,633	5,724

In the opinion of the management of the Target Company, the amount is not expected to be withdrawn within twelve months from the end of each reporting period. Accordingly, the balance is classified as non-current.

20. TRADE AND OTHER RECEIVABLES

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE COMBINED GROUP				
Trade receivables	458,515	491,375	499,793	369,724
Trade receivables from fellow subsidiaries	3,354	1,070	238	1,235
Bills receivables	—	153	770	3,359
Trade and bills receivable	461,869	492,598	500,801	374,318
Deposits and prepayments to suppliers	111,057	126,044	134,232	21,111
Other receivables	9,071	6,372	1,740	3,037
Value added tax receivable	6,298	11,589	11,350	6,672
Deposit and prepayments for a life insurance policy — current	56	38	—	—
Deposits and prepayments	9,629	15,095	8,487	12,466
Deposit and prepayments and other receivables	136,111	159,138	155,809	43,286
Total trade and other receivables	597,980	651,736	656,610	417,604
Less: Amount shown as non-current asset				
Rental deposits	—	—	129	115
Other receivable	1,895	—	—	—
	596,085	651,736	656,481	417,489

As at 1 April 2016, the Combined Group's trade receivables, trade receivables from fellow subsidiaries and bills receivables were HK$395,463,000, HK$53,062,000 and nil, respectively.

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE TARGET COMPANY				
Other receivables	6	7	8	—

The Combined Group allows an average credit period of ranging from 30 days to 150 days to its trade customers. Before accepting any new customers, the Combined Group will internally assess the credit quality of the potential customers and define appropriate credit limits. The ageing analysis of trade and bills receivables, based on invoice date which approximates revenue recognition date, at the end of each reporting period is as follows:

The following is an aging analysis of trade and bills receivables presented based on invoice date:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	224,704	243,383	189,626	130,056
31–60 days	97,252	97,224	128,884	116,251
61–90 days	118,322	123,493	145,543	97,603
91–180 days	20,184	26,861	34,304	27,627
Over 180 days	1,407	1,637	2,444	2,781
	461,869	492,598	500,801	374,318

Included in the Combined Group's trade receivable balances are trade receivables of HK$12,410,000 and HK$9,709,000 which are past due at 31 March 2017 and 31 March 2018, respectively, for which the Combined Group has not provided for impairment loss. The Combined Group does not hold any collateral over these balances at the end of each reporting period. In determining the recoverability of the trade receivables, the Combined Group monitors change in the credit quality of the trade receivables since the credit was granted and up to the end of each reporting period. The trade receivables that are past due but not impaired at the end of each reporting period were either subsequently settled or had no historical default of payments and the management of the Combined Group consider that no impairment is required.

At 31 March 2019 and 30 September 2019, included in the Combined Group's trade receivable balances are trade receivables of HK$22,721,000 and HK$16,296,000 which are past due at the end of the reporting period. An amount of HK$3,665,000 and HK$2,712,000 has been past due 90 days or more and is not considered as in default based on financial information available in the market, creditbility and good repayment records of these customers. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the default rates are reassessed and changes in the forward-looking information are considered. The Combined Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 March 2019 and six months ended 30 September 2019 are set out in note 36.

The following is an ageing analysis of trade and bills receivables which are past due but not impaired:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Overdue by:				
1–90 days	11,117	8,139	19,056	13,584
91–180 days	930	654	1,785	1,994
Over 180 days	363	916	1,880	718
	12,410	9,709	22,721	16,296

During the year ended 31 March 2017, the Combined Group has disposed of some of the plant and machinery to an independent third party. Pursuant to the agreement, the sales proceeds totalling of HK$7,577,000 as at 31 March 2017 will be received by instalments. As at 31 March 2017, HK$1,895,000 will be received after one year from the end of the reporting period and is classified as non-current asset.

Included in trade and other receivables are the following amounts denominated in currencies other than functional currencies of the respective group entities:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	77,462	3,658	2,714	3,508
Euro ("EUR")	2,414	3,325	1,186	—

21. INVENTORIES

THE COMBINED GROUP

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	54,277	79,734	89,838	68,659
Work in progress	42,222	63,103	38,687	27,295
Finished goods	75,775	137,667	112,793	109,366
	172,274	280,504	241,318	205,320

22. AMOUNTS DUE FROM (TO) ULTIMATE HOLDING COMPANY/A FELLOW SUBSIDIARY/ SUBSIDIARIES

THE COMBINED GROUP

The amounts are unsecured, non-trade nature, interest-free and repayable on demand.

Details of amount due from ultimate holding company is as follows:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Maximum amount outstanding during the year/period	206,380	278,321	535,364	1,207,655

Included in amount due from ultimate holding company are the following amount denominated in a currency other than functional currencies of respective group entities:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	152,627	272,558	509,113	1,207,655

Included in amount due to ultimate holding company are the following amounts denominated in a currency other than functional currencies of respective group entities:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	243,783	243,793	243,805	217,743

THE TARGET COMPANY

The amounts due to ultimate holding company, subsidiaries and a fellow subsidiary are non-trade nature, unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH

THE COMBINED GROUP

As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, pledged bank deposits represent deposits placed in a bank to secure general banking facilities granted to the Combined Group and carry fixed interest rate of 1.3% per annum, 1.3% per annum, 1.3% per annum and 1.3% per annum, respectively.

As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the bank balances carried interest at the prevailing market rate of 0.01% per annum, 0.01% per annum, 0.01% per annum and 0.01% per annum, respectively.

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than functional currencies of respective group entities:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi ("RMB")	110	21	298	193
HK$	19,574	25,649	28,610	45,811
EUR	260	3,106	1,551	1,358
Japanese Yen ("JPY")	1	1	1	2

THE TARGET COMPANY

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	10	12	12	18

24. TRADE AND OTHER PAYABLES

THE COMBINED GROUP

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	68,745	81,123	97,599	122,850
Bill payables	172,492	150,379	132,912	48,440
Trade and bills payables	241,237	231,502	230,511	171,290
Other payables	1,153	1,149	1,073	2,727
Staff and other staff related cost	9,723	11,162	12,179	18,360
Accrued expenses	7,432	12,054	12,272	10,850
Other tax payables	2,057	1,018	1,067	1,102
Accruals and other payables	20,365	25,383	26,591	33,039
Trade and other payables	261,602	256,885	257,102	204,329

The average credit period of trade payables is 15 days to 120 days.

The following is an aging analysis of trade and bills payables presented based on invoice date at the end of each reporting period is as follows:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0–30 days	124,152	136,163	109,603	98,259
31–60 days	46,604	12,268	41,100	28,780
61–90 days	40,514	52,769	18,884	8,710
91–180 days	29,659	29,959	60,594	19,249
181 days–1 year	—	—	128	16,292
Over 1 year	308	343	202	—
	241,237	231,502	230,511	171,290

Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the respective group entities:

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
EUR	13,783	22	30	126
HK$	54	115	237	85
British Pound ("GBP")	—	20	—	112

25. CONTRACT LIABILITIES

THE COMBINED GROUP

The amounts represent deposits received from customers in relation to their purchase orders placed with the Combined Group. At 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the deposits received from customers are contract liabilities and the Combined Group does not expect to refund any of the deposits.

The contract liabilities at 1 April 2016, 1 April 2017, 1 April 2018 and 1 April 2019 were fully recognised as revenue during the year ended 31 March 2017, 31 March 2018, 31 March 2019 and six months ended 30 September 2019 respectively. When the Combined Group receives a deposit before commencement of the production activity, this will give rise to contract liabilities at the inception of a contract.

26. UNSECURED BANK BORROWINGS

THE COMBINED GROUP

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts	759	12,127	16	9,265
Bank loans	369,767	724,944	714,041	929,146
Import/export trade borrowings	232,263	272,540	405,170	525,229
	602,789	1,009,611	1,119,227	1,463,640
Carrying amount repayable based on the scheduled repayment dates set out in the loan agreements:				
Within one year	543,469	755,471	1,013,767	1,461,020
More than one year, but not exceeding two years	10,000	132,500	75,000	—
More than two years, but no exceeding five years	7,500	75,000	—	—
	560,969	962,971	1,088,767	1,461,020
Carrying amount of bank borrowings that are not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liabilities):				
More than one year, but not exceeding two years	20,680	16,180	30,460	2,620
More than two years, but not exceeding five years	21,140	30,460	—	—
	602,789	1,009,611	1,119,227	1,463,640
Less: Amounts due within one year shown under current liabilities	(585,289)	(802,111)	(1,044,227)	(1,463,640)
Amount shown under non-current liabilities	17,500	207,500	75,000	—

The bank loans and import/export trade borrowings are carried at variable-rate. The interest rates are ranged from 1.75%–3% over Hong Kong Interbank Offered Rate ("HIBOR") or 2% over London Interbank Offer Rate ("LIBOR") per annum, for each of the three years ended 31 March 2017, 31 March 2018, 31 March 2019 and six months ended 30 September 2019.

The range of effective interest rates (which are also equal to contracted interest rates) on the Combined Group's borrowings as at the end of the reporting period is as follows:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
Effective interest rate:				
Fixed-rate borrowings	5.00%	5.00%	5.00%	5.00%
Variable-rate borrowings	1.90% to 5.00%	2.63% to 6.09%	3.29% to 6.29%	2.88% to 6.29%

Included in unsecured bank borrowings are the following amounts denominated in a currency other than functional currency of the respective group entities:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	250,322	513,624	648,510	934,202

As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, details of bank borrowings guaranteed by related parties are set out in note 33.

27. LEASE LIABILITIES

Lease liabilities payable:	**As at 30 September 2019** *HK$'000*
Within one year	597
Within a period of one year but not more than two years	594
Within a period of two years but not more than five years	161
	1,352
Less: Amount due for settlement with 12 months shown under current liabilities	(597)
Amount due for settlement after 12 months shown under non-current liabilities	755

28. DEFERRED TAX LIABILITIES

THE COMBINED GROUP

The movement in deferred tax liabilities during the Relevant Periods are as follows:

	Accelerated depreciation	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 April 2016	5,249	(203)	5,046
Charge to profit or loss *(note 12)*	468	40	508
As at 31 March 2017	5,717	(163)	5,554
Charge (credit) to profit or loss *(note 12)*	2,181	(150)	2,031
As at 31 March 2018	7,898	(313)	7,585
Charge to profit or loss *(note 12)*	816	54	870
As at 31 March 2019	8,714	(259)	8,455
Charge to profit or loss *(note 12)*	309	4	313
As at 30 September 2019	9,023	(255)	8,768

At 31 March, 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the Combined Group has unused tax losses of approximately HK$29,049,000 available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the combined financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$120,731,000, HK$159,038,000, HK$140,682,000 and HK$147,981,000 for the year ended 31 March 2017, 31 March 2018, 31 March 2019 and the six months ended 30 September 2019, as the Combined Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

THE COMBINED GROUP

The share capital as at 1 April 2016, 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019 represented the combined share capital of the Target Company of HK$390,000, Hover Manufacturing of HK$8,000,000 and Linkz International of HK$2,000,000.

The followings are the movements of the share capital of the Target Company:

THE TARGET COMPANY

	Number of shares	Amount	
		HK$	*HK$'000*
Ordinary shares of USD1 each			
Authorised:			
At 1 April 2016, 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019	50,000	390,000	390
Issued and fully paid:			
At 1 April 2016, 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019	50,000	390,000	390

30. RESERVES OF THE TARGET COMPANY

The followings are the movements of the reserves of the Target Company:

THE TARGET COMPANY

	Accumulated losses
	HK$'000
At 1 April 2016	61
Loss and total comprehensive expense for the year	7
At 31 March 2017	68
Loss and total comprehensive expense for the year	7
At 31 March 2018	75
Loss and total comprehensive expense for the year	11
At 31 March 2019	86
Loss and total comprehensive expense for the period	12
At 30 September 2019	98

31. OPERATING LEASE ARRANGEMENTS

THE COMBINED GROUP AS LESSEE

	As at 31 March			As at 30 September
	2017	2018	2019	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Minimum lease payments recognised in profit or loss during the year/period	3,353	3,854	2,895	1,348

At the end of each reporting period, the Combined Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 March		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	450	1,176	1,480
In the second to fifth year inclusive	—	866	1,214
	450	2,042	2,694

Operating lease payments represent rentals payable by the Combined Group for manufacture premises. Leases are negotiated for a term ranging from one year to three years. Rentals are fixed at the date of signing of lease agreements.

32. CAPITAL COMMITMENTS

THE COMBINED GROUP

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the Historical Financial Information	31,450	66,114	16,430	397

33. FINANCIAL GUARANTEES

At 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the Combined Group had given cross guarantees of HK$1,040,000,000, HK$385,000,000, HK$541,000,000 and HK$541,000,000, respectively to banks to secure certain general banking facilities granted to ultimate holding company, the Combined Group and certain fellow subsidiaries.

Out of the banking facilities granted, HK$483,252,000, HK$49,533,000, HK$179,529,000 and HK$148,245,000 had been designated for use by the ultimate holding company and the Combined Group and certain fellow subsidiaries and the remaining banking facilities of HK$556,748,000, HK$335,467,000, HK$361,471,000 and HK$392,755,000 had been designated for use by the Combined Group as agreed among the parties as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, respectively.

At 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the Combined Group has also given another guarantees of nil, HK$63,000,000, HK$63,000,000 and HK$153,000,000 to a bank to secure another general banking facility granted to ultimate holding company.

At 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the amounts utilised by the ultimate holding company amounted to HK$45,000,000, HK$26,250,000, HK$11,250,000 and HK$150,000,000 respectively in respect of the banking facilities guaranteed by the Combined Group.

Financial guarantee contracts were initially recognised at fair value and calculated by using the default risk method for the banking facilities obtained by ultimate holding company, the Combined Group and certain fellow subsidiaries. The fair values were based on certain key assumptions on credit strength of the borrowers and default rate. Subsequent to initial recognition, the Combined Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 (before 1 April 2018) or HKFRS 9 (after 1 April 2018); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

The management of the Combined Group considers the fair values and expected credit loss of these guarantees were insignificant as at 31 March 2017, 31 March 2018, 1 April 2018, 31 March 2019 and 30 September 2019. No provision of financial guarantee is recognised as at 31 March 2017, 31 March 2018, 1 April 2018, 31 March 2019 and 30 September 2019.

34. RETIREMENT BENEFITS SCHEMES

The Combined Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Combined Group, in funds under the control of trustees. The Combined Group contributes 5% of the relevant payroll costs to the scheme, subject to a cap of monthly relevant income of HK$30,000 of employees, which contribution is matched by the employee. The Combined Group also makes voluntary contribution in addition to the mandatory contribution.

The employees of the Combined Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Combined Group with respect to the retirement benefits scheme is to make the specified contributions.

During the Relevant Periods, the Combined Group failed to promptly make full contributions to the social insurance plans and the housing provident fund for their employees of by the PRC subsidiaries. Pursuant to the《中國人民共和國社會保險法》, the PRC subsidiaries may be ordered to make up for the shortfall in contribution within a specified time period and be subject to a daily fine amounting to 0.05% of the outstanding contributions from the date on which payment is overdue. If the outstanding contribution is not made within the specified time period, the Combined Group may be imposed a fine ranging from one to three times of the amount of shortfall in contribution. Besides, the Combined Group may also be subject to a fixed fine ranging from RMB10,000 to RMB50,000 in addition to the outstanding housing provident fund contributions underpaid if the employer failed to rectify such non-compliance within a specified period of time.

The management of the Target Company have, taking into account the facts that (i) advice had been sought from the Combined Group's PRC legal adviser that the chance of the Combined Group being penalised and requested to repay the amount of shortfall in contribution by related social insurance bureaus are remote, considered that it is not probable that the Combined Group will be fined or penalised and therefore no provision for fines or penalties has been made, and that no provision of shortfall made as at each reporting date.

35. CAPITAL RISK MANAGEMENT

The Combined Group manages its capital to ensure that entities in the Combined Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Combined Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Combined Group consists of equity attributable to owners of the Target Company, comprising paid-in capital and reserves as disclosed in the combined statements of changes in equity.

The management of the Combined Group reviews the capital structure regularly. The Combined Group considers the cost of capital and the risks associated with each class of capital. Based on the recommendations of the management of the Combined Group will balance its overall capital structure through the payment of dividends as well as new share issues of the Target Company.

36. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

THE COMBINED GROUP

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at amortised cost	N/A	N/A	1,215,149	1,707,833
Loans and receivables (including cash and equivalents)	794,874	987,171	N/A	N/A
Financial assets at FVTPL	N/A	N/A	5,633	5,724
Financial liabilities				
At amortised cost	1,128,326	1,525,515	1,623,506	1,855,400

THE TARGET COMPANY

	As at 31 March			As at 30 September
	2017	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at amortised cost	N/A	N/A	20	18
Loans and receivables (including cash and equivalents)	16	19	N/A	N/A
Financial liabilities				
At amortised cost	243,783	243,793	243,805	243,815

b. Financial risk management objectives and policies

The Combined Group's major financial instruments include trade and other receivables, deposit and prepayments for a life insurance policy/financial assets at FVTPL, rental deposits, pledged bank deposits, bank balances and cash, amounts due from (to) ultimate holding company and a fellow subsidiary, trade and other payables, bank overdrafts, unsecured bank borrowings and financial guarantee contracts. The Target Company's major financial instruments include other receivables, bank balances and cash and amount due to ultimate holding company.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign Currency risk

The carrying amounts of the Combined Group's monetary assets (mainly including trade and other receivables, amount due from ultimate holding company, pledged bank deposits and bank balances and cash) and monetary liabilities (mainly including trade and other payables, amounts due to ultimate holding company and a fellow subsidiary and unsecured bank borrowings) denominated in currencies other than the respective group entities; functional currencies at the end of each reporting period are as follows:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
HK$ against USD	249,663	301,865	540,437	1,256,975
RMB against USD	110	21	298	193
EUR against USD	2,674	6,431	2,737	1,358
USD against RMB	32,445	31,065	28,711	18,131

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liabilities				
HK$ against USD	494,159	757,532	892,552	1,152,030
EUR against USD	13,783	22	30	126
USD against RMB	201,685	166,163	214,359	146,863

Other than above, several subsidiaries of the Target Company have the following intra-group receivables/payables denominated in USD which are foreign currency of the relevant group entities.

Amount due from Combined Group entities

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD against RMB	44,434	100,979	25,819	36,071

Amount due to Combined Group entities

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD against RMB	78,804	66,839	85,498	367,252

The Combined Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management monitors the related foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

The Combined Group is mainly exposed to the foreign currency risk of HK$, RMB and EUR. Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and USD is immaterial as most HK$ denominated monetary assets and liabilities are held by group entities having USD as their functional currency, and therefore no sensitivity analysis has been prepared.

The following table details the Combined Group's sensitivity to a 5% increase and decrease in functional currency of respective group entity against the USD, EUR and RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD, EUR and RMB denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances, trade and other receivables, amount due from (to) ultimate holding companies and trade and other payables. A positive number below indicates an increase in profit after taxation where functional currency strengthens 5% against the relevant foreign currency. For a 5% weakening of functional currency against the relevant foreign currency, there would be an equal and opposite impact on the profit after taxation:

THE COMBINED GROUP

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB against USD	(5)	(1)	(12)	(8)
EUR against USD	463	(268)	(113)	(51)
USD against RMB	8,501	4,215	10,242	19,201

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year/period end exposures do not reflect the exposure during the respective year/period.

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	As at March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$ against USD	10,177	10,178	10,178	10,179

(ii) Interest rate risk

The Combined Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 23 for details) and variable-rate unsecured bank borrowings (see note 26 for details). Interest charged on the Combined Group's borrowings are mainly at variable rates and are mainly at the interest rate offered by the HIBOR. The Combined Group does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arises.

The Combined Group is also exposed to fair value interest rate risk in relation to the fixed rate pledged bank deposits. However, the management considers the fair value interest rate risk on the fixed rate pledged bank deposits is insignificant as they are relatively short-term.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate unsecured bank borrowings. The analysis is prepared assuming that variable-rate unsecured bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. 50 basis point increase or decrease represents the management's assessment of the reasonably possible change in interest rates of unsecured bank borrowings. No sensitivity analysis is presented for bank balances and pledged bank deposits as the management of the Combined Group considered the Combined Group's exposure to cash flow interest rate risk is not material.

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the Combined Group's post-tax profit for the year ended 31 March 2017 and 31 March 2018, 31 March 2019 and six months ended 30 September 2019 would decrease or increase by approximately HK$2,522,000, HK$4,214,000, HK$4,663,000 and HK$3,055,000, respectively.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of each reporting period does not reflect the exposure during the year/period.

Credit risk and impairment assessment

As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Combined Group's maximum exposure to credit risk which will cause a financial loss to the Combined Group arising from the amount of financial guarantees provided by the Combined Group is disclosed in note 33. The Combined Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts.

As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the Combined Group has concentration of credit risk as 62%, 59%, 69% and 73% of trade receivables were due from the Combined Group's five largest customers, respectively. The Combined Group's concentration of credit risk by geographical location is mainly in the PRC which accounted for 47%, 44%, 34% and 48% of trade receivables as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, respectively.

Other than the concentration of credit risk of trade receivables as disclosed above, the Combined Group does not have any other significant concentration of credit risk, with exposures spread over a number of counterparties.

Trade balances (including trade and bills receivables and trade receivables from fellow subsidiaries)

THE COMBINED GROUP

In order to minimise the credit risk, the management of the Combined Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Combined Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Combined Group performs impairment assessment under ECL model upon application of HKFRS 9 since 1 April 2018 (2017 and 2018: incurred loss model) on trade balances individually. In this regard, the management of the Combined Group considers that the Combined Group's credit risk is significantly reduced.

The Combined Group's internal credit risk grading assessment of trade balances comprises the following categories:

Internal credit rating	Description	Trade receivables/ trade receivables from fellow subsidiaries/ bills receivables
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL — not credit-impaired
Watch list	Debtor frequently repays after due dates but usually settles in full	Lifetime ECL — not credit-impaired
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Combined Group has no realistic prospect of recovery	Amount is written off

As part of the Combined Group's credit risk management, the Combined Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade balances which are assessed individually as at 31 March 2019 and 30 September 2019 within lifetime ECL (not credit-impaired).

2019	External credit rating	Internal credit rating	12m ECL or lifetime ECL	As at 31 March 2019 Gross carrying amount *HK$'000*	As at 30 September 2019 Gross carrying amount *HK$'000*
Trade receivables	N/A	Low risk	Lifetime ECL (not credit-impaired)	499,793	369,724
Trade receivables from fellow subsidiaries	N/A	Low risk	Lifetime ECL (not credit-impaired)	238	1,235
Bills receivables	N/A	Low risk	Lifetime ECL (not credit-impaired)	770	3,359

During the year ended 31 March 2019 and six months ended 30 September 2019, trade receivables, trade receivables from fellow subsidiaries and bills receivables were assessed individually with considering the financial background and the historical settlement records, including the past due dates and default rates of each trade balance and forward-looking information is reasonable, supportable and available without undue costs or effort. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. No impairment allowance was recognised as amounts involved are insignificant.

Other receivables

Other receivables were assessed individually for ECL. The Combined Group has considered the consistently low historical default rate in connection with repayments and concluded that the credit risk inherent in the Combined Group's other receivables is insignificant and no loss allowance was recognised.

Amount due from ultimate holding company

In determining the ECL for amount due from ultimate holding company, the management considers the probability of default is negligible as the ultimate holding company has the financial capacity to meet its contractual cash flow obligations in the near term, and conduced that the credit risk is insignificant. Accordingly, no loss allowance was made in the financial statements.

Pledged bank deposits and bank balances

For pledged bank deposits and bank balances, the management of the Combined Group considers the probability of default is negligible on the basis of high-credit-rating issuers as such amounts are receivable from or placed in banks with high external credit rating, no loss allowance was recognised as amounts involved are considered as insignificant.

Financial guarantee contracts

For the financial guarantees given to ultimate holding company, the Combined Group and certain fellow subsidiaries, the management of the Combined Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Combined Group issued financial guarantee contracts in favour of to ensure that the Combined Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regards, the management of the Combined Group considers that the Combined Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Combined Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Combined Group's operations and mitigate the effects of fluctuations in cash flows.

The Combined Group relies on financial support from the ultimate holding company which has agreed to provide adequate funds for the Combined Group to meet in full its financial obligations as they fall due in foreseeable future.

The following table details the Combined Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Combined Group can be required to pay. The maturity dates for other financial liabilities are based on the agreed repayment dates.

Liquidity table

THE COMBINED GROUP

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2017							
Non-derivative financial liabilities							
Trade and other payables	N/A	221,721	20,669	—	—	242,390	242,390
Bank overdrafts	5.0	759	—	—	—	759	759
Unsecured bank borrowings *(Note)*	3.6	451,426	137,368	10,433	7,618	606,845	602,030
Amount due to ultimate holding company	N/A	283,133	—	—	—	283,133	283,133
Amount due to a fellow subsidiary	N/A	14	—	—	—	14	14
Financial guarantee contracts	N/A	483,252	—	—	—	483,252	—
		1,440,305	158,037	10,433	7,618	1,616,393	1,128,326
At 31 March 2018							
Non-derivative financial liabilities							
Trade and other payables	N/A	222,474	10,177	—	—	232,651	232,651
Bank overdrafts	5.0	12,127	—	—	—	12,127	12,127
Unsecured bank borrowings *(Note)*	4.1	621,386	183,242	139,149	76,147	1,019,924	997,484
Amount due to ultimate holding company	N/A	283,231	—	—	—	283,231	283,231
Amount due to a fellow subsidiary	N/A	22	—	—	—	22	22
Financial guarantee contracts	N/A	112,533	—	—	—	112,533	—
		1,251,773	193,419	139,149	76,147	1,660,488	1,525,515
At 31 March 2019							
Non-derivative financial liabilities							
Trade and other payables	N/A	195,813	35,771	—	—	231,584	231,584
Bank overdrafts	5.0	16	—	—	—	16	16
Unsecured bank borrowings *(Note)*	4.4	809,758	247,517	76,663	—	1,133,938	1,119,211
Amount due to ultimate holding company	N/A	272,673	—	—	—	272,673	272,673
Amount due to a fellow subsidiary	N/A	22	—	—	—	22	22
Financial guarantee contracts	N/A	242,529	—	—	—	242,529	—
		1,520,811	283,288	76,663	—	1,880,762	1,623,506
At 30 September 2019							
Non-derivative financial liabilities							
Trade and other payables	N/A	165,373	8,644	—	—	174,017	174,017
Bank overdrafts	5.0	9,265	—	—	—	9,265	9,265
Unsecured bank borrowings *(Note)*	4.5	1,207,803	255,225	—	—	1,463,028	1,454,375
Lease liabilities	4.8	181	390	683	176	1,430	1,352
Amount due to ultimate holding company	N/A	217,743	—	—	—	217,743	217,743
Financial guarantee contracts	N/A	301,245	—	—	—	301,245	—
		1,906,610	264,259	683	176	2,166,728	1,856,752

Note: The Combined Group's unsecured bank borrowings with a repayment on demand clause are included in the "On demand or within 1 month" time band in the above maturity analysis. As at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, the aggregate undiscounted principal amount of such unsecured bank borrowings in the Combined Group amounted to HK$290,744,000, HK$394,788,000, HK$508,904,000 and HK$852,676,000. Taking into account of the Combined Group's financial position, the management of the Combined Group does not believe that it is possible that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Combined Group believes that such unsecured bank borrowings of the Combined Group as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019 will be repaid one to four years, one to three years, one to two years and one to two years after the reporting date respectively in accordance with the scheduled repayment dates set out in the loan agreements and the aggregate principal and interest cash outflows according to the schedule payment dates are set out as follows:

For the purpose of managing liquidity risk, the management of the Combined Group reviewed the expected cash flow information of the Combined Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements as set out in the table below:

Unsecured bank borrowings	Weighted average interest rate	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2017	2.9	187,500	64,394	21,619	21,686	295,199	290,744
As at 31 March 2018	3.7	314,389	29,677	17,530	30,902	392,489	394,788
As at 31 March 2019	4.3	388,568	95,570	30,996	—	515,134	508,904
As at 30 September 2019	4.6	967,908	45,701	2,649	—	1,016,258	1,011,710

THE TARGET COMPANY

	Weighted average interest rate	On demand or less than 3 months	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2017				
Non-derivative financial liability				
Amount due to ultimate holding company	N/A	243,783	243,783	243,783
At 31 March 2018				
Non-derivative financial liability				
Amount due to ultimate holding company	N/A	243,793	243,793	243,793
At 31 March 2019				
Non-derivative financial liability				
Amount due to ultimate holding company	N/A	243,805	243,805	243,805
At 30 September 2019				
Non-derivative financial liabilities				
Amount due to ultimate holding company	N/A	217,743	217,743	217,743
Amounts due to subsidiaries	N/A	17,957	17,957	17,957
Amount due to a fellow subsidiary	N/A	8,115	8,115	8,115
		243,815	243,815	243,815

c. **Fair value**

Fair value of the Combined Group's financial assets that are measured at fair value on a recurring basis

Some of the Combined Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and key inputs used).

	Fair value at					
	31 March			30 September	Fair value	Valuation techniques
Financial assets	**2017**	**2018**	**2019**	**2019**	**hierarchy**	**and key inputs**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		
Financial assets at FVTPL						
— Life insurance policy	N/A	N/A	5,633	5,724	Level 2	Quoted asset value provided by financial institution *(note)*

Note: Quoted prices provided by bank represent the fair value based on the quoted prices on the underlying investments.

Upon initial application of HKFRS 9, deposit and prepayments for a lifetime insurance policy which was classified as loans and receivables was reclassified to financial asset at FVTPL.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Combined Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their corresponding fair values.

There was no transfers between level 1, level 2 and level 3 during the Relevant Periods.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Combined Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the combined statements of cash flows as cash flows from financing activities.

	Interest payable on unsecured bank borrowings	Unsecured bank borrowings	Amount due to ultimate holding company	Amount due to a fellow subsidiary	Lease liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2016	—	609,572	286,832	22,510	—	918,914
Financing cash flows	(30,401)	23,265	(3,699)	(22,496)	—	(33,331)
Finance cost recognised	30,401	—	—	—	—	30,401
Currency realignment	—	(30,048)	—	—	—	(30,048)
At 31 March 2017	—	602,789	283,133	14	—	885,936
Financing cash flows	(42,143)	359,094	98	7	—	317,056
Finance cost recognised	42,143	—	—	—	—	42,143
Currency realignment	—	47,728	—	—	—	47,728
At 31 March 2018	—	1,009,611	283,231	21	—	1,292,863
Financing cash flows	(63,064)	148,162	(10,558)	1	—	74,541
Finance cost recognised	63,064	—	—	—	—	63,064
Currency realignment	—	(38,546)	—	—	—	(38,546)
At 31 March 2019	—	1,119,227	272,673	22	—	1,391,922
Adjustment upon application of HKFRS 16	—	—	—	—	1,720	1,720
At 1 April 2019 (restated)	—	1,119,227	272,673	22	1,720	1,393,642
Financing cash flows	(32,413)	363,608	(36)	(22)	(313)	330,824
Intra-group transfer to amount due from ultimate holding company	—	—	(26,072)	—	—	(26,072)
Finance cost recognised	32,413	—	—	—	40	32,453
Waiver of current amount by ultimate holding company	—	—	(28,822)	—	—	(28,822)
Currency realignment	—	(19,195)	—	—	(95)	(19,290)
At 30 September 2019	—	1,463,640	217,743	—	1,352	1,682,735
At 1 April 2018	—	1,009,611	283,231	21	—	1,292,863
Financing cash flows (unaudited)	(29,851)	64,277	(10,593)	1	—	23,834
Finance cost recognised (unaudited)	29,851	—	—	—	—	29,851
Currency realignment (unaudited)	—	(45,905)	—	—	—	(45,905)
At 30 September 2018 (unaudited)	—	1,027,983	272,638	22	—	1,300,643

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2018, dividend of HK$98,000,000 was settled through the current account with ultimate holding company as detailed in note 15.

39. RELATED PARTY TRANSACTIONS

(a) Related party transactions

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information, the Combined Group had entered into the following related party transactions during the Relevant periods:

Nature of related party transaction	Year ended 31 March			Six months ended 30 September	
	2017	2018	2019	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Management fee paid to ultimate holding company	24,367	24,000	—	—	—
Administrative service fee paid to ultimate holding company	10,710	11,250	5,664	2,832	2,832
Sales to fellow subsidiaries *(Note a)*	8,876	15,191	19,277	16,659	13,189
Rental expenses paid to ultimate holding company	2,638	3,000	1,536	768	—
Expenses related to leases with lease term ending within 12 months from the date of initial application paid to ultimate holding company	—	—	—	—	768
Purchase from a fellow subsidiary *(Note b)*	414	80	168	94	128
Rental income received from a fellow subsidiary *(Note c)*	344	—	—	—	—
Waiver of current account by ultimate holding company *(Note d)*	—	—	—	—	28,822

Notes:

(a) Sales to fellow subsidiaries include Time Interconnect Limited and Huizhou Time Wire Products Limited which changed its name to Time Interconnect Technology (Huizhou) Limited since 20 April 2018. The fellow subsidiaries are indirectly held by the Combined Group's ultimate holding company.

(b) Purchases from a fellow subsidiary, Huizhou Time Wire Products Limited, which changed its name to Time Interconnect Technology (Huizhou) Limited since 20 April 2018. The fellow subsidiary is indirectly held by the Combined Group's ultimate holding company.

(c) Rental income received from a fellow subsidiary, Lighthouse Technologies Limited. The fellow subsidiary is indirectly held by the Combined Group's ultimate holding company.

(d) The ultimate holding company has waived its current account with Linkz Industries Technology Limited.

(b) Compensation of key management personnel

The remuneration of key management personnel during the Relevant Periods was as follows:

	Year ended 31 March			Six months ended 30 September	
	2017	**2018**	**2019**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries and allowance	2,856	3,120	4,082	2,063	2,066
Performance related incentive payments	717	744	1,422	719	726
Retirement benefits scheme contributions	490	532	613	310	310
	4,063	4,396	6,117	3,092	3,102

The remuneration of key management personnel is determined by the management having regard to the performance of individuals and market trends.

(c) Guarantees given to banks by related parties are as follows:

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cross guarantees from ultimate holding company	—	335,467	235,358	304,951
Cross guarantee from ultimate holding company and fellow subsidiaries	556,748	—	126,113	87,804
Guarantees from ultimate holding company	854,930	1,449,318	1,425,259	1,564,144

In addition, Mr. Paul Lo provided personal guarantees to banks for the banking facilities granted to ultimate holding company, the Combined Group and fellow subsidiaries of HK$955,857,000, HK$926,868,000, HK$1,021,140,000 and HK$1,111,790,000 as at 31 March 2017, 31 March 2018, 31 March 2019 and 30 September 2019, respectively.

(d) Guarantees given by the Combined Group to related parties are as follows:

Details of the guarantees given by the Combined Group are disclosed in note 33.

40. PARTICULARS OF SUBSIDIARIES OF THE TARGET COMPANY

THE TARGET COMPANY

	As at 31 March			As at 30 September
	2017	**2018**	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	244,089	244,089	244,089	244,089

During the Relevant Periods and as at the date of this report, the Combined Group has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Combined Group as at					Principal activities	Notes
			31 March			30 September	the date of this report		
			2017	2018	2019	2019			
		Note (a)	%	%	%	%	%		
Linkz International	Hong Kong 23 December 1992	HK$2,000,000	100	100	100	100	100	Trading of wires	(a)
Hover (Kunshan) Electronic Material Company Limited 豪和(昆山)電子材料有限公司	PRC 18 August 2006	HK$30,000,000	100	100	100	100	100	Manufacture of wires	(d), (f)
Hover Manufacturing 豪和製造有限公司	Hong Kong 13 June 1997	HK$8,000,000	100	100	100	100	100	Investment holding	(a)
Linkz (HK) Limited	Hong Kong 21 February 2007	HK$10,000,000	100	100	100	100	100	Investment holding	(a)
Linkz Industries (Shanghai) Limited 領迅電線工業(上海)有限公司	PRC 7 December 1993	USD15,000,000	95	95	95	95	95	Manufacture of wires	(b), (g)
Linkz Industries (Suzhou) Limited 華迅工業(蘇州)有限公司	PRC 19 December 2006	USD30,000,000	100	100	100	100	100	Manufacture of wires	(c), (f)
Linkz Industries Technology Limited	Hong Kong 6 February 2007	HK$10,000	100	100	100	100	100	Leasing of LED panels	(a), (e)
Linkz Technology Limited	Hong Kong 16 March 2007	HK$10,000	100	100	100	100	100	Inactive	(a)
昆山市德勤機械有限公司	PRC 2 November 2004	RMB10,000,000	100	100	100	100	100	Manufacture of wires	(d)

The companies incorporated in PRC are limited liability companies have adopted 31 December as their financial year end date. The remaining subsidiaries now comprising the Combined Group are limited liability companies and have adopted 31 March as their financial year end date.

Notes:

(a) The statutory audited financial statements of these entities for the years ended 31 March 2017, 2018 and 2019 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by us in accordance with HKSAs issued by the HKICPA.

(b) The statutory financial statements of the entity were prepared in accordance with relevant accounting principles and regulations applicable to entities established in the PRC. The PRC statutory financial statements of Linkz Industries (Shanghai) Limited were audited by 上海匯永會計師事務所, certified public accountants registered in the PRC, for the years ended 31 December 2016, 2017 and 2018.

(c) The statutory financial statements of the entity were prepared in accordance with relevant accounting principles and regulations applicable to entities established in the PRC. The PRC statutory financial statements of Linkz Industries (Suzhou) Limited were audited by 蘇州方本昆山新大華分行, certified public accountants, registered in the PRC, for the years ended 31 December 2016, 2017 and 2018.

(d) The statutory financial statements of these entities were prepared in accordance with relevant accounting principles and regulations applicable to entities established in the PRC. The PRC statutory financial statements of Hover (Kunshan) Electronic Material Company Limited and 昆山市德勤機械有限公司 were audited by 昆山民誠會計師事務所有限公司, certified public accountants, registered in the PRC, for the years ended 31 December 2016, 2017 and 2018.

(e) Linkz Industries Technology Limited was inactive since 22 March 2017. Details of discontinued operations are disclosed in note 13. It was deregistered on 3 January 2020.

(f) These companies are established as wholly foreign owned enterprises registered under the PRC law.

(g) The company is established as sino-foreign joint venture registered under the PRC law.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Relevant Periods and up to the date of this report.

42. EVENTS AFTER THE END OF THE RELEVANT PERIODS

Save as disclosed in the report, subsequent to 30 September 2019, the following significant events took place:

(a) Outbreak of Novel Coronavirus

The outbreak of Novel Coronavirus ("COVID-19") in the PRC and the subsequent quarantine measures imposed by the PRC government have had an impact on the operations of the Combined Group since January 2020, as the Combined Group had to stop its manufacturing activities located in the PRC for approximately two to three weeks from late January to mid- February 2020. The operations of the PRC factories of the Combined Group have been resumed gradually since mid-February 2020, and has been resumed fully end of February 2020.

As at the date of this report, the COVID-19 has not resulted in material impact on the Combined Group. There is no significant decrease or cancellation of sales orders from customers. The production capacity of the Combined Group has dropped temporarily and the delivery of products for certain order will be slightly delayed, and the Combined Group has proactively liaised with the customers to adjust the schedule of delivery. The Combined Group has no disruption of the supply chain or material delay in logistics delivery from suppliers. Pending on the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions arising thereof may have impact on the financial results of the Combined Group, the extent of which could not be estimated as at the date of this report.

(b) Assets and Liabilities Transfer

Pursuant to the Agreement, the Combined Group will undertake reorganisation, and Linkz International will transfer certain assets and liabilities to Linkz Technology which will be completed before the completion of Transaction, as detailed in Step 3 of the Combined Group reorganisation in note 2. The consideration will be settled by the current account with ultimate holding company. The carrying amounts of these assets and liabilities that will be transferred to Linkz Technology as at 30 September 2019 are disclosed as below:

	As at 30 September 2019 *HK$'000*
Property, plant and equipment	6,628
Inventories	40,255
Trade and other receivables	192,052
Trade and other payables	(13,173)
Amount due to Linkz Industries (Suzhou) Limited	(236,773)
Amount due to Linkz Industries (Shanghai) Limited	(116,693)
	(127,704)

The remaining assets and liabilities will remain in Linkz International and will be excluded from the Combined Group. As Linkz International, Linkz Industries Technology Limited and the Target Company are under the common control by Linkz Industries, merger accounting has been applied to prepare the Historical Financial Information under AG 5. Upon actual completion of the reorganisation, the remaining assets and liabilities would be accounted for as decrease in amount due from ultimate holding company. The carrying amounts of these remaining assets and liabilities that will be retained by Linkz International as at 30 September 2019 are disclosed as below:

	As at 30 September 2019 *HK$'000*
Other receivables and prepayments	5,670
Amount due from ultimate holding company	1,207,655
Bank balances and cash	60,430
Bills and other payables	(17,126)
Unsecured bank borrowings	(974,567)
Taxation payable	(430)
	281,632

The actual carrying amounts of the above assets and liabilities to be transferred to Linkz Technology will be determined as of the date of completion of Assets and Liabilities Transfer.

As one of the conditions precedent being stipulated in the Agreement, the Reorganisation of the Combined Group shall be completed before the completion of Acquisition. Accordingly, the Combined Group is being defined as the Target Company and its subsidiaries which shall be acquired according to the Agreement.

The information set out in this Appendix does not form part of the Accountants' Reports on the Combined Group issued by Deloitte Touche Tohmatsu, the Company's reporting accountants, as set out in "Appendix II — Accountants' report on the Target Group" and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with "Financial Information of the Group" set out in Appendix I and "Financial Information of the Target Group" set out in this circular.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

On 24 March 2020, the Company entered into an agreement ("Agreement") with Linkz Industries Limited, (the "Vendor"), the parent company of the Company, pursuant to which the Group has conditionally agreed to acquire the entire share capital of Linkz Cables Limited (the "Target Company") and the companies to be subsidiaries of Linkz Cables Limited upon completion of the group reorganisation (collectively referred as the "Target Group") (the "Transaction").

The unaudited pro forma financial information is prepared to provide information on the Company and its subsidiaries hereinafter (collectively referred to as the "Group") and the Target Group (collectively referred to as the "Enlarged Group") as a result of the completion of the Transaction on the basis set out below for illustrating the effect of the Transaction, as if the Transaction had taken place on 30 September 2019 for the preparation of the unaudited pro forma consolidated statement of financial position. For the preparation of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, it is assumed that the Transaction had taken place on 1 April 2018.

The information is prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the results and cash flows, or financial position of the Enlarged Group would have been upon completion of the Transaction for any future periods or on any future dates.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 September 2019 is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2019 as extracted from the unaudited condensed consolidated financial statements set out in the published report of the Group for the six months ended 30 September 2019 and (ii) the audited combined statement of financial position of the Combined Group as at 30 September 2019 as extracted from the Accountants' Report on the Combined Group set out in Appendix II to this circular dated 30 March 2020 (the "Circular"), after making pro forma adjustments to the Transaction, as if the Transaction had completed on 30 September 2019. The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 March 2019 are prepared based on (i) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2019 as extracted from the audited consolidated financial statements set out in the published annual report of the Group for the year ended 31 March 2019 and (ii) the audited combined statement of profit or loss and other comprehensive income and the audited combined statement of cash flows of the Combined Group for the year ended 31 March 2019 as extracted from the Accountants' Report on the Combined Group set out in Appendix II to this Circular, after making pro forma adjustments to the Transaction, as if the Transaction had taken place on 1 April 2018.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

			Pro forma adjustments					
	The Group as at 30 September 2019	The Combined Group as at 30 September 2019	Excluded Assets and Excluded Liabilities	Settlement of the Transaction	Financing for the Transaction	Elimination of inter-company balance	Transaction costs related to the Transaction	Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
	(Unaudited)							
Non-current assets								
Property, plant and equipment	160,914	488,716	—	—	—	—	—	649,630
Right-of-use assets	118,793	11,945	—	—	—	—	—	130,738
Deposits paid for acquisition of property, plant and equipment	2,841	1,225	—	—	—	—	—	4,066
Rental deposits	719	115	—	—	—	—	—	834
Financial assets at fair value through profit or loss	—	5,724	—	—	—	—	—	5,724
	283,267	507,725	—	—	—	—	—	790,992
Current assets								
Inventories	169,703	205,320	—	—	—	—	—	375,023
Trade and other receivables	313,095	417,489	(5,670)	—	—	(1,235)	—	723,679
Contract assets	3,210	—	—	—	—	—	—	3,210
Amount due from ultimate holding company	—	1,207,655	(1,079,951)	(127,704)	—	—	—	—
Pledged bank deposits	13,627	5,643	—	—	—	—	—	19,270
Bank balances and cash	233,403	117,065	(60,430)	(718,682)	700,000	—	(19,070)	252,286
	733,038	1,953,172	(1,146,051)	(846,386)	700,000	(1,235)	(19,070)	1,373,468

	The Group as at 30 September 2019	The Combined Group as at 30 September 2019	Pro forma adjustments					Unaudited pro forma for the Enlarged Group
			Excluded Assets and Excluded Liabilities	Settlement of the Transaction	Financing for the Transaction	Elimination of inter-company balance	Transaction costs related to the Transaction	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
	(Unaudited)							
Current liabilities								
Trade and other payables	325,990	204,329	(17,126)	—	—	(1,235)	—	511,958
Contract liabilities	351	457	—	—	—	—	—	808
Lease liabilities	4,096	597	—	—	—	—	—	4,693
Amount due to ultimate holding company	—	217,743	—	(217,743)	—	—	—	—
Amount due to a fellow subsidiary	—	—	—	—	—	—	—	—
Taxation payable	15,057	2,228	(430)	—	—	—	—	16,855
Unsecured bank borrowings-amount due within one year	65,584	1,463,640	(974,567)	—	140,000	—	—	694,657
	411,078	1,888,994	(992,123)	(217,743)	140,000	(1,235)	—	1,228,971
Net current assets (liabilities)	321,960	64,178	(153,928)	(628,643)	560,000	—	(19,070)	144,497
Total assets less current liabilities	605,227	571,903	(153,928)	(628,643)	560,000	—	(19,070)	935,489
Non-current liabilities								
Deferred tax liabilities	848	8,768	—	—	—	—	—	9,616
Unsecured bank borrowing-amount due after one year	—	—	—	—	560,000	—	—	560,000
Lease liabilities	35,833	755	—	—	—	—	—	36,588
	36,681	9,523		—	560,000	—	—	606,204
Net assets	568,546	562,380	(153,928)	(628,643)	—	—	(19,070)	329,285
Capital and reserves								
Share capital	18,400	10,390	(2,000)	(8,390)	—	—	—	18,400
Reserves	550,146	544,214	(151,928)	(620,253)	—	—	(19,070)	303,109
Equity attributable as owners of the Company	568,546	554,604	(153,928)	(628,643)	—	—	(19,070)	321,509
Non-controlling interest	—	7,776	—	—	—	—	—	7,776
Total equity	568,546	562,380	(153,928)	(628,643)	—	—	(19,070)	329,285

(II) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2019	The Combined Group for the year ended 31 March 2019	Pro forma adjustments: Excluded Assets and Excluded Liabilities	Pro forma adjustments: Elimination of inter-company transactions	Pro forma adjustments: Transaction costs related to the Transaction	Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 6)*	*(Note 7)*	
Revenue	1,314,389	1,676,557	—	(19,445)	—	2,971,501
Cost of goods sold	(1,035,041)	(1,447,539)	—	19,646	—	(2,462,934)
Gross profit	279,348	229,018	—	201	—	508,567
Other income	4,844	3,668	—	—	—	8,512
Other gains and losses	(9,786)	1,387	—	(201)	—	(8,600)
Distribution and selling expenses	(23,227)	(36,242)	—	—	—	(59,469)
Administrative expenses	(57,878)	(58,049)	3,217	—	(19,070)	(131,780)
Research and development expenses	(45,672)	(19,761)	—	—	—	(65,433)
Finance costs	(1,649)	(63,064)	39,333	—	(31,028)	(56,408)
Profit before taxation	145,980	56,957	42,550	—	(50,098)	195,389
Taxation	(23,046)	(13,004)	(7,021)	—	—	(43,071)
Profit for the year	122,934	43,953	35,529	—	(50,098)	152,318
Other comprehensive expense						
Item that may be reclassified subsequently to profit or loss:						
Exchange differences arising on translating foreign operations	(4,712)	(42,295)	—	—	—	(47,007)
Total comprehensive income (expense) for the year	118,222	1,658	35,529	—	(50,098)	105,311

	The Group for the year ended 31 March 2019	The Combined Group for the year ended 31 March 2019	Pro forma adjustments: Excluded Assets and Excluded Liabilities	Pro forma adjustments: Elimination of inter-company transactions	Pro forma adjustments: Transaction costs related to the Transaction	Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 6)*	*(Note 7)*	
Profit (loss) for the year attributable						
— owners of the Company	122,934	43,460	35,529	—	(50,098)	151,825
— non-controlling interest	—	493	—	—	—	493
	122,934	43,953	35,529	—	(50,098)	152,318
Total comprehensive income (expense) for the year attributable to						
— owners of the Company	118,222	1,859	35,529	—	(50,098)	105,512
— non-controlling interest	—	(201)	—	—	—	(201)
	118,222	1,658	35,529	—	(50,098)	105,311

(III) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

			Pro forma adjustments					
	The Group for the year ended 31 March 2019	The Combined Group for the year ended 31 March 2019	Excluded Assets and Excluded Liabilities	Settlement of the Transaction	Financing for the Transaction	Elimination of inter-company balance	Transaction costs related to the Transaction	Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Cash flows from operating activities								
Profit before taxation	145,980	56,957	42,550	—	—	—	(50,098)	195,389
Adjustments for:								
Interest income	(1,344)	(270)	—	—	—	—	—	(1,614)
Interest expense	1,649	63,064	(39,333)	—	—	—	31,028	56,408
Depreciation of property, plant an equipment	19,611	35,223	—	—	—	—	—	54,834
Gain on change in fair value of financial assets at FVTPL	—	(182)	—	—	—	—	—	(182)
Gain on disposal of property, plant and equipment	—	(252)	—	—	—	—	—	(252)
Write off of inventories	3,005	—	—	—	—	—	—	3,005
Amortisation of prepaid lease payments	506	509	—	—	—	—	—	1,015
Share based payments	3,807	—	—	—	—	—	—	3,807
Operating cash flows before movements in working capital	173,214	155,049	3,217	—	—	—	(19,070)	312,410
Decrease in inventories	14,639	24,467	—	—	—	—	—	39,106
Decrease (increase) in trade and other receivables, rental deposits	74,494	(24,364)	—	—	—	239	—	50,369
Decrease in contract assets	12,429	—	—	—	—	—	—	12,429
(Decrease) increase in trade and other payables	(103,289)	6,982	—	—	—	(239)	—	(96,546)
Decrease in contract liabilities	(6)	(156)	—	—	—	—	—	(162)
Cash generated from operations	171,481	161,978	3,217	—	—	—	(19,070)	317,606
Hong Kong Profits Tax paid	(22,491)	(1,866)	—	—	—	—	—	(24,357)
PRC Enterprise Income Tax paid	(13,429)	(11,683)	—	—	—	—	—	(25,112)
Net cash generated from operating activities	135,561	148,429	3,217	—	—	—	(19,070)	268,137

	The Group for the year ended 31 March 2019	The Combined Group for the year ended 31 March 2019	Pro forma adjustments: Excluded Assets and Excluded Liabilities	Settlement of the Transaction	Financing for the Transaction	Elimination of inter-company balance	Transaction costs related to the Transaction	Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Cash flows from investing activities								
Acquisition of a subsidiary	(166,826)	—	—	—	—	—	—	(166,826)
Placement of pledged bank deposits	(35,393)	(19,655)	—	—	—	—	—	(55,048)
Purchase of property, plant and equipment	(13,320)	(34,374)	—	—	—	—	—	(47,694)
Deposits paid for acquisition of property, plant and equipment	(2,420)	(447)	—	—	—	—	—	(2,867)
Refund of deposits paid for property, plant and equipment	—	61,990	—	—	—	—	—	61,990
Withdrawal of pledged bank deposits	36,013	11,609	—	—	—	—	—	47,622
Interest received	1,344	270	—	—	—	—	—	1,614
Proceeds from disposal of property, plant and equipment	—	3,566	—	—	—	—	—	3,566
Repayment from ultimate holding company	—	231,292	—	—	—	—	—	231,292
Advance to ultimate holding company	—	(488,340)	—	—	—	—	—	(488,340)
Net cash (used in) from investing activities	(180,602)	(234,089)	—	—	—	—	—	(414,691)
Cash flows from financing activities								
Bank borrowings raised	165,542	2,944,822	—	—	700,000	—	—	3,810,364
Repayment of bank borrowings	(157,834)	(2,796,660)	—	—	(140,000)	—	—	(3,094,494)
Dividend paid	(36,800)	—	—	—	—	—	—	(36,800)
Interest paid	(1,649)	(63,064)	39,333	—	—	—	(31,028)	(56,408)
Advance from ultimate holding company	—	1,365	—	—	—	—	—	1,365
Repayment to ultimate holding company	—	(11,923)	—	—	—	—	—	(11,923)
Advance from a fellow subsidiary	—	1	—	—	—	—	—	1
Acquisition of Target Company	—	—	(60,106)	(1,023,198)	—	—	—	(1,083,304)
Net cash (used in) from financing activities	(30,741)	74,541	(20,773)	(1,023,198)	560,000	—	(31,028)	(471,189)

	The Group for the year ended 31 March 2019	The Combined Group for the year ended 31 March 2019	Pro forma adjustments: Excluded Assets and Excluded Liabilities	Pro forma adjustments: Settlement of the Transaction	Pro forma adjustments: Financing for the Transaction	Pro forma adjustments: Elimination of inter-company balance	Pro forma adjustments: Transaction costs related to the Transaction	Unaudited pro forma for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	
Net (decrease) increase in cash and cash equivalents	(75,782)	(11,119)	(17,556)	(1,023,198)	560,000	—	(50,098)	(617,753)
Effect of foreign exchange rate changes	19,967	(11,950)	—	—	—	—	—	8,017
Cash and cash equivalents at beginning of the year	279,623	189,923	—	—	—	—	—	469,546
Cash and cash equivalents at end of the year, represented by bank balances and cash	223,808	166,854	(17,556)	(1,023,198)	560,000	—	(50,098)	(140,019)
Analysis of the balance of cash and cash equivalents								
Bank balances and cash	223,808	166,870	(17,556)	(933,122)	560,000	—	—	—
Bank overdrafts	—	(16)	—	(90,076)	—	—	(50,098)	(140,190)
	223,808	166,854	(17,556)	(1,023,198)	560,000	—	(50,098)	(140,190)

1. For the preparation of unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and unaudited pro forma consolidated statement of cash flows, the amounts are extracted from the latest published consolidated financial statements of the Group as at 30 September 2019 and for the year ended 31 March 2019.

2. The amounts are extracted from the Historical Financial Information in the Accountants' Report on the Target Group as set out in Appendix II to this circular.

   On 24 March 2020, the Group entered into a sale and purchase agreement with Linkz Industries Limited (the ''Vendor''), Nickson Holdings Limited and Mr. Lo Chung Wai Paul in relation to the Transaction. Nickson Holdings Limited and Mr. Lo Chung Wai Paul are the controlling shareholders of the Vendor. The Vendor is the ultimate holding company of the Group and the Target Company.

   The acquisition of the Combined Group by the Group is prepared based on the principle of merger accounting under Accounting Guideline 5 ''Merger Accounting for Common Control Combination issued by the Hong Kong Institute of Certified Public Accountants.

3. As part of the Transaction, Combined Group will undertake reorganisation, Linkz International Limited ("Linkz International"), a wholly-owned subsidiary of the Vendor, will transfer certain core assets and core liabilities which is relating to its business of trading in networking cables, including property, plant and equipment, inventory, trade and other receivables, trade and other payables, current account with Linkz Industries (Suzhou) Limited and current account with Linkz Industries (Shanghai) Limited to Linkz Technology Limited, a wholly-owned subsidiary of the Target Company, at a consideration which will be settled by the current account with ultimate holding company. Certain assets and liabilities of Linkz International will remain in Linkz International (the "Excluded Assets and Excluded Liabilities"). These non-core assets and non-core liabilities will remain in Linkz International and will not form part of the Target Group. The adjustments are to (i) take out the Excluded Assets and Excluded Liabilities and (ii) eliminate share capital and reserve of Linkz International.

   For the purpose of the unaudited pro forma consolidated statement of financial position, it assumed that the Transaction will be completed on 30 September 2019. The Excluded Assets and Excluded Liabilities are assumed to be disposed of, and settled at, their respective carrying amounts as at 30 September 2019. The equity contributions of Linkz International to the Combined Group are assumed to be adjusted at their respective carrying amounts as at 30 September 2019. The breakdown of Excluded Assets and Excluded Liabilities as at 30 September 2019, with reference to note 42(b) of Appendix II — Accountants' Reports on the Target Group, are as follows:

	As at 30 September 2019
	HK$'000
Excluded Assets and Excluded Liabilities	
Other receivables and prepayments	5,670
Amount due from ultimate holding company	1,207,655
Bank balances and cash	60,430
Bills and other payables	(17,126)
Unsecured bank borrowings	(974,567)
Taxation payable	(430)
	281,632
Share capital and reserve of Linkz International	
Carrying amount of share capital	2,000
Carrying amount of reserve	151,928
	153,928

Difference of HK$127,704,000 between the carrying amounts of Excluded Assets and Excluded Liabilities and the share capital and reserve of Linkz International will be adjusted to amount due from ultimate holding company and will be settled as part of the Shareholders' loan in note 4.

The combined effect of the transfer of amount due from ultimate holding company of HK$1,207,655,000 and consideration from the transfer of Excluded Assets and Excluded Liabilities of HK$127,704,000 is HK$1,079,951,000.

For the purpose of the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows, as it is assumed that the Transaction has been completed on 1 April 2018 and the related adjustments have been made for the Excluded Assets and the Excluded Liabilities of the Combined Group for the year ended 31 March 2019. The related adjustments are made on the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows to exclude administrative expenses of HK$3,217,000 arising from bank charges and finance costs of HK$39,333,000 arising from bank borrowings, which are derived from the actual bank charges and finance costs of the unsecured bank borrowings to be excluded from the Combined Group, and the resulting tax effect of HK$7,021,000. In addition, for the preparation of unaudited pro forma consolidated statement of cash flows, the bank balances and cash to be excluded from the Combined Group is HK$60,106,000, which is the sum of the bank balances and cash of Linkz International amounted to HK$60,023,000 as at 1 April 2018 and the bank balances and cash to be distributed after deregistration of Linkz Industries Technology Limited amounted to HK$83,000 as at 1 April 2018, assuming the Transaction is completed on 1 April 2018.

The actual consideration and actual carrying amounts of Excluded Assets and Excluded Liabilities are subject to change and will be determined as of the date of completion and may differ materially from the amount disclosed above in the pro forma financial information.

4. Pursuant to the Agreement, the consideration is 95% of the Completion NAV, being defined as the sum of (i) consolidated net asset value of the Target Group at the date of completion (ii) the fair value gain of land and building of the Target Group, being the difference between the book value and the fair value of the land and building at the date of completion (the "Fair Market Value Gain on Properties"); and (iii) the monetary value of all obligations, liabilities and incurred or owing by the Combined Group to the Vendor at the date of completion (the "Shareholders' Loan"). For the purpose of the unaudited pro forma consolidated statement of financial position, it is assumed that the Transaction will be completed on 30 September 2019 and the consideration is based on (i) the consolidated net asset value of the Target Group at 30 September 2019, (ii) the Fair Market Value Gain on Properties, based on valuation performed as of 31 January 2020, assuming such value of the Properties is not materially different from those as at 30 September 2019, and (iii) the Shareholders' Loan at 30 September 2019. Accordingly, a deemed distribution of HK$620,253,000, which represents the difference between the

consideration of HK$718,682,000 and the sum of total Shareholders' Loan of HK$90,039,000 and the total share capital of the Target Group of HK$8,390,000, is recognised.

Below are the calculation of the consideration of the Transaction at 30 September 2019:

	As at 30 September 2019
	HK$'000
Carrying amount of equity attributable to owners of the Target company of the Combined Group	554,604
Equity attributable to non-controlling interest of the Combined Group	7,776
NAV of the Combined Group	562,380
Less: Equity of Linkz International	(153,928)
Consolidated net asset value of the Target Group	408,452
Fair Market Value Gain on Properties	258,016
Adjustment to amount due from ultimate holding company in note 3	(127,704)
Amount due to ultimate holding company from the Combined Group	217,743
Total Shareholders' Loan	90,039
Completion NAV	756,507
Consideration (95% of Completion NAV)	718,682

The Fair Market Value Gain on Properties of HK$258,016,000 as at 31 January 2020 is arrived at with reference to the difference between the market value of the Properties amounted to RMB333,000,000 (equivalent to HK$372,893,000), with reference to Appendix IV — Valuation Report of the PRC Properties, derived from the property valuation report prepared by an independent firm of qualified surveyor in Hong Kong as at 31 January 2020, and the carrying amount of the Properties of HK$114,877,000 as at 31 January 2020. The exchange rate of Renminbi to Hong Kong dollars adopted in calculating such Fair Market Value Gain on Properties is 1.1198.

The Shareholders' loan of HK$90,039,000 is the difference between the amount due to ultimate holding company of the Combined Group as at 30 September 2019 of HK$217,743,000 and the adjustment of HK$127,704,000 in note 3.

For the purpose of preparing the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, the consideration of HK$1,023,198,000 is based on 95% of the sum of (i) the consolidated net asset value of the Target Group of HK$432,048,000 at 1 April 2018 which derives from NAV of the Combined Group of HK$547,694,000 (including carrying amount of equity attributable to owners of the Target Company of the Combined Group of HK$538,042,000 and equity attributable to non-controlling interest of the Combined Group of HK$9,652,000), less equity of Linkz International of HK$144,395,000 and deficiency of shareholders' funds of Linkz Industries Technology Limited of HK$28,749,000 which is deregistered upon completion of the Transaction; (ii) the Fair Market Value Gain on Properties of HK$279,848,000, based on valuation performed as at 31 January 2020 assuming the fair value is not materially different from those as at 1 April 2018 and (iii) the Shareholders' Loan of HK$365,154,000 at 1 April 2018.

The actual consideration payable by the Group and the actual purchase cost allocation of net assets to be acquired is subject to change and will be determined as of the date of completion and may differ materially from the amount disclosed above in the unaudited pro forma financial information.

The adjustment has no continuing effect.

5. The adjustment represents expected proceeds based on a draft bank loan agreement of approximately HK$700,000,000, as part of pre-condition as per the Agreement, to be obtained by the Group for settlement of consideration of the Transaction. The term of the loan is 4 years, which is without a repayable on demand clause. According to the repayment terms, HK$140,000,000 and the remaining HK$560,000,000 were classified as current liabilities and non-current liabilities as at 30 September 2019 respectively for the preparation of unaudited pro forma consolidated statement of financial position. For the preparation of unaudited pro forma consolidated statement of cash flows, there is a settlement of bank borrowings of HK$140,000,000 for the year ended 31 March 2019.

6. The adjustments represent the elimination of the intercompany balance and transactions between the Combined Group and the Group as at 30 September 2019 and for the year ended 31 March 2019 upon the completion of the Transaction.

7. For the preparation of unaudited pro forma consolidated statement of financial position, the adjustments represented the acquisition-related costs, including financial advisor fees, legal fees, printing costs, professional parties' fee and other related expenses to be borne by the Group of approximately HK$19,070,000. For the preparation of unaudited pro forma consolidated statement of profit or loss and other comprehensive income, and unaudited pro forma consolidated statement of cash flows, the adjustment represents finance costs for bank borrowings to finance the consideration and acquisition-related costs, including financial advisor fees, legal fees, printing costs, professional parties' fee, and other related expenses to be borne by the Group of approximately HK$31,028,000 and HK$19,070,000 respectively. The finance cost of HK$31,028,000 is sum of (i) HK$26,681,000 on the HK$700,000,000 loan in note 5 and calculated based on 4.29% per annum, which is based on the related term loan facility and (ii) the finance cost of HK$4,347,000 relating to bank overdrafts and is calculated based on 3.2% per annum, which is based on the effective interest rate of unsecured bank borrowings of the Group as at 31 March 2018. The adjustment may have continuing effect to the Enlarged Group and will be reflected in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group in the year these expenses are actually incurred.

8. Apart from the above, no adjustments have been made to the unaudited pro forma consolidated statement of financial position of the Enlarged Group, to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 September 2019 for the Group and the Combined Group where applicable and unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 March 2019 for the Group and the Target Group where applicable.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

To the Directors of Time Interconnect Technology Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Time Interconnect Technology Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 September 2019, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2019, the unaudited pro forma consolidated statement of cash flows for the year ended 31 March 2019 and related notes as set out on pages III-1 to III-13 of the circular issued by the Company dated 30 March 2020 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-13 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire equity interest of Linkz Cables Limited (the "Transaction") on the Group's financial position as at 30 September 2019 and its financial performance and cash flows for the year ended 31 March 2019 as if the Transaction had taken place at 30 September 2019 and 1 April 2018, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements as included in the interim report for the six months ended 30 September 2019, on which a review report has been published and information about the Group's financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements as included in the annual report for the year ended 31 March 2019, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2019 or 1 April 2018 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 unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- the unaudited pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2020

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited., an independent valuer, in connection with its valuation as at 31 January 2020 of the Properties held by the Target Group.

永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House
Tsimshatsui, Hong Kong

Licence No.: C-015672

30 March 2020

The Board of Directors
Time Interconnect Technology Limited
Unit 601,
6/F,
Photonics Centre,
2 Science Park East Avenue,
Hong Kong Science Park,
Shatin, Hong Kong

Dear Sir/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the properties (''the Properties'') held by the Target Group (the ''Corporate'') located in the People's Republic of China (''PRC''). We confirm that we have carried out properties inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 31 January 2020 (the ''Valuation Date'').

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value ("Market Value") which we would define as intended to mean 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 wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

We have valued the Properties interest by using the direct comparison approach by making reference to the comparable market transactions/asking cases as available. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the International Valuation Standards 2017.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

i. all necessary statutory approvals for the Properties or the subject building of which the Properties forms part of their use have been obtained;

ii. transferable land use rights in respect of the Properties for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; and

iii. the Properties are connected to main services and sewers which are available on normal terms.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the Properties. However, we have not examined the original documents to verify the existing titles to the Properties or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Company's PRC legal adviser, Shu Jin Law Firm, concerning the validity of the titles to the Properties.

LIMITING CONDITIONS

We have conducted on-site inspections to the Properties on 10 August 2019 by our staff Mr. Charlie Chan (BSc in Land Surveying).

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the Properties but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

We have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the Properties. Our valuation is prepared on the assumptions that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the Properties or on adjoining or neighboring land or that the Properties had been or are being put to contaminated use, we reserve right to revise our opinion of value.

We have relied very considerable extent on the information provided by the Group and have accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Properties. The plans including but not limited to location plan, site plan, lot index plan, outline zoning plan, building plan, if any, in the report are included to assist the reader to identify the Properties for reference only and we assume no responsibility for their accuracy.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of the PRC legal adviser of the Company. Neither have we verified the correctness of any information supplied to us concerning the Properties.

REMARKS

We have valued the Properties in Renminbi (RMB).

We enclose herewith the ‘‘Property Particulars and Opinion of Value’’.

Serena S. W. Lau
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)
Managing Director

Jessie X. Chen
MRICS, MSc (Real Estate), BEcon
Associate Director

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 20 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Ms. Jessie X. Chen is a Registered Professional Surveyor (Valuation) with over 10 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

SUMMARY OF VALUES

No.	Properties in PRC	Market Value as at 31 January 2020 *RMB*
1.	An Industrial Complex located in No. 5, Luopu Road, Anting Town Jiading District, Shanghai the PRC	86,000,000 (under certain assumption)
2.	An Industrial Complex located in No. 88, Huaxun Road, Huaqiao Economic Development Zone Kunshan City, Jiangsu Province the PRC	219,000,000
3.	An Industrial Complex located in No. 910, Jimingtang South Road, Huaqiao Town Kunshan City, Jiangsu Province the PRC	28,000,000 (under certain assumption)
	Total:	**333,000,000**

PROPERTY PARTICULARS AND OPINION OF VALUE

No.	Property	Description and tenure	Particulars of occupancy	Market Value as at 31 January 2020 *RMB*
1	An Industrial Complex located in No. 5, Luopu Road, Anting Town, Jiading District, Shanghai, the PRC (位於中華人民共和國上海市嘉定區安亭鎮洛浦路5號之廠房)	The property comprises an industrial complex with two steel constructed factories, a dormitory, a canteen and some ancillary buildings completed in between 1985 and 2001. It erected on 4 parcels of land with the total site area of approximately 26,795 sq.m. (288,421.38 sq.ft). The total gross floor area of the property is approximately 15,608.42 sq.m. (168,009 sq.ft.). The land use rights of the property have been granted for industrial use.	As advised, the property is owner-occupied for industrial use.	86,000,000 (RENMINBI EIGHTY SIX MILLION ONLY) (please see Note 2 below for certain assumption)

Notes:

1. Pursuant to four Real Estate Ownership Certificates, the real estate ownership of the property with a total gross floor area of approximately 15,608.42 sq.m. have been vested in Linkz Industries (Shanghai) Limited (領迅電線工業(上海)有限公司) ("Linkz (Shanghai)") for industrial use. Details of such certificates are listed as follows:

Real Estate Ownership Certificates	Site Area *(sq.m.)*	Land Ownership	Approximate Gross Floor Area *(sq.m.)*
Hu Fang Di Jia Zi (2008) No. 002921滬房地嘉字（2008）第002921號	3,225	Allocating land	0
Hu Fang Di Jia Zi (2008) No. 002910滬房地嘉字（2008）第002910號	9,017	Collective Land	5,888.94
Hu Fang Di Jia Zi (2008) No. 002911滬房地嘉字（2008）第002911號	13,526	Collective Land	8,931.11
Hu Fang Di Jia Zi (2008) No. 002920滬房地嘉字（2008）第002920號	1,027	Collective Land	788.37
Total:	26,795		15,608.42

2. According to the legal opinion issued by the Group's PRC legal adviser, the transferability of allocating land ownership is subject to restriction and require further application. Certain additional land premium is also payable. Concerning the uncertainties, in our valuation, we have not taken into account the allocating land. There is no building erected on such land.

   For collective land (title certificate reference: 滬房地嘉字(2008)第002911號, 滬房地嘉字(2008)第002920號 and 滬房地嘉字(2008)第002910號), in the opinion of the Group's PRC legal adviser, according to the Land Administration Law of the People's Republic of China, effective on 1 January 2020, the land user obtaining the collective profit-oriented construction land use right by transfer is entitled to freely transfer, exchange, financing, give or mortgage it in the market unless otherwise stipulated by law or agreed in the written contract executed by the land owner or the land user. Therefore, in our valuation, we have assumed that there is no legal impediment for the Company to freely transfer, lease, mortgage or disposed of the collective profit-oriented construction land use right in the market and no additional land premium is payable.

3. The property is situated at the north of Cao'an Road (曹安公路) and the south of Bao'an Road (寶安公路) in Anting Town. The subject locality comprises mainly industrial complexes and various residential developments.

4. We have been provided with a legal opinion by the Group's PRC legal adviser, Shu Jin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:

   (i) the property is legally held by Linkz (Shanghai);

   (ii) Linkz (Shanghai) is entitled to transfer, lease, mortgage or dispose of the collective land freely in the market upon obtaining approval from relevant authority; and

   (iii) the property is free from any mortgage or third parties' encumbrance.

PROPERTY PARTICULARS AND OPINION OF VALUE

No.	Property	Description and tenure	Particulars of occupancy	Market Value as at 31 January 2020 *RMB*
2	An Industrial Complex located in No. 88, Huaxun Road, Huaqiao Economic Development Zone, Kunshan City, Jiangsu Province, the PRC (位於中華人民共和國江蘇省昆山市花橋經濟開發區華迅路88號之廠房)	The property comprises an industrial complex with a steel constructed factory, a dormitory and some ancillary buildings completed in around 2008. It erected on a parcel of land with the total site area of approximately 68,116.7 sq.m. (733,208.16 sq.ft). The total gross floor area of the property is approximately 46,936.61 sq.m. (505,225.67 sq.ft.). The land use rights of the property have been granted for a term expiring on 24 March 2057 for industrial use.	As advised, the property is owner-occupied for industrial use.	219,000,000 (RENMINBI TWO HUNDRED AND NINETEEN MILLION ONLY)

Notes:

1. Pursuant to a Stated-owned Land Use Right Certificate -Kun Guo Yun (2007) No. 12007111064 (昆國用(2007)第12007111064號), the land use rights of the property with a total site area of approximately 68,116.7 sq.m. were granted to Linkz Industries (Suzhou) Limited (華迅工業(蘇州)有限公司) ("Linkz Ind (Suzhou)").

2. Pursuant to 3 Building Ownership Certificates — Kun Fang Quan Zheng Hua Qiao Zi No. 131012571, 131012572 and 13102573 (昆房權證花橋字第 131012571 號,131012572 號 and 13102573 號), the building ownership of the property with a total gross floor area of approximately 46,936.61 sq.m. have been vested in Linkz Ind (Suzhou) for industrial use.

3. The property is situated at the north east of National Highway No. G2 (京沪高速) in Huaxun Road, Huaqiao Economic Development Zone. The subject locality comprises mainly industrial complexes and various residential developments.

4. We have been provided with a legal opinion by the Group's PRC legal adviser, Shu Jin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:

   (i) the property is legally held by Linkz Ind (Suzhou);

   (ii) Linkz Ind (Suzhou) is entitled to transfer, lease, mortgage or dispose of the property freely in the market; portion of the property as set out in the Building Ownership Certificate – Kun Fang Quan Zheng Hua Qiao Zi No.131012571 with total gross floor area of 9,895.31 sq.m., cannot be separately transferred but can be transferred with other buildings together as a whole complex; and

   (iii) the property is free from any mortgage or third parties' encumbrance.

PROPERTY PARTICULARS AND OPINION OF VALUE

No.	Property	Description and tenure	Particulars of occupancy	Market Value as at 31 January 2020 *RMB*
3	An Industrial Complex located in No. 910, Jimingtang South Road, Huaqiao Town, Kunshan City, Jiangsu Province, the PRC (位於中華人民共和國江蘇省昆山市花橋鎮雞鳴塘南路910號之廠房)	The property comprises an industrial complex with two steel constructed factories and some ancillary buildings. It erected on a parcel of land with the total site area of approximately 9,268.10 sq.m. (99,762 sq.ft). The total gross floor area of the property is approximately 6,144.07 sq.m. (66,135 sq.ft.). The land use rights of the property have been granted for a term expiring on 19 September 2054 for industrial use.	As advised, the property is owner-occupied for industrial use.	28,000,000 (RENMINBI TWENTY EIGHT MILLION ONLY) (please see Note 3 below for certain assumption)

Notes:

1. Pursuant to a Collective Land Use Right Certificate – Kun Ji Yun (2005) No. 22005111029 (昆集用（2005）22005111029), the land use rights of the property with a total site area of approximately 9,268.10 sq.m. were granted to 昆山市德勤機械有限公司 (“Kunshan Deqin”).

Building Ownership Certificates	Usage	Total Storey	Approximate Gross Floor Area *(sq.m.)*
Kun Fang Quan Zheng Hua Qiao Zi Di No. 131039097 昆房權證花橋字第131039097	Security Room	1	43.99
Kun Fang Quan Zheng Hua Qiao Zi Di No. 131039098 昆房權證花橋字第131039098	Kitchen	1	85.10
Kun Fang Quan Zheng Hua Qiao Zi Di No. 131039099 昆房權證花橋字第131039099	Factory 1	2	3,351.66
Kun Fang Quan Zheng Hua Qiao Zi Di No. 131039100 昆房權證花橋字第131039100	Factory 2	2	2,663.32
	Total:		6,144.07

2. Pursuant to 4 Building Ownership Certificates, the building ownership of the Property with a total gross floor area of approximately 6,144.07 sq.m. have been vested in Kunshan Deqin for industrial use.

3. For collective land (title certificate reference: Kun Ji Yun (2005) Di No. 22005111029), in the opinion of Group's PRC legal advisor, according to the Land Administration Law of the People's Republic of China, effective on 1 January 2020, the land user obtaining the collective profit-oriented construction land use right by transferrable is entitled to freely transfer, exchange, financing, give or mortgage it in the market unless otherwise stipulated by law or agreed in the written contract executed by the land owner or the land user. Therefore, in our valuation, we have assumed that there is no legal impediment for the Company to freely transfer, lease, mortgage or disposed of the collective profit-oriented construction land use right in the market and no additional land premium is payable.

4. The property is situated at the north east of National Highway No. G2 (京沪高速) in Huaxun Road, Huaqiao Economic Development Zone. The subject locality comprises mainly industrial complexes and various residential developments.

5. We have been provided with a legal opinion by the Group's PRC legal adviser, Shu Jin Law Firm, regarding the legal title of the property, which contains, inter alia, the followings:

   (i) the property is legally held by Kunshan Deqin;

   (ii) Kunshan Deqin is entitled to transfer, lease, mortgage or dispose of the property freely in the market upon obtaining approval from relevant authority; and

   (iii) the property is free from any mortgage or third parties' encumbrance.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests or short positions of each of the Directors and the chief executive in the shares of the Company, underlying shares and 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 he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") to be notified to the Company and the Stock Exchange are set out as follows:

Long position in shares of the Company

Name of Director	Capacity/Nature	Number of shares held/ interested	Approximate percentage of interest
Mr. Paul Lo *(Note)*	Interest of a controlled corporation/others	1,175,070,000	63.86%

Note: Mr. Paul Lo beneficially owns the entire issued share capital of Nickson Holdings. Nickson Holdings and Mr. Paul Lo hold 20.14% and 39.68% of the issued ordinary share capital of Linkz Industries, respectively, and Time Holdings is wholly-owned by Linkz Industries. Accordingly, Mr. Paul Lo, is deemed, or taken to be, interested in all the shares held by Time Holdings for the purpose of the SFO. Mr. Paul Lo beneficially owns 2.84% of the issued shares capital of Gold Peak Industries (Holdings) Limited ("**Gold Peak**").

Long position in shares of associated corporation of the Company

Name of associated corporation	Name of Director	Nature of interest	Number of Shares held/ interested	Approximate percentage of interest
Linkz Industries	Mr. Cua Tin Yin Simon *(Note)*	Others	12,838,618	0.70%

Note: Mr. Cua Tin Yin Simon is the executive Director, holding 1.09% of the issued ordinary share capital of Linkz Industries. Mr. Cua Tin Yin Simon is also holding 0.011% of the issued share capital of Gold Peak.

Long position in the underlying shares of the share options granted under the Share Option Scheme

Name of the Directors	Number of the underlying Shares interested and nature of interests	Approximate percentage of the total issued Shares (%)*
Executive Directors		
Mr. Cua Tin Yin Simon	10,488,000	0.570
Mr. Wong Chi Kuen	9,528,000	0.518
Non-executive Director		
Mr. Paul Lo	1,824,000	0.099
Independent non-executive Directors		
Mr. Ho Hin Shun	1,824,000	0.099
Mr. Luk Wai Shing	1,824,000	0.099
Mr. Chan Chung Shun, Eric	1,824,000	0.099

*: The percentage was calculated based on 1,840,000,000 shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(ii) Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons/entities (other than the Directors and chief executives of the Company) had or were deemed to have an interest or a short position in the shares or the underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO, or who were directly or indirectly, to 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 the Company or any other member of the Group:

Name	Capacity/Nature	Number of Shares held/ interested	Approximate percentage of interest
Time Holdings	Beneficial owner	1,175,070,000	63.86%
Linkz Industries *(Note 1)*	Interest of controlled corporation	1,175,070,000	63.86%
Ms. Ho Hsiu Lan *(Note 2)*	Interest of spouse	1,175,070,000	63.86%
Nickson Holdings *(Note 3)*	Interest of controlled corporation	1,175,070,000	63.86%
GP Industries Limited *(Note 4)*	Interest of controlled corporation	1,175,070,000	63.86%
Gold Peak *(Note 5)*	Interest of controlled corporation	1,175,070,000	63.86%
Datatech Investment Inc.	Beneficial owner	204,930,000	11.14%
Mr. Kwong Ping Man *(Note 6)*	Interest of controlled corporation	204,930,000	11.14%
Ms. Chan Kit Sum *(Note 7)*	Interest of spouse	204,930,000	11.14%

Notes:

1) Time Holdings is wholly-owned by Linkz Industries. Therefore, Linkz Industries is deemed, or taken to be, interested in all the shares held by Time Holdings for the purpose of the SFO.

2) Ms. Ho Hsiu Lan is the spouse of Mr. Paul Lo. Accordingly, Ms. Ho Hsiu Lan is deemed, or taken to be, interested in all the shares in which Mr. Paul Lo is interested for the purpose of the SFO.

3) Nickson Holdings holds 20.14% of the issued ordinary share capital of Linkz Industries, and Time Holdings is wholly-owned by Linkz Industries. Therefore, Nickson Holdings is deemed to, or taken to be, interested in all the shares held by Time Holdings for the purpose of the SFO.

4) GP Industries Limited ("**GP Industries**") holds 38.13% of the issued ordinary share capital of Linkz Industries, and Time Holdings is wholly-owned by Linkz Industries. Therefore, GP Industries is deemed, or taken to be, interested in all the shares held by Time Holdings for the purpose of the SFO.

5) Gold Peak holds 85.47% issued share capital of GP Industries. GP Industries holds 38.13% of the issued ordinary share capital of Linkz Industries, and Time Holdings is wholly-owned by Linkz Industries. Therefore, Gold Peak is deemed, or taken to be, interested in all the shares held by Time Holdings for the purpose of the SFO.

6) Mr. Kwong Ping Man beneficially owns the entire issued share capital of Datatech Investment Inc.. Therefore, Mr. Kwong Ping Man is deemed, or taken to be, interested in all the shares held by Datatech Investment Inc. for the purpose of the SFO. Mr. Kwong Ping Man is the sole director of Datatech Investment Inc..

7) Ms. Chan Kit Sum is the spouse of Mr. Kwong Ping Man. Accordingly, Ms. Chan Kit Sum is deemed, or taken to be, interested in all the shares in which Mr. Kwong Ping Man is interested for the purpose of the SFO.

Mr. Cua Tin Yin Simon is a director of Linkz Industries. Mr. Paul Lo is a director of each of Time Holdings, Linkz Industries and Nickson Holdings.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interest or short positions in the shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

(iii) Competing interests

As at the Latest Practicable Date, none of the Directors or their respective associates was considered to have interests in businesses apart from the Enlarged Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Enlarged Group pursuant to Rule 8.10 of the Listing Rules.

(iv) Other interests

As at the Latest Practicable Date, save for the Vendor which is ultimately and beneficially owned by Mr. Paul Lo as to 59.82% of its effective interest as set out in the section headed "Letter from the Board — Listing Rules implications" to this circular, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2019 (the date to which the latest published audited consolidated financial statements of the Group were made up) up to the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date thereof and which was significant in relation to the business of the Enlarged Group as at the Latest Practicable Date.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed services contracts with any member of the Enlarged Group which is not expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

4. EXPERTS AND CONSENTS

The following is the name and qualification of the experts who have given opinion or advice which is referred to or contained in this circular:

Name	Qualification
First Capital International Finance Limited	A licensed corporation permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Shu Jin Law Firm	Legal adviser to the Company as to PRC laws
Deloitte Touche Tohmatsu	Certified Public Accountants
China Research and Intelligence Co., Ltd	Independent market research consultant
RHL Appraisal Limited	Independent professional valuer
Sam K. M. Ng CPA Limited	Internal control consultant

Each of the above experts had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, advice and opinion and references to its name in the form and context in which it appeared.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Enlarged Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group. In addition, each of the above experts did not have any interest in any assets which have been, since 31 March 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

5. MATERIAL LITIGATION

At the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation arbitration or claim of material importance and no litigation or claims of material importance was pending or threatened against any member of the Enlarged Group.

6. INTELLECTUAL PROPERTIES OF THE TARGET GROUP

Set out below are the intellectual properties that are considered to be material to the business of the Target Group and with which the Target Group conducts the majority of its business:

Trademarks

As at the Latest Practicable Date, the Target Group has registered the following trademarks in the PRC:

No.	Trademark	Registered owner	Class	Registration number	Duration
1	LINGXUN 领迅	Linkz Ind (Suzhou)	9	7280521	21 November 2010 — 20 November 2030
2	LINGXUN 领迅	Linkz Ind (Suzhou)	9	10185599	14 January 2013 — 13 January 2023
3	HuaXun 华迅	Linkz Ind (Suzhou)	9	10185654	7 February 2014 — 6 February 2024
4	领迅	Linkz Ind (Suzhou)	9	15001999	21 September 2015 — 20 September 2025
5	LINGXUN	Linkz Ind (Suzhou)	9	15002003	7 January 2017 — 6 January 2027
6	华迅	Linkz Ind (Suzhou)	9	15002042	28 October 2015 — 27 October 2025

Domain Names

As at the Latest Practicable Date, the Target Group has registered the following domain names:

No.	Domain name	Registrant	Expiry date
1	huaxuncable.com	Linkz Ind (Suzhou)	4 May 2024
2	华迅工业.com	Linkz Ind (Suzhou)	10 November 2022

Patents

As at the Latest Practicable Date, the Target Group has registered the following patents in the PRC:

No.	Description of patent	Registered owner	Patent number	Certificate number	Date of application	Term
1	Unshielded symmetrical ethernet data cable 以太網用屏蔽與非屏蔽對稱數據電纜	Linkz Ind (Suzhou)	ZL201120265233.6	2152284	26 July 2011	10 years
2	Unshielded symmetrical ethernet data cable 以太網用屏蔽與非屏蔽對稱數據電纜	Linkz Ind (Suzhou)	ZL201120265232.1	2153530	26 July 2011	10 years
3	Multifunction compound cable 多功能複合電纜	Linkz Ind (Suzhou)	ZL201120550440.6	2344949	26 December 2011	10 years
4	Multipair Cat 6A Shielded Twisted Pair data communication cable 多對數超六類屏蔽數據通信對絞電纜	Linkz Ind (Suzhou)	ZL201220010977.8	2380902	11 January 2012	10 years
5	Double sheathed with new type of filler Cat 6A unshielded twisted pair data communication cable 雙護套新型填充超六類非屏蔽數據通信對絞電纜	Linkz Ind (Suzhou)	ZL201220032590.2	2402424	2 February 2012	10 years
6	Dual-header twin-screw continuous insulated extruder equipment 雙機頭雙螺杆連續絕緣押出設備	Linkz Ind (Suzhou)	ZL201220067984.1	2476625	28 February 2012	10 years
7	Antistatic symmetrical ethernet data cable 以太網用抗靜電對稱數據電纜	Linkz Ind (Suzhou)	ZL201420294549.1	3842265	5 June 2014	10 years
8	Data cable material processing equipment 數據綫材料加工設備	Linkz Ind (Suzhou)	ZL201410462986.4	2279689	12 September 2014	20 years
9	A new type of symmetrical ethernet data cable 一種新型以太網用對稱數據電纜	Linkz Ind (Suzhou)	ZL201420294566.5	3846416	5 June 2014	10 years
10	A type of (PTFE Insulated) CMP unshielded parallel symmetrical ethernet data cable 以太網用發泡絕緣CMP級非屏蔽水平對稱數據電纜	Linkz Ind (Suzhou)	ZL201520157419.8	4545569	19 March 2015	10 years
11	Water and UV resistant, parallel symmetrical high speed ethernet data cable 高速以太網用阻水耐UV型水平對稱數據電纜	Linkz Ind (Suzhou)	ZL201520157420.0	4544966	19 March 2015	10 years
12	Ultrasound scanner equipment connector cable 超聲波掃描設備連接綫	Linkz Ind (Suzhou)	ZL201520157225.8	4545731	19 March 2015	10 years
13	Unshielded (PTFE Insulated) Cat 6 symmetrical ethernet data cable 以太網用非屏蔽鐵氟籠發泡絕緣六類水平對稱數據電纜	Linkz Ind (Suzhou)	ZL201520157223.9	4824940	19 March 2015	10 years
14	Unshielded twisted pair cable 非屏蔽式扭絞綫對電纜	Linkz Ind (Suzhou)	ZL201620773777.6	5886495	22 July 2016	10 years

No.	Description of patent	Registered owner	Patent number	Certificate number	Date of application	Term
15	A type of communication cable 一種通信電纜	Linkz Ind (Suzhou)	ZL201620773776.1	5904933	22 July 2016	10 years
16	A type of FTP exterior mould construction 一種FTP綫纜品外被模具結構	Linkz Ind (Suzhou)	ZL201720704115.8	6923989	16 June 2017	10 years
17	A type of symmetrical ethernet cable 一種以太網用對稱數據電纜	Linkz Ind (Suzhou)	ZL201720799641.7	6924370	4 July 2017	10 years
18	A type of local area network cable with water resistant structure 一種具有阻水結構的局域網絡用綫	Linkz Ind (Suzhou)	ZL201720799642.1	6924369	4 July 2017	10 years
19	A type of cloud computing high speed transmission parallel pair SFP+ cable 一種雲計算高速傳輸平行對SFP+綫纜	Linkz Ind (Suzhou)	ZL201720798947.0	7208959	4 July 2017	10 years
20	A new type of mould for extruding cable sheath 一種新型電纜護套押出用模具	Linkz Ind (Suzhou)	ZL201720869173.6	7208321	18 July 2017	10 years
21	A type of symmetrical ethernet data cable 一種以太網用對稱數據電纜	Linkz Ind (Suzhou)	ZL201710774191.0	3320873	31 August 2017	20 years
22	A type of shielded ethernet data cable 一種以太網用屏蔽數據電纜	Linkz Ind (Suzhou)	ZL201820501729.0	8108289	10 April 2018	10 years
23	A type of symmetrical ethernet data cable 一種以太網用對稱數據電纜	Linkz Ind (Suzhou)	ZL201820505834.1	8102162	11 April 2018	10 years
24	A type of antistatic laminated tape for symmetrical data cable 一種對稱數據電纜用抗靜電金屬箔塑料複合帶	Linkz Ind (Suzhou)	ZL201820505945.2	8438562	11 April 2018	10 years
25	A type of highly antistatic network cable for rail transit use 一種軌道交通用高強度抗靜電網絡線纜	Linkz Ind (Suzhou)	ZL201920256208.8	9548336	28 February 2019	10 years
26	A type of highly flame-retardant network cable for rail transit use 一種高阻燃軌道交通用網絡線纜	Linkz Ind (Suzhou)	ZL201920256914.2	9545678	28 February 2019	10 years
27	A type of mold and extrusion device for double co-extrusion rail transit network cable 一種軌道交通用線纜雙層共擠外模具及擠出裝置	Linkz Ind (Suzhou)	ZL20192025622 5.1	9940650	28 February 2019	10 years
28	Unshielded braided or slanted coated parallel ethernet data cable 以太網用非屏蔽編織或斜包對稱數據電纜	Linkz (Shanghai)	ZL201120509571.X	2503480	8 December 2011	10 years
29	Compound shielded symmetrical ethernet data cable 以太網用複合屏蔽對稱數據電纜	Linkz (Shanghai)	ZL201621390271.3	6276204	16 December 2016	10 years
30	Multimedia combination cable for elevators 電梯用多媒體組合電纜	Linkz (Shanghai)	ZL200510029451.9	395601	7 September 2005	20 years

7. MATERIAL CONTRACTS

The S&P Agreement has been entered into by the Enlarged Group (not being contract entered into in the ordinary course of business) within two years immediately preceding the date of this circular and is or may be material.

8. GENERAL

(a) The registered office of the Company is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Unit 601, Photonics Centre, 2 Science Park East Avenue, Hong Kong Science Park, Shatin, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Ms. Ng Hoi Ying, who is a member of the Hong Kong Institute of Certified Public Accountants.

(e) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit 601, Photonics Centre, 2 Science Park East Avenue, Hong Kong Science Park, Shatin, Hong Kong from the date of this circular and up to and including the date which is 14 days from the date of this circular:

(a) the memorandum of association and articles of association of the Company;

(b) the letter from the Board, the text of which is set out in "Letter from the Board" in this circular;

(c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in "Letter from the Independent Board Committee" in this circular;

(d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in "Letter from the Independent Financial Adviser" in this circular;

(e) the accountant's report on the Target Group from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group from Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this circular;

(g) the valuation report on the Properties from RHL Appraisal Limited, the text of which is set out in Appendix IV to this circular;

(h) the legal opinion issued by Shu Jin Law Firm;

(i) the market research report prepared by CRI;

(j) the internal control report prepared by Sam K.M. Ng CPA Limited;

(k) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;

(l) the material contract referred to in the paragraph headed "Material contracts" in this appendix;

(m) the annual reports of the Company for the years ended 31 March 2018 and 2019 and the interim report of the Company for the six months ended 30 September 2019;

(n) the Property Sharing Agreement;

(o) the Administrative Services Agreement; and

(p) this circular.

匯聚科技有限公司
TIME Interconnect Technology Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1729)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of Time Interconnect Technology Limited (the "**Company**") will be held at 2:30 p.m. on Wednesday, 29 April 2020 at Salon Room I, L/F, Hyatt Regency Hong Kong, 18 Chak Cheung Street, Sha Tin, New Territories, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendment, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) the S&P Agreement (as defined in the circular of the Company dated 30 March 2020 (the "**Circular**")) dated 24 March 2020, entered into between the Company as the purchaser, and Linkz Industries Limited as the vendor, pursuant to which the Company conditionally agreed to acquire and Linkz Industries Limited conditionally agreed to sell, the entire issued capital of Linkz Cables Limited (華迅電纜有限公司) (the "**Target Company**", together with its subsidiaries upon completion of reorganisation, the "**Target Group**") and the shareholder's loan in the sum owed by the Target Group to Linkz Industries Limited as at Completion (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one or more director of the Company be and is hereby authorised to do all acts and things and to execute all such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all steps which, in his opinion deem necessary or expedient to carry out or to give effect to any matters relating to or in connection with the S&P Agreement.

By order of the Board
Time Interconnect Technology Limited
Cua Tin Yin Simon
Executive Director and Chief Executive Officer

Hong Kong, 30 March 2020

Registered office:
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 601, Photonics Centre
2 Science Park East Avenue
Hong Kong Science Park
Shatin
Hong Kong

Notes:

1. A form of proxy for the meeting is enclosed.

2. Only members are entitled to attend and vote at the meeting (or at any adjournment thereof).

3. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him/her. A proxy need not be a member of the Company.

4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.

5. In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof (as the case may be).

6. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should the member so wish, and in such event, the proxy form shall be deemed to be revoked.

7. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.