



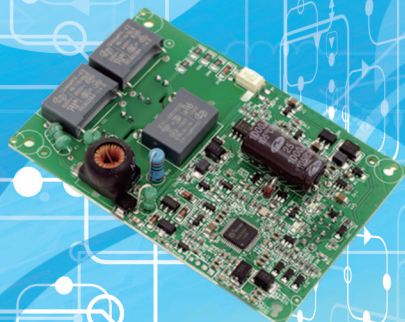
**RISECOMM**  
瑞斯康

# Risecomm Group Holdings Limited

## 瑞斯康集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1679



# GLOBAL OFFERING

Sole Sponsor

 **中國銀河國際**  
CHINA GALAXY INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

 **中國銀河國際**  
CHINA GALAXY INTERNATIONAL

 **長亞證券**  
Longasia

# IMPORTANT

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



**RISECOMM**  
**瑞斯康**

**RISECOMM GROUP HOLDINGS LIMITED**  
**瑞斯康集團控股有限公司**

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

## GLOBAL OFFERING

<b>Number of Offer Shares under the Global Offering</b>	<b>: 200,000,000 Shares (subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 20,000,000 Shares (subject to adjustment)</b>
<b>Number of International Offer Shares</b>	<b>: 180,000,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Maximum Offer Price</b>	<b>: HK\$1.00 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)</b>
<b>Nominal Value</b>	<b>: HK\$0.0001 per Share</b>
<b>Stock Code</b>	<b>: 1679</b>

*Sole Sponsor*



*Joint Bookrunners and Joint Lead Managers*



*Co-lead Managers*



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

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

The Offer Price is expected to be fixed by agreement between China Galaxy International (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, June 2, 2017 and, in any event, unless otherwise announced, not later than Monday, June 5, 2017. The Offer Price will be no more than HK\$1.00 and is currently expected to be no less than HK\$0.90 unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$1.00 for each Offer Share together with a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is lower than HK\$1.00.

China Galaxy International (for itself and on behalf of the Underwriters) may, where considered appropriate, reduce the indicative offer price range below that which is stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company at [www.risecomm.com.cn](http://www.risecomm.com.cn) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between China Galaxy International (for itself and on behalf of the Underwriters) and us on or before Monday, June 5, 2017, unless otherwise announced, the Global Offering will not proceed and will lapse.

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

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares are subject to termination by China Galaxy International (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares will be offered and sold only outside the United States in reliance on Regulation S.

May 29, 2017

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

### Latest time to complete **electronic applications**

under **HK eIPO White Form** service

through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(2)</sup> ..... 11:30 a.m. on  
Friday, June 2, 2017

Application lists open<sup>(3)</sup> ..... 11:45 a.m. on  
Friday, June 2, 2017

### Latest time to lodge **WHITE** and **YELLOW** Application Forms

and **electronic application instructions** to HKSCC<sup>(4)</sup> ..... 12:00 noon on  
Friday, June 2, 2017

### Latest time to complete payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s)

or PPS payment transfer(s) ..... 12:00 noon on  
Friday, June 2, 2017

Application lists close ..... 12:00 noon on  
Friday, June 2, 2017

Expected Price Determination Date<sup>(5)</sup> ..... Friday, June 2, 2017

### Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares,

to be published on the websites of the Stock Exchange

at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company

at [www.risecomm.com.cn](http://www.risecomm.com.cn) on or before ..... Thursday, June 8, 2017

### Results of allocations of the Hong Kong Public Offering

(including successful applicants' identification document numbers,

where appropriate) to be available through a variety of channels

(see the section headed "How to Apply for Hong Kong Offer Shares

— 11. Publication of Results" in this prospectus) ..... Thursday, June 8, 2017

### Results of allocations in the Hong Kong Public Offering

to be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result),

with a "search by ID" function ..... Thursday, June 8, 2017

### Dispatch/collection of refund cheques or HK eIPO White Form

e-Auto Refund payment instructions in respect of

wholly or partially unsuccessful applications and wholly or partially

successful applications if the final Offer Price is less than

the price payable an application (if applicable) on or before<sup>(6)</sup> ..... Thursday, June 8, 2017

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

Dispatch/collection of Share certificates or deposit of Share certificates into CCASS in respect of wholly or partially successful applications on or before<sup>(6)</sup> ..... Thursday, June 8, 2017

Dealings in Shares on the Stock Exchange expected to commence at ..... 9:00 a.m. on Friday, June 9, 2017

*Notes:*

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Friday, June 2, 2017, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) If you apply by giving **electronic application instructions** to HKSCC, you should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with China Galaxy International (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, June 2, 2017 and, in any event, unless otherwise announced, not later than Monday, June 5, 2017. If, for any reason, the Offer Price is not agreed between China Galaxy International (for itself and on behalf of the Underwriters) and us by Monday, June 5, 2017, unless otherwise announced, the Global Offering will not proceed and will lapse.
- (6) We will issue refund cheque or e-Auto Refund payment instructions to you if your application is wholly or partially unsuccessful or if the final Offer Price is less than the price per Offer Share payable on application. We will dispatch Share certificates and refund cheque(s) by ordinary post to you at your own risk to the address you specified in your Application Form. If you have applied for 1,000,000 Hong Kong Offer Shares or more and have provided all information required in your Application Form, you may collect refund cheque(s) and/or Share certificates from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, June 8, 2017 or any other place and date we announce on the websites of the Stock Exchange and of the Company as the place and date of dispatch of Share certificates/e-Auto Refund payment instructions/refund cheque(s). If you are an individual applicant, you may not authorize any other person to collect on your behalf. If you are a corporate applicant, you must attend by your authorized representative with your letter of authorization stamped with your corporate chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you fail to collect within the time specified for collection, we will dispatch uncollected Share certificates and refund cheque(s) by ordinary post at your own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

**Share certificates are expected to be issued on Thursday, June 8, 2017 but will only become valid certificates of title if the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements is terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be Friday, June 9, 2017.**

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

## CONTENTS

*This prospectus is issued by our Company solely for the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction outside Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

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

	<i>Page</i>
Expected Timetable .....	i
Contents .....	iii
Summary .....	1
Definitions .....	12
Glossary of Technical Terms .....	22
Forward-looking Statements .....	26
Risk Factors .....	28
Waiver from Strict Compliance with the Listing Rules .....	45
Information about this Prospectus and the Global Offering .....	47
Directors and Parties Involved in the Global Offering .....	50
Corporate Information .....	54
Industry Overview .....	56
Regulatory Overview .....	69
History, Development and Reorganization .....	80

## CONTENTS

	<i>Page</i>
Business .....	105
Continuing Connected Transaction .....	158
Directors, Senior Management and Employees .....	160
Substantial Shareholders .....	176
Cornerstone Investor .....	178
Share Capital .....	181
Financial Information .....	185
Future Plans and Use of Proceeds .....	233
Underwriting .....	235
Structure of the Global Offering .....	246
How to Apply for Hong Kong Offer Shares .....	254
Appendix I — Accountants' Report .....	I-1
Appendix II — Unaudited Pro Forma Financial Information .....	II-1
Appendix III — Summary of the Constitution of our Company and Cayman Islands Company Law .....	III-1
Appendix IV — Statutory and General Information .....	IV-1
Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection .....	V-1

## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are a fabless research and development oriented technology company specialized in the design, development and sale of system-on-chip ICs, modules, devices and solutions adopting the power line communications technology, or PLC technology. According to Frost & Sullivan, we were one of the largest PLC technology companies in China in 2016 with a market share of 11.2% in terms of sales volume of PLC products. The PLC technology is a communications technology which enables data transmission on existing power line infrastructure without requiring extra wiring, which generally requires lower deployment cost as compared to other wired communications technologies and is more stable and secure than many of the wireless technologies, according to Frost & Sullivan.

**AMR business.** Our PLC products have been mainly used in the deployment and upgrade of automated meter reading systems, or AMR systems, for smart meters by power grid companies in China as a key part of the smart grid infrastructure. We pioneered in developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid, the largest power grid company in China.

**Smart energy management business.** We were also one of the first PLC technology companies in China offering PLC products and solutions for a number of applications related to energy saving and environmental protection, according to Frost & Sullivan. These applications include streetlight control, building energy management and photovoltaic power management. We were the largest PLC solutions provider in China for streetlight control with a market share of 48.1% in terms of sales volume of PLC products in 2016, according to Frost & Sullivan.

The following table sets out the breakdown of our revenue and gross profit margin by business segment for the periods indicated:

	Year ended December 31,								
	2014			2015			2016		
Business segment	Revenue	% of total	Gross profit margin	Revenue	% of total	Gross profit margin	Revenue	% of total	Gross profit margin
	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%
AMR business	219,864	94.5	49.9	333,229	97.8	51.9	376,673	96.5	50.5
Smart energy management business	<u>12,764</u>	<u>5.5</u>	39.4	<u>7,495</u>	<u>2.2</u>	36.9	<u>13,537</u>	<u>3.5</u>	37.1
Total	<u>232,628</u>	<u>100.0</u>	49.4	<u>340,724</u>	<u>100.0</u>	51.6	<u>390,210</u>	<u>100.0</u>	50.0

### BUSINESS MODEL

#### AMR Business

During the Track Record Period, the vast majority of our revenue was generated from our AMR business, which accounted for 94.5%, 97.8% and 96.5% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. Our AMR products mainly include PLC ICs, modules and devices, such as concentrators and collectors, which are generally sold in China to (i) meter manufacturers as components for their production of smart meters which are in turn supplied to power grid companies in China, or sold for export, (ii) power grid companies, both directly and indirectly, for the replacement or upgrade of existing AMR devices, and (iii) an ODM customer, Topsky, which sells to meter manufacturers or power grid companies directly. In addition, we provide maintenance services on AMR systems on a project-by-project basis. We had historically collaborated with Beijing RSK Electronics, our then exclusive sales partner prior to February 2014, for our AMR sales to successful meter manufacturer bidders under State Grid biddings.

## SUMMARY

The following table sets out the breakdown of our AMR revenue and gross profit margin by customer type for the periods indicated:

Customer type	Year ended December 31,								
	2014			2015			2016		
	AMR Revenue	% of total	Gross profit margin	AMR Revenue	% of total	Gross profit margin	AMR Revenue	% of total	Gross profit margin
	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%
Meter manufacturers	123,301	56.1	59.3	204,898	61.5	58.3	218,726	58.1	58.0
Power grid companies <sup>(1)</sup>	50,356	22.9	45.5	76,917	23.1	45.2	107,663	28.6	40.5
Topsky (ODM)	3,901	1.8	30.2	50,944	15.3	36.3	50,284	13.3	39.5
Beijing RSK Electronics	42,306	19.2	29.8	469	0.1	69.3	—	—	—
<b>Total</b>	<u>219,864</u>	<u>100.0</u>	49.9	<u>333,229</u>	<u>100.0</u>	51.9	<u>376,673</u>	<u>100.0</u>	50.5

*Note:*

- (1) AMR revenue from power grid companies includes product sales to and maintenance services for power grid companies, both directly and indirectly through designated entities of power grid companies, and, from time to time, other technology companies.

State Grid and Southern Grid are the two state-owned power grid companies predominantly controlling the power distribution sector in China with their AMR systems commercially deployed in 26 and five provinces in China, respectively. During the Track Record Period, our AMR business had mainly been driven by the amount and timing of procurement and deployment of AMR devices, in particular smart meters, by these power grid companies as end users of our AMR products. Our revenue derived directly and indirectly from State Grid, as ultimate customer of our AMR business, in aggregate amounted to RMB211.8 million, RMB311.4 million and RMB326.2 million for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for 91.0%, 91.4% and 83.6% of our total revenue, respectively. Our revenue derived directly and indirectly from Southern Grid, as ultimate customer of our AMR business, in aggregate amounted to nil, RMB0.4 million and RMB16.3 million for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for nil, 0.1% and 4.2% of our total revenue, respectively. We had achieved significant growth in our AMR business over the years by leveraging our well-established relationship with State Grid:

- In 2008, we were selected by State Grid to participate in its first AMR pilot project in China which took place in Heilongjiang Province;
- In 2010, we became one of the first PLC technology companies in China to have AMR products commercially deployed in State Grid's AMR systems;
- Starting from 2012, we had been invited by State Grid to participate in the formulation and setting of PLC industry standards in connection with AMR deployment, as well as the assessment and pursuit of newer technologies such as broadband PLC and "PLC+RF" dual-mode communications;
- Over the years, we took part in various AMR pilot projects initiated by State Grid, including those for the deployment of OFDM ICs, broadband PLC and the "Four-Meters-in-One" initiative; and
- As of December 31, 2016, our AMR products were commercially deployed by State Grid in 23 out of the 26 provinces it covered in China.

On the other hand, we became a qualified PLC technology company for Southern Grid in 2015, which allows us to tap into more business opportunities as Southern Grid commenced its commercial deployment of AMR systems in March 2016. As of the Latest Practicable Date, we had won biddings and subsequently entered into sales contracts with Southern Grid for supplying AMR products, such as concentrators, in connection with Southern Grid's commercial deployment of AMR systems in Guangdong, Guangxi and Yunnan provinces. Starting from 2016, we had also supplied AMR products to several meter manufacturers for the production of smart meters commercially deployed by Southern Grid in these provinces.

State Grid and Southern Grid generally conduct biddings to procure AMR devices for the deployment and upgrades of AMR systems. We need to pass certain product accreditation with the testing institutes endorsed by power grid companies before we can supply AMR products to meter manufacturers who are successful bidders of those AMR biddings. We enter into sales contracts with these meter manufacturers and the prices of our AMR products sold to meter manufacturers are generally determined



## SUMMARY

by negotiation, taking into account the purchase amount, historical price ranges and actual deployment volume and location. For AMR products supplied by us to power grid companies through our direct participation in local biddings, we need to undergo certain supplier qualification process with the power grid companies before we can directly participate in such biddings. Prices for products sold to power grid companies through our direct participation in biddings are generally determined taking into account our product technology advantages and competitor prices. Our revenue from AMR biddings in which we directly participated was RMB28.2 million, RMB22.7 million and RMB47.0 million for the years ended December 31, 2014, 2015 and 2016, respectively. For details, see the section headed “Business — Sales and Marketing — Relationship with Power Grid Companies and Meter Manufacturers — AMR Biddings” in this prospectus.

Our AMR revenue from sales to power grid companies, both directly and indirectly through their designated entities, and, from time to time, other technologies companies increased considerably during the Track Record Period. Accordingly, our trade receivables increased from RMB40.2 million as of December 31, 2014 to RMB104.3 million as of December 31, 2016 and our trade receivables turnover days increased from 63 days in 2014 to 94 days in 2016, primarily due to the increase in sales to local power grid companies (and their designated entities) who generally require longer settlement period given their governmental background and relatively lengthy payment approval process. We expect our trade receivables and trade receivables turnover days are likely to continue to increase in the future as we continue to enhance our AMR business with direct sales to those local power grid companies and their designated entities.

Prior to February 2014, we collaborated with Beijing RSK Electronics on the marketing of our AMR products in China and the sales of our AMR products to meter manufacturers that were successful bidders in centralized biddings conducted by State Grid. Such collaboration relationship began in 2009 at a time when we were a young technology company having relatively limited resources in commercializing our research and development results and bringing newly developed products to the market, and it was initially established with a view to seizing the considerable new market opportunity arising from the then anticipated rapid commercial deployment of AMR systems by State Grid in early 2010s.

As we experienced continuous business growth over the years, our management made a strategic decision in early 2014 to entirely internalize the sales and marketing function and conduct our sales directly, and terminated the sales collaboration arrangement with Beijing RSK Electronics. Since then, Beijing RSK Electronics ceased to operate as our exclusive sales channel, and our sales model for AMR products under State Grid’s centralized biddings had changed to direct sales to successful meter manufacturer bidders. Due to such historical sales collaboration arrangement, Beijing RSK Electronics was our largest customer for the year ended December 31, 2014, accounting for 18.2% of our total revenue in 2014. On the other hand, our Chairman Mr. Wang Shiguang, who was a former shareholder, chairman and general manager of Beijing RSK Electronics, and his spouse Ms. Chen Junling, currently one of our senior management and formerly a sales manager of Beijing RSK Electronics, became shareholders in our Group in March 2014 and also joined our Group in June 2014 to lead our sales and marketing efforts. We ceased our sales collaboration with Beijing RSK Electronics in 2014 out of our own need for business development, not as a result of the investment made by or the joining of Mr. Wang Shiguang and Ms. Chen Junling with our Group. For details, see the section headed “Business — Sales and Marketing — Historical Sales Collaboration with Beijing RSK Electronics” in this prospectus.

During the Track Record Period, we developed and sold some of our AMR products on an ODM basis to Topsy, an Independent Third Party, under its own brand or any other brand as specified by it. Our AMR products sold to Topsy feature technical specifications that are distinct from our own-brand products. Topsy was our largest customer for the years ended December 31, 2015 and 2016, accounting for 15.0% and 12.9% of our total revenue, respectively. For details, see the section headed “Business — Sales and Marketing — Sales to Topsy” in this prospectus.

## SUMMARY

The following table sets out the breakdown of sales volume and average selling prices of our major AMR products for the periods indicated:

Major AMR product type	Year ended December 31,					
	2014		2015		2016	
	Sales Volume	Average Selling Price RMB <i>per unit</i>	Sales Volume	Average Selling Price RMB <i>per unit</i>	Sales Volume	Average Selling Price RMB <i>per unit</i>
	<i>'000 units</i>		<i>'000 units</i>		<i>'000 units</i>	
PLC ICs	4,875	16.6	6,716	16.1	7,286	15.8
PLC modules	3,365	38.4	5,608	35.5	5,875	36.5
	<u>8,240</u>		<u>12,324</u>		<u>13,161</u>	

### Smart Energy Management Business

In addition to our AMR business, we also provide smart energy management products and solutions for various strategically selected PLC applications related to energy saving and environmental protections. These include streetlight control, building energy management and photovoltaic power management, in which the PLC technology is adopted to enable effective communication for remote control and monitor of various kinds of energy consumption or generation systems.

Our smart energy management products usually include PLC ICs, modules and devices, such as smart terminal controllers and concentrators. We also provide PLC solutions by setting up software control platform for smart energy management systems aside from supplying the hardware products. We provide PLC-based smart energy management products and solutions primarily to device manufacturers, system integrators, energy management companies, as well as for enterprise users, including schools, factories and hotels, in China. As of December 31, 2016, our PLC products and solutions were sold to streetlight control customers in 15 provinces in China and were utilized in building energy management projects in 16 cities in China, including Foxconn's production complexities in four cities and various chain hotels in ten cities in China. For details, see the section headed "Business — Smart Energy Management Business" in this prospectus.

### Our PLC Technology and Research and Development

Since our inception in 2006, we have been committed to PLC IC design and its applications tailored to China's market environment. While most of our competitors source general purpose IC chipsets for the production of their PLC ICs, we differentiate ourselves by establishing our core competency in designing advanced application-specific ICs, or ASICs, and using these proprietary ASICs to develop our PLC products.

According to Frost & Sullivan, our proprietary PLC ICs have superior performance in terms of reliability in data communications and real-time data transfer as they implement the following key communications technologies:

- mesh networking protocol, which allows peer-to-peer communications enabling more interactive data transfer, initiating data signals not only from the concentrator but also from any smart terminal;
- dynamic auto-routing, which utilizes the mesh networking protocol and is capable of automatically optimizing the data routing paths, thereby allowing self-construction and self-healing of an effective PLC network system; and
- CSMA technology, which is designed to reduce collisions of data signals by detecting data congestion at the fundamental physical layer of a communication IC.

Our research and development efforts are led by a team of professionals with extensive experience in IC design, communications technology and software development, including our co-founders, Mr. Yue Jingxing, currently our executive Director and Chief Executive Officer, and Dr. Gu Jian, currently the chief technology officer and vice president of Risecomm WFOE, both of whom received a postgraduate degree in electrical engineering in the United States in the 1990s and have over 20 years of experience in related fields. As of December 31, 2016, we had a total of 140 research and development staff located in Shenzhen, Wuxi, Changsha and Hong Kong, approximately 12.1% of whom had a master's degree or higher (including PhD degrees) in related areas such as communications technologies and electronic automation. Our research and development expenses accounted for 9.0%, 7.8% and 9.7% of our total

## SUMMARY

revenue for the years ended December 31, 2014, 2015 and 2016, respectively. As of the Latest Practicable Date, we had successfully developed and registered a significant intellectual property portfolio, comprising 24 patents, 43 computer software copyrights, seven registered software products and seven IC layout designs, signifying our achievements in research and development of the PLC technology. For details, see the section headed “Business — Research and Development” in this prospectus.

### **Production and Procurement**

We adopt a fabless business model which allows us to better focus our resources on IC design and product development. Under this model, we do not engage in in-house production of IC chipsets, and instead procure IC chipsets, as our major raw materials, from IC chipset suppliers which provide application-specific ICs based on the proprietary designs we developed. We source IC chipsets mainly from two major IC chipsets suppliers from Hong Kong and Taiwan, respectively, which were our largest suppliers during the Track Record Period. Our other suppliers mainly include (i) vendors of non-IC chipset electronic components; and (ii) outsourced service providers for the PCBA assembly of our PLC modules, as well as for the provision of AMR maintenance services. For details, see the section headed “Business — Production and Procurement” in this prospectus.

During the Track Record Period, raw materials constituted the majority of our cost of sales. In particular, cost of IC chipsets accounted for 51.8%, 49.4% and 44.3% of our cost of sales for the years ended December 31, 2014, 2015 and 2016, respectively. Our other cost of sales mainly comprised of PCBA assembly fees, AMR maintenance services outsourcing fees and staff costs. For details, see the section headed “Financial Information — Description of Selected Consolidated Statements of Profit or Loss Line Items — Cost of Sales” in this prospectus.

While substantially all of our sales and most of our costs and expenses are denominated in Renminbi, our purchase of IC chipsets is primarily denominated in U.S. dollar. Therefore, we are subject to the risk of fluctuations in the exchange rate of Renminbi against U.S. dollar. For instance, we had experienced net exchange loss since 2014, which mainly arose from the translation loss of our U.S. dollar-denominated trade payables for procurement of IC chipsets as U.S. dollar appreciated against Renminbi during the same period.

During the Track Record Period, our major product assembly hub was located in Yantian District, Shenzhen, with a GFA of 2,027.0 sq.m. primarily for the programming of our PLC ICs and the final assembly of PLC devices. For the years ended December 31, 2014, 2015 and 2016, the utilization rate of our production equipment for PLC IC programming was approximately 74%, 110% and 90%, the utilization rate of our assembly line designated for PLC module production was approximately 86%, 78% and 77%, and the utilization rate of our high-temperature aging room which is specifically required for the production of concentrators and collectors was approximately 4%, 30% and 94%, respectively. For details, see the section headed “Business — Product Assembly Hubs” in this prospectus.

### **COMPETITIVE STRENGTHS**

We believe we have the following competitive strengths that will continue to drive our future success:

- Core competency in PLC IC design and superior research and development capabilities in PLC technology;
- Strong AMR business underpinned by long-term relationship with State Grid and favorable government policies;
- One of the largest PLC IC suppliers in China well positioned to benefit from the high barriers of entry and continuing growth and upgrading of the PLC industry;
- Proven capabilities in providing PLC products and solutions for smart energy management applications; and
- Seasoned management team with distinguished technological expertise and sales and marketing experience.

### **BUSINESS STRATEGIES**

We aim to continue to expand our market share and strengthen our market position by pursuing the following strategies:

- Further strengthen our capabilities in PLC technology and research and development;
- Expand our AMR business to new geographic markets and further enhance the functionality and competitiveness of our AMR products; and

## SUMMARY

- Enhance our capabilities in product development and sales and marketing to accelerate the growth of our smart energy management business.

### INDUSTRY LANDSCAPE

Due to its technology-intensive nature and high technical barriers, China's PLC market is largely concentrated with the top five players in aggregate accounting for the predominant market share of over 85% and our Company ranking the third with a market share of 11.2% by sales volume of PLC products in 2016, according to Frost & Sullivan.

According to Frost & Sullivan, the total sales volume of PLC products in China grew at a CAGR of 20.6% from 2010 to 2016 and is estimated to grow at a CAGR of 9.2% from 2017 to 2021. AMR application accounted for more than 95% of the use of PLC products in 2016, while other PLC applications were at a relatively early development stage in China.

The PLC technology is the most widely adopted and mature communications technology for the AMR application in China and accounted for approximately 80% of the AMR systems deployed in China, according to Frost & Sullivan. Other communications technologies for AMR systems mainly include RS-485 and wireless. The adoption of PLC in the AMR application is mainly driven by power grid companies' procurement of AMR devices, in particular smart meters, as well as power grid companies' other upgrade needs of AMR systems. According to Frost & Sullivan, State Grid's total bidding volume of smart meters (i.e. the total number of smart meters tendered for bidding each year) grew at a CAGR of 6.5% from 2010 to 2016 and the average smart meters penetration rate among the 26 provinces it covered had reached approximately 80% as of the end of 2016. On the other hand, according to Frost & Sullivan, State Grid's bidding volume of smart meters decreased from 91.0 million units in 2015 to 65.7 million units in 2016 and is expected to further decrease to 43.0 million units by 2018, partly as penetration of smart meters under State Grid's first-round commercial deployment is reaching saturation, and also as State Grid has exhibited a trend of slow-down in its procurement of smart meters in anticipation of a new industry standard for broadband PLC which is expected to be formally adopted in 2017. According to Frost & Sullivan, such bidding volume is expected to pick up and increase to 87.7 million units by 2021 as smart meters in China are expected to enter into a new phase of upgrades from 2018 onward. In general, State Grid's bidding volume of smart meters is expected to increase at a CAGR of 15.2% from 2017 to 2021, according to Frost & Sullivan. Separately, Southern Grid's first-round commercial deployment of AMR systems is expected to cover all of its current 75 million users by 2020 with bidding volume of smart meters expected to increase from 14.6 million units in 2017 to 16.9 million units in 2020 and decrease to 11.8 million units in 2021, according to Frost & Sullivan.

PLC has become the most popular communications technology for streetlight control, or smart street lamps, in China and accounts for a market share of approximately 60% to 70% by installation volume of smart street lamps, according to Frost & Sullivan. The adoption of PLC in streetlight control in part depends on the number of smart street lamps installed. According to Frost & Sullivan, the penetration rate of smart street lamps among all street lamps in China is estimated to increase from approximately 8.5% in 2016 to 28.5% in 2021, or at a CAGR of 26.6% from 2017 to 2021 by cumulative installation volume. In particular, the accumulative number of smart street lamps adopting the PLC technology is expected to increase from 2.3 million units in 2017 to 7.3 million units in 2021 at a CAGR of 33.9%, according to Frost & Sullivan. This growth rate is mainly attributable to (i) the relatively small number of PLC smart street lamps currently installed as compared to the total number of street lamps installed in China, and (ii) the expected increasing market share of PLC technology in streetlight control as it had, during the pilot phase in recent years, demonstrated its advantages of low installation costs, long transmission distance and better anti-interference capabilities from surrounding environment over competing technologies and is expected to be adopted more widely in larger-scale installation in China.

PLC is increasingly being recognized as a viable communications technology used for building energy management, particularly for industrial and commercial buildings in China. According to Frost & Sullivan, the total sales revenue for the building energy management application in China grew at a CAGR of 28.5% from 2010 to 2016 and is expected to grow further at a CAGR of 14.8% from 2017 to 2021. In particular, the sales revenue for the building energy management application adopting PLC technology in China are expected to reach RMB2.3 billion by 2021 at a CAGR of 23.1% from 2017 to 2021, according to Frost & Sullivan.

For details on our industry landscape, see the section headed "Industry Overview" in this prospectus.

## SUMMARY

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below present selected financial information derived from our consolidated financial statements set out in the Accountants' Report included in Appendix I to this prospectus as well as certain financial ratios relating to our Group as at the dates or for the periods indicated. The following information should be read in conjunction with our consolidated financial statements included in the Accountants' Report, together with the accompanying notes, and the section headed "Financial Information" in this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRSs, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. Our historical results are not necessarily indicative of results that may be achieved in any future periods.

#### Summary Consolidated Statements of Profit or Loss and Other Comprehensive Income Information

	Year ended December 31,					
	2014		2015		2016	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
<b>Revenue</b>	232,628	100.0	340,724	100.0	390,210	100.0
Cost of sales	(117,806)	(50.6)	(164,971)	(48.4)	(194,947)	(50.0)
<b>Gross profit</b>	114,822	49.4	175,753	51.6	195,263	50.0
Other income	6,587	2.8	9,095	2.7	13,568	3.5
Sales and marketing expenses	(33,169)	(14.3)	(48,956)	(14.4)	(60,456)	(15.5)
General and administrative expenses	(17,170)	(7.4)	(28,200)	(8.3)	(35,311)	(9.0)
Research and development expenses	(21,056)	(9.0)	(26,456)	(7.8)	(37,765)	(9.7)
<b>Profit from operations</b>	50,014	21.5	81,236	23.8	75,299	19.3
Finance costs	(317)	(0.1)	—	—	—	—
Share of loss of associate	(112)	(0)	(180)	(0)	(103)	(0)
Change in fair value of financial instruments	2,357	0.9	—	—	—	—
<b>Profit before taxation</b>	51,942	22.3	81,056	23.8	75,196	19.3
Income tax	(11,387)	(4.9)	(25,864)	(7.6)	(17,593)	(4.5)
<b>Profit for the year</b>	40,555	17.4	55,192	16.2	57,603	14.8
<b>Other comprehensive income for the year (after tax and reclassification adjustment)</b>	(529)	(0.2)	5,008	1.5	3,612	0.9
<b>Total comprehensive income for the year</b>	<u>40,026</u>	<u>17.2</u>	<u>60,200</u>	<u>17.7</u>	<u>61,215</u>	<u>15.7</u>

#### Summary Consolidated Statements of Financial Position Information

	As of December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Non-current assets	12,719	25,202	46,558
Current assets	295,654	382,054	308,576
Current liabilities	114,707	144,017	115,648
Net current assets	180,947	238,037	192,928
Non-current liabilities	12,519	20,570	18,777
Net assets	181,147	242,669	220,709

#### Summary Consolidated Cash Flow Statements Information

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	80,265	8,280	17,026
Net cash generated from/(used in) investing activities	146	(3,678)	(17,541)
Net cash used in financing activities	(494)	(9)	(4,224)
Effect of foreign exchange rate changes	(327)	393	1,452
Cash and cash equivalents at the end of the year	143,123	148,109	144,822

## SUMMARY

### Key Financial Ratios

	As of/Year ended December 31,		
	2014	2015	2016
Current ratio <sup>(1)</sup>	2.58	2.65	2.67
Quick ratio <sup>(2)</sup>	2.34	2.14	2.26
Gearing ratio <sup>(3)</sup>	0.005%	N/A	N/A
Return on assets <sup>(4)</sup>	18.3%	15.4%	15.1%
Return on equity <sup>(5)</sup>	57.0%	26.0%	24.9%

*Notes:*

- (1) Current ratio is calculated by dividing total current assets by total current liabilities.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities.
- (3) Gearing ratio is calculated by dividing total loans and borrowings by total equity as of the end of the relevant period.
- (4) Return on assets is calculated by dividing the net profit for the period by the arithmetic mean of the opening and closing balances of total assets in the relevant period.
- (5) Return on equity is calculated by dividing the net profit for the period by the arithmetic mean of the opening and closing balances of total equity in the relevant period.

### Historical impact on equity balance

We recorded an opening balance of accumulated losses of RMB55.7 million as of January 1, 2014 at the beginning of the Track Record Period, which was principally due to (i) aggregate losses of RMB64.3 million arising from changes in fair value of the convertible redeemable preference shares and the warrant issued by us in 2006 to SAIF, a controlling shareholder of our Company as of the date of this prospectus, and (ii) accrued dividends of RMB14.3 million associated with such convertible redeemable preference shares. For details, see the sections headed “History, Development and Reorganization — History and Development” and “Financial Information — Historical impact on equity balance” in this prospectus.

### INFORMATION OF SAIF

As at the date of this prospectus, SAIF is the controlling shareholder (as defined in the Listing Rules) of our Company holding approximately 32.89% of the issued share capital of our Company. Accordingly, Shares held by SAIF will be subject to lock-up for the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date as required under Rule 10.07(1)(a) of the Listing Rules.

However, since the shareholding percentage of SAIF in our Company will be diluted to 24.67% (without taking into account any Shares which may be issued upon exercise of the Over-Allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme) as a result of the Global Offering and SAIF will cease to be the controlling shareholder of our Company upon Listing, Shares held by SAIF will not be subject to lock-up for the second six-month period from the Listing Date as required under Rule 10.07(1)(b) of the Listing Rules.

Nevertheless, for the purpose of the Global Offering, SAIF has given a lock-up undertaking in relation to its Shares for the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months from the Listing Date. Such undertaking given by SAIF for the purpose of the Global Offering can be waived by China Galaxy International (on behalf of the Hong Kong Underwriters) and our Company. For further details on SAIF’s lock-up undertaking given for the purpose of the Global Offering, please see the section headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus.

### PRE-IPO SHARE OPTION SCHEME

We adopted the Pre-IPO Share Option Scheme and options to subscribe for an aggregate of 771,680 Shares were granted by our Company under the Pre-IPO Share Option Scheme on August 25, 2016. On November 9, 2016, options to subscribe for 76,500 Shares held by SAIF were canceled by our Company with the approval of SAIF pursuant to the terms of the Pre-IPO Share Option Scheme. As advised by the Hong Kong legal advisors of our Company, the aforesaid cancellation of the outstanding options held by SAIF pursuant to the mechanism set out under the Pre-IPO Share Option Scheme did not constitute a new agreement between our Company and SAIF. On January 26, 2017, Mr. Ng Benjamin Jin-ping, our non-executive Director, exercised his options to subscribe for 200,000 Shares at the exercise price of US\$0.01 per Share. As at the Latest Practicable Date, options to subscribe for an aggregate of 495,180 Shares

## SUMMARY

remained outstanding under the Pre-IPO Share Option Scheme. Immediately following completion of the Capitalization Issue and the Global Offering, the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme is 16,210,417 Shares.

If all options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date are exercised and that 816,210,417 Shares, comprising 800,000,000 Shares to be in issue immediately after the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) and 16,210,417 Shares to be issued upon the exercise of all the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date, were deemed to have been in issue, this would have a dilutive effect on the shareholding and earnings per Share of our Shareholders of approximately 1.99%. For details, see the sections headed “History, Development and Reorganization — Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman — Share Options”, “Statutory and General Information — Other Information — 15. (II) Pre-IPO Share Option Scheme” in Appendix IV and note 19 “Equity-settled Share-based Transactions” in the Accountants’ Report as set out in Appendix I to this prospectus.

### GLOBAL OFFERING STATISTICS<sup>(1)</sup>

The statistics below are based on the assumption that 200,000,000 Offer Shares are issued under the Global Offering:

	<b>Based on the low end of the indicative Offer Price range of HK\$0.90 per Share</b>	<b>Based on the high end of the indicative Offer Price range of HK\$1.00 per Share</b>
Market capitalization of our Shares <sup>(2)</sup>	HK\$720 million	HK\$800 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(3)</sup>	HK\$0.46	HK\$0.50

*Notes:*

- (1) All statistics presented herein are based on the assumption that the Over-allotment Option is not exercised and do not take into account any Shares which may be issued pursuant to the exercise of options under the Pre-IPO Share Option Scheme and the Share Option Scheme.
- (2) The calculation of market capitalization is based on the assumption that 800,000,000 Shares will be in issue immediately following completion of the Capitalization Issue and the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after the adjustments referred to in the section headed “Financial Information — Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets” in, and the paragraph headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus and on the basis of 800,000,000 Shares to be in issue immediately following completion of the Capitalization Issue and the Global Offering.

### DIVIDEND POLICY

Subject to the provisions of the Articles and the Companies Law and the discretion of our Directors, we currently target to distribute to our Shareholders not less than 30% of our profit for the year attributable to equity shareholders of the Company. Declaration of dividends is subject to the discretion of our Directors depending on our results of operations, working capital and cash position, future business and earnings, capital requirements, contractual restrictions, if any, as well as any other factors which our Directors may consider relevant. For more information, see the section headed “Financial Information — Dividends and Dividend Policy” in this prospectus.

### REASONS FOR LISTING AND USE OF PROCEEDS

We adopt a disciplined and relatively conservative liquidity management practice which had contributed to our relatively high level of cash balance with minimal bank borrowings for the Track Record Period. We believe this liquidity management approach had served us well in supporting our relatively healthy business growth in the past and should remain to be in the interest of our Group and our Shareholders going forward. Nevertheless, external funding (including, without limitation, equity financing) is also essential in supporting our business undertakings, especially in view of our planned business and development pursuits. For details in relation to our funding needs, see the sections headed “Business — Business Strategies”, “Business — Research and Development”, “Business — Production

## SUMMARY

and Procurement — Product Assembly Hubs” and “Future Plans and Use of Proceeds” in this prospectus. Our Directors believe that the Listing will provide us with the financial resources to better capture future business opportunities and achieve our business strategies, specifically, through (i) continuous research and development and sales and marketing efforts to ensure our technologies stay at the forefront of the PLC market, and our products reaching a wider spectrum of customers and applications markets, and (ii) upgrades of our production capability to expand our product output and diversify our product offerings.

Our Directors also believe the Listing will further broaden our shareholder base and provide us with the flexibility to adjust our capital structure from time to time, through accessing a wider spectrum of fund raising venue, including debt and equity raising, and negotiating more favorable terms of financing from financial institutions as and when considered appropriate, which in turn will enable us to better withstand external shocks and market fluctuations.

In addition, a public listing status is expected to enhance our corporate profile, brand recognition and market position, which would add to our leverage in obtaining more supplier or bidder qualifications and accreditations for our AMR business. It would also help us to expand customer base with wider geographic coverage as new customers are generally more inclined to transact with a listed company with enhanced credibility and better business reputation associated with public financial disclosures and general regulatory supervision which are not applicable to private companies. Our Directors also believe that the Listing will enable us to reach out to a wider talent pool and provide us with more means, such as offering a more reputed employment environment and granting of share options, to attract and retain quality talents to further our technology and business developments.

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$144.1 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$0.95 per Share, being the mid-point of the indicative Offer Price range of HK\$0.90 to HK\$1.00 per Share. We intend to use such net proceeds for the following purposes:

- approximately HK\$86.5 million (approximately 60.0% of our total estimated net proceeds) for research and development of the PLC technology and related products and solutions;
- approximately HK\$28.8 million (approximately 20.0% of our total estimated net proceeds) for sales and marketing;
- approximately HK\$14.4 million (approximately 10.0% of our total estimated net proceeds) for the repayment of an entrusted bank loan obtained for the purpose of supplementing our operating cash flow to facilitate payment for the purchase of our new product assembly hub in Changsha, Hunan Province; and
- approximately HK\$14.4 million (approximately 10.0% of our total estimated net proceeds) for working capital and general corporate purposes.

For more information, see the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

## RISK FACTORS

Our business is subject to a number of risks, including risks relating to our business and industry, conducting business in the PRC and risks relating to the Global Offering. Some of our major risks arise from the innovation of the PLC technology and its adoption in various applications, the development of the PLC market in China, the varying and evolving needs and requirements of our customers and our production and procurement activities. We believe that the following are some of the major risks that we face:

- We develop all our products and solutions based on the PLC technology. Any adverse developments in the PLC market in China could materially and adversely affect our business, financial condition and results of operations.
- Our sales will decrease substantially if power grid companies cease to adopt, or significantly reduce the adoption of, our communications protocols for their procurements of AMR devices.
- We may not be able to sustain the rapid revenue growth for our AMR business.
- We may fail to anticipate or adapt to technology innovations in a timely manner, or at all.
- It is uncertain whether the PLC technology will become widely adopted for various smart energy management applications in China.
- We may not be able to successfully achieve and/or manage the growth of our smart energy management business.



## SUMMARY

- Our business could be materially and adversely affected if we are unable to maintain our relationships with major suppliers.
- We may not be able to ensure a stable and adequate supply of raw materials on commercially acceptable terms, in satisfactory quality and in a timely manner.

As different investors may have different interpretations and standards for determining the materiality of a risk, you should read the entire section headed “Risk Factors” in this prospectus carefully before you decide to invest in the Offer Shares. You should not place any reliance on any information contained in press articles, research analysts’ reports or other media regarding us and the Global Offering, certain of which may not be consistent with the information contained in this prospectus.

### **RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE**

Our revenue and gross profit remained relatively stable for the three months ended March 31, 2017 as compared to the same period in 2016. Our net profit and loss position was negatively impacted for the three months ended March 31, 2017 as compared to the same period in 2016, mainly because (i) we incurred more research and development expenses in part due to our increased focus on the development of broadband PLC since the second half of 2016, and (ii) we incurred more staff costs as we recruited more general and administrative personnel in the first quarter of 2017 to support our overall business development.

We have also fully paid the purchase price of our new Changsha product assembly hub, and taken out an entrusted loan to supplement our operating cashflow to facilitate the said purchase payment. We plan to allocate part of our net proceeds from the Global Offering for the repayment of the entrusted bank loan which is expected to be repaid in full by August 2017. As of the Latest Practicable Date, we were in the process of applying for the real estate title certificates from the relevant PRC authorities, and had commenced trial production in our Changsha product assembly hub. For more details, see the sections headed “Business — Production and Procurement — Product Assembly Hubs”, “Business — Properties” and “Financial Information — Indebtedness” in this prospectus.

Our Directors have confirmed that, since December 31, 2016 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountants’ Report included in Appendix I to this prospectus.

### **LISTING EXPENSES**

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$45.9 million (based on the mid-point of the indicative Offer Price range), of which approximately HK\$27.8 million has been or is expected to be recognized in our consolidated statements of profit or loss and other comprehensive income and approximately HK\$18.1 million is expected to be capitalized upon Listing. Listing expenses of approximately HK\$17.4 million were reflected in our consolidated statements of profit or loss and other comprehensive income for the Track Record Period and an additional amount of approximately HK\$10.4 million is expected to be recognized in our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period and for the year ending December 31, 2017. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from the estimate. Our Directors expect that our financial results for the year ending December 31, 2017 will be impacted by the non-recurring listing expenses to be charged to our consolidated statements of profit or loss and other comprehensive income.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.*

“Application Form(s)”	<b>WHITE</b> Application Form, <b>YELLOW</b> Application Form and <b>GREEN</b> Application Form or, where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles”	the amended and restated articles of association of our Company conditionally adopted on May 16, 2017 and with effect from the Listing
“Audit Committee”	the audit committee of our Board
“Beijing RSK Electronics”	Beijing Rui Si Kang Electronics Company Limited (北京瑞斯康電子有限公司), a company established under the laws of the PRC with limited liability on September 4, 2009
“Best Gala”	Best Gala Limited (佳慶有限公司), a company incorporated under the laws of Seychelles with limited liability on July 13, 2015, one of our Shareholders and wholly-owned by Mr. Zhang Xin (張鑫), an Independent Third Party
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compound annual growth rate
“Capitalization Issue”	the capitalization of an amount of HK\$58,167.1786 standing to the credit of the share premium account of our Company by applying such sum in paying up in full 581,671,786 Shares for allotment and issue to our Shareholders as resolved by our Shareholders on May 16, 2017
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

## DEFINITIONS

“China” or “PRC”	the People’s Republic of China, which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“CIT”	PRC corporate income tax
“CIT Law”	the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which came into effect on January 1, 2008
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Deed of Indemnity”	the deed of indemnity dated May 16, 2017 and executed by Mr. Yue Jingxing, Seashore Fortune, Ms. Chen Junling, Magical Success and Mr. Wang Shiguang in favor of our Company (for itself and as trustee for its subsidiaries) on the terms as set out in the paragraph headed “Statutory and General Information — Other Information — 16. Estate duty, tax and other indemnity” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated May 16, 2017 executed by Mr. Yue Jingxing, Seashore Fortune, Mr. Wang Shiguang, Mr. Zhang Youyun, Glorious Lead, Ms. Chen Junling, Magical Success, Dr. Gu Jian, Hope Thrive, Mr. Han Yuan, Key Surplus, Mr. Zhang Baojun, Golden Shell, Mr. Liu Ming and Rainbow Dawn in favor of our Company on the terms as set out in the section headed “Directors, Senior Management and Employees — Non-Competition Undertakings” in this prospectus
“Director(s)”	director(s) of our Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company commissioned by us to prepare a market research report for the purpose of this prospectus
“General Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information on which is set out in the paragraph headed “Statutory and General Information — Information about our Company — 3B. Resolutions in writing of our Shareholders passed on May 16, 2017” in Appendix IV to this prospectus
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering

## DEFINITIONS

“Glorious Lead”	Glorious Lead Limited (榮立有限公司), a company incorporated under the laws of Seychelles with limited liability on July 29, 2015, one of our Shareholders and wholly-owned by Mr. Zhang Youyun, an executive Director
“Golden Shell”	Golden Shell Limited (金貝有限公司), a company incorporated under the laws of Seychelles with limited liability on July 16, 2015, one of our Shareholders and wholly-owned by Mr. Zhang Baojun, a member of our senior management
“GREEN Application Form”	the application form to be completed by the <b>HK eIPO White Form</b> Service Provider designated by our Company
“Harvest Year”	Harvest Year Global Limited (康年環球有限公司), a company incorporated under the laws of Seychelles with limited liability on January 16, 2015 and a direct wholly-owned subsidiary of our Company
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>HK eIPO White Form</b> at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company as specified on the designated website at www.hkeipo.hk
“HKFRSs”	Hong Kong Financial Reporting Standards, which collectively include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Offer Shares”	the 20,000,000 Shares being initially offered by our Company for subscription at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)

## DEFINITIONS

“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated May 26, 2017 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Joint Bookrunners and the Hong Kong Underwriters, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering” in this prospectus
“Hope Thrive”	Hope Thrive Investments Limited (合茂投資有限公司), a company incorporated under the laws of Seychelles with limited liability on October 8, 2015, one of our Shareholders and wholly-owned by Dr. Gu Jian, a member of our senior management
“Independent Third Party(ies)”	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules
“International Offer Shares”	the 180,000,000 Shares being initially offered by our Company for subscription and purchase at the Offer Price under the International Offering, together with, where relevant, any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional offering of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	one or more underwriters of the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, the Joint Bookrunners and the International Underwriters on the Price Determination Date, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering” in this prospectus

## DEFINITIONS

“Joint Bookrunners” or “Joint Lead Managers”	China Galaxy International and Long Asia Securities Limited
“Key Surplus”	Key Surplus Ventures Limited (建盈創投有限公司), a company incorporated under the laws of Seychelles with limited liability on July 22, 2015, one of our Shareholders and wholly-owned by Mr. Han Yuan, a member of our senior management
“Latest Practicable Date”	May 19, 2017, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus before its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 9, 2017, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Magical Success”	Magical Success Holdings Limited (妙成控股有限公司), a company incorporated under the laws of Seychelles with limited liability on July 2, 2015, one of our Shareholders and wholly-owned by Ms. Chen Junling, a member of our senior management and the spouse of Mr. Wang Shiguang, the chairman of our Board and an executive Director
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum”	the amended and restated memorandum of association of our Company adopted on May 16, 2017 with immediate effect
“MOFCOM”	the Ministry of Commerce of the PRC
“NDRC”	the National Development and Reform Commission of the PRC
“NEA”	the National Energy Administration of the PRC
“Nomination Committee”	the nomination committee of our Board
“ODM”	original design manufacturing, the design and manufacturing of a product as specified and eventually rebranded by another entity for sale

## DEFINITIONS

“Offer Price”	the final offer price per Offer Share in Hong Kong dollar (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), at which the Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and the International Offer Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed “Structure of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option
“Old Cayman”	Risecomm Co. Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on February 10, 2006 and a direct wholly-owned subsidiary of our Company
“our Company” or “the Company”	Risecomm Group Holdings Limited (瑞斯康集團控股有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on August 19, 2015
“our Group” or “the Group”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by China Galaxy International (on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 30,000,000 additional Shares (representing 15% of the number of Offer Shares initially offered under the Global Offering) at the Offer Price, to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering — The Over-allotment Option” in this prospectus
“PRC government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisors”	Shu Jin Law Firm, the legal advisors to our Company as to the laws of the PRC

## DEFINITIONS

“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by our Company on August 25, 2016, the principal terms of which are set out in the paragraph headed “Statutory and General Information — Other Information — 15. (II) Pre-IPO Share Option Scheme” in Appendix IV to this prospectus
“Price Determination Agreement”	the agreement to be entered into between our Company and China Galaxy International, acting for itself and on behalf of the Underwriters, on the Price Determination Date to record and determine the Offer Price
“Price Determination Date”	the date, expected to be on or about June 2, 2017, but no later than June 5, 2017, or such other date as agreed between the parties to the Price Determination Agreement, on which the Offer Price will be determined for the purposes of the Global Offering
“Prime Key”	Prime Key Holdings Limited (卓建控股有限公司), a company incorporated under the laws of Seychelles with limited liability on January 6, 2015 and a direct wholly-owned subsidiary of our Company
“Principal Share Registrar”	Conyers Trust Company (Cayman) Limited
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“province”	refers to any province, autonomous region or municipality in China, as the context may require
“Rainbow Dawn”	Rainbow Dawn Limited (虹曉有限公司), a company incorporated under the laws of Seychelles with limited liability on July 16, 2015, one of our Shareholders and wholly-owned by Mr. Liu Ming, a member of our senior management
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Reorganization”	the reorganization of entities comprising our Group in preparation for the Listing, details of which are set out in the section headed “History, Development and Reorganization — Reorganization” in this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of Shares, further information on which is set out in the paragraph headed “Statutory and General Information — Information about our Company — 3B. Resolutions in writing of our Shareholders passed on May 16, 2017” in Appendix IV to this prospectus
“Risecomm Beijing Comm”	Beijing Risecomm Communication Technology Company Limited (北京瑞斯康通信技術有限公司), a company established under the laws of the PRC with limited liability on March 7, 2014 and an indirect wholly-owned subsidiary of our Company
“Risecomm Beijing Tech”	Risecomm (Beijing) Technology Company Limited (瑞北通(北京) 科技有限公司), a company established under the laws of the PRC with limited liability on June 3, 2014 and owned as to 50% by Risecomm WFOE



## DEFINITIONS

“Risecomm Changsha”	Changsha Risecomm Communication Technology Company Limited (長沙瑞斯康通信技術有限公司), a company established under the laws of the PRC with limited liability on December 26, 2014 and owned as to 75% by Risecomm WFOE
“Risecomm HK”	Risecomm (HK) Holding Co. Limited (瑞斯康(香港)控股有限公司), a company incorporated under the laws of Hong Kong with limited liability on February 27, 2015 and an indirect wholly-owned subsidiary of our Company
“Risecomm HK Technology”	Risecomm (HK) Technology Co. Limited (瑞斯康(香港)技術有限公司), a company incorporated under the laws of Hong Kong with limited liability on February 27, 2015 and an indirect wholly-owned subsidiary of our Company
“Risecomm Shenzhen”	Shenzhen Risecomm Software Technology Company Limited (深圳市瑞斯康軟件技術有限公司), a company established under the laws of the PRC with limited liability on April 1, 2014 and an indirect wholly-owned subsidiary of our Company
“Risecomm WFOE”	Risecomm Microelectronics (Shenzhen) Co., Ltd. (瑞斯康微電子(深圳)有限公司), a wholly foreign-owned enterprise established under the laws of the PRC with limited liability on May 10, 2006 and an indirect wholly-owned subsidiary of our Company
“Risecomm Wuxi”	Wuxi Risecomm Communication Technology Company Limited (無錫瑞斯康通信技術有限公司), a company established under the laws of the PRC with limited liability on October 11, 2010 and an indirect wholly-owned subsidiary of our Company
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC
“SAIF”	SB Asia Investment Fund II L.P., an exempted limited partnership registered under the laws of the Cayman Islands on December 9, 2004 and the controlling shareholder (as defined in the Listing Rules) of our Company as at the date of this prospectus
“SAT”	the State Administration of Taxation of the PRC
“Seashore Fortune”	Seashore Fortune Limited, a company incorporated under the laws of Seychelles with limited liability on November 18, 2015, one of our Shareholders and wholly-owned by Mr. Yue Jingxing, the chief executive officer of our Company and an executive Director
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

## DEFINITIONS

“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.0001 each
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on May 16, 2017 and effective upon the Listing, the principal terms of which are set out in the paragraph headed “Statutory and General Information — Other Information — 15. (I) Share Option Scheme” in Appendix IV to this prospectus
“Shareholder”	holder of Shares from time to time
“Shenzhen RMS Technology”	Shenzhen RMS Technology Company Limited (深圳市均方根科技有限公司), a company established under the laws of the PRC with limited liability on March 31, 2006
“Sole Sponsor” or “China Galaxy International”	China Galaxy International Securities (Hong Kong) Co., Limited, a licensed corporation under the SFO permitted to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the sole sponsor of our Company for the Listing and one of the Joint Bookrunners and Joint Lead Managers of the Global Offering
“Southern Grid”	China Southern Power Grid Co., Ltd. (中國南方電網有限責任公司) and, as the context may require, any one or more of its subsidiaries or designees
“sq. m.”	square meter
“Stabilizing Manager”	China Galaxy International or any of its affiliates or any persons acting for it
“State Council”	the State Council of the PRC
“State Grid”	State Grid Corporation of China (國家電網公司) and, as the context may require, any one or more of its subsidiaries or designees
“Stock Borrowing Agreement”	the agreement to be entered into between China Galaxy International and Magical Success on the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers as published by the SFC, as amended, supplemented or otherwise modified from time to time
“Topsky”	Beijing Topsky Information Technology Company Limited (北京中睿昊天信息科技有限公司), a company established under the laws of the PRC with limited liability on September 6, 2002
“Track Record Period”	the three years ended December 31, 2014, 2015 and 2016
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

## DEFINITIONS

“Unicorn Beauty”	Unicorn Beauty Limited (麒美有限公司), a company incorporated under the laws of Seychelles with limited liability on July 22, 2015, one of our Shareholders and wholly-owned by Mr. Wang Wenshan, an Independent Third Party
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	United States dollar, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“we,” “us” or “our”	our Company and, except where the context otherwise requires, all of its subsidiaries

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

*The English translation of the PRC entities, enterprises, nationals, laws and regulations in Chinese included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names or titles and their English translations, the Chinese names or titles shall prevail.*

## GLOSSARY OF TECHNICAL TERMS

*This glossary contains definitions of certain technical terms used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to industry standard definitions or usage of these terms.*

“485 meter”	an electricity meter connected by RS-485 cables
“AMR”	automated meter reading, the automated recording and collection of consumption of energy, such as electric energy, as opposed to manual meter reading
“ASIC”	application-specific integrated circuit, an integrated circuit customized for a particular use, rather than intended for general-purpose use
“back-end”	in semiconductor industry, refers to the layout on silicon wafer, design for testing and all the processes thereafter, such as assembly and packaging
“BPSK”	binary phase shift keying, is the simplest form of phase shift keying which uses phases that are separated by 180 degrees
“capacitor”	a passive two-terminal electrical component used to store electrical energy temporarily in an electric field
“carrier frequency”	the center frequency or the frequency of a carrier wave in telecommunication systems
“CDMA”	code division multiple access, a form of multiplexing which allows numerous signals to occupy a single transmission channel and optimizes the use of available bandwidth
“collector”	a device which collects data from 485 meters to concentrators in an AMR system with semi-PLC model
“communications protocol”	a set of standard rules for communications between two communicating parties
“concentrator”	a device which carries out networking tasks, including system initialization, configuration, data concentration, management and maintenance
“CSMA”	carrier sense multiple access, a probabilistic media control protocol in which a node verifies the absence of other traffic before transmitting on a shared transmission medium
“data signal”	a waveform which is modulated with an input signal for the purpose of conveying information

## GLOSSARY OF TECHNICAL TERMS

“GPRS”	general packet radio service, a packet oriented mobile data service on the 2G and 3G cellular communication system’s global system for mobile communications
“host station”	the system manager which communicates with nodes in a communication system
“HVAC”	heating, ventilating and air-conditioning, the technology for providing thermal comfort and acceptable indoor air quality
“IC” or “integrated circuit”	an electronic circuit where all the elements of the circuit are integrated together on a single semiconductor chipset
“infrared”	a light waveform having a wavelength just greater than that of the red end of the visible light spectrum but less than that of microwaves
“kbps”	kilobit per second, a unit of data transfer rate which equals to 1,000 bits per second or 125 bytes per second
“kHz”	kilohertz, a unit of frequency which equals to 1,000 cycles per second
“light terminal controller”	a device in a streetlight control network that receives commands from a host in the network and in turn controls the streetlight terminal device(s)
“MHz”	megahertz, a unit of frequency which equals to 1,000,000 cycles per second
“modulation scheme”	a method encoding the process of varying one or more properties of a carrier signal with a modulating signal that typically contains information to be transmitted
“module”	an assembled PCB embedded with integrated circuits and other electronic components for communication or other devices
“node”	a connection point, a redistribution point, or a communication endpoint which is attached to a network through power cables
“OFDM”	orthogonal frequency division multiplexing, a technology which is a method of encoding digital data on multiple carrier frequencies
“PCB”	printed circuit board, a board base for physically supporting and wiring the surface-mounted and socketed components in most electronics
“PCBA”	printed circuit board assembly, a printed circuit board populated with electronic components

## GLOSSARY OF TECHNICAL TERMS

“peer-to-peer”	peer-to-peer computing or networking is a distributed application architecture that partitions tasks or workloads between peers, which are equally privileged, equipotent participants in the application. In a peer-to-peer PLC system, data transmission can be initiated from either the concentrator or the smart terminal, which is in contrast to a master-slave PLC system whereby only the concentrator can initiate data transmission to the smart terminal
“photo-mask”	a set of films or glass negatives used in the production of semiconductor devices and integrated circuits
“photovoltaic”	of a method converting solar energy into direct current electricity using semiconducting materials that exhibit the photovoltaic effect, a phenomenon commonly studied in physics, photochemistry and electrochemistry
“PLC”	power line communication, a communications technology that uses utility power lines as communication medium to convey data between electronic devices
“plug-and-play”	of a device or computer bus which is with a specification that facilitates the discovery of a hardware component in a system without the need for physical device configuration or user intervention in resolving resource conflicts
“protocol”	a system of rules that regulates two or more entities within a communications system to transmit information
“RF”	radio-frequency, any of the electromagnetic wave frequencies that lie in the range extending from around 3 kHz to 300GHz, which include those frequencies used for communications or radar signals. RF is usually used to describe the use of wireless communication, as opposed to communication via electric wires
“router”	a device that forwards data packets between computer networks
“routing”	in terms of IC or PCB routing, refers to the process of selecting best paths in a network through determining the location of each active element of an IC or component on a PCB
“RS-485”	a standard defining the electrical characteristics of drivers and receivers for use in balanced digital multipoint systems
“single-phase”	the distribution of alternating current electric power using a system in which all the voltages of the supply vary in unison

## GLOSSARY OF TECHNICAL TERMS

“smart grid”	a modernized electricity power grid that uses analog or digital information and communications technology to gather and act on information, such as information about the behaviors of suppliers and consumers, in an automated fashion to improve the efficiency, reliability, economics and sustainability of the production, distribution and tariff collection of electricity
“smart meter”	an electronic device that records consumption of electric energy in intervals of an hour or less and communicates that information at least daily back to the utility for monitoring and billing
“system-on-chip”	an IC which integrates all components of a computer or other electronic system into a single chipset
“TCP/IP”	transmission control protocol/Internet protocol, the basic communication language or protocol of a network
“three-phase”	having at least three conductors carrying alternating current voltages that offset in time by one-third of the period
“transistor”	a semiconductor device used to amplify or switch electronic signals and electrical power
“twisted pair”	a type of wiring in which two conductors of a single circuit are twisted together for the purposes of canceling out electromagnetic interference from external sources
“wafer”	a thin slice of semiconductor material, such as a silicon crystal, on which arrays of integrated circuits or discrete devices are fabricated during the manufacturing process
“Wi-Fi”	a technology that allows electronic devices to exchange data or connect to the Internet wirelessly
“ZigBee”	a specification for a suite of low power and short distance communications protocols used to create personal area networks built from small, low-power digital radios

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These statements related to events that involve known and unknown risks, uncertainties and other factors, including those described in the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business prospects, strategies, plans, objectives and goals;
- the business opportunities that we may pursue;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business; and
- certain statements in the sections headed “Business” and “Financial Information” in the prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

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

- changes in domestic market and business conditions as well as industry trends related to our operations;
- changes in regulatory environments which are relevant to the business and operations of our Group, our customers and our suppliers;
- changes in our customers’ demands and business performance;
- changes in the competitive landscape of our industries;
- introduction and implementation of new or different laws in the areas we operate in;
- our ability to obtain adequate capital resources to fund future expansion plans;
- our ability to successfully implement our business plans, strategies, objectives and goals;
- our ability to protect our technologies, knowhow, patents, brand, trademarks or other intellectual property rights;
- developments in technology and our ability to successfully keep up with technological advancement;



## **FORWARD-LOOKING STATEMENTS**

- our ability to attract and retain technical professionals and other qualified employees and key personnel;
- changes in currency exchange rates; and
- the other risk factors discussed in this prospectus as well as other factors beyond our control.

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

## RISK FACTORS

*Investing in the Shares involves certain risks. You should read this prospectus in its entirety and carefully consider each of the risks described below and all of the other information contained in this prospectus before deciding to purchase the Shares. If any of the following risks materializes, our business, financial condition and results of operations could be materially and adversely affected. The trading price of the Shares could decline and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**We develop all our products and solutions based on the PLC technology. Any adverse developments in the PLC market in China could materially and adversely affect our business, financial condition and results of operations.**

We are a PLC technology company and we develop all our products and solutions based on the PLC technology. We generate the vast majority of our revenue from the sale of PLC ICs, modules and devices and the provision of relevant services in China for our AMR business. For the years ended December 31, 2014, 2015 and 2016, the amount of revenue generated from our AMR business was RMB219.9 million, RMB333.2 million and RMB376.7 million, representing 94.5%, 97.8% and 96.5% of our total revenue, respectively. As such, our business and results of operations rely substantially on the development and market acceptance of the PLC technology in China, particularly in connection with the deployment and upgrades of AMR systems by power grid companies in China.

While China's PLC industry has experienced rapid development in the past decade, there can be no assurance that the PLC market will continue to grow at historical rates, or at all. Future developments of the PLC technology and its applications in China could be affected by a number of factors, many of which are beyond our control, including:

- changes in PRC government policies governing the power distribution sector, including policies in support of the rollout of smart grids in China;
- pace of implementation of further deployment and upgrades of AMR systems by power grid companies;
- changes in technological requirements and other needs of power grid companies and users of smart energy management solutions;
- development of new industry standards for the latest PLC technologies;
- development and commercial acceptance of competing communications technologies, such as RS-485, Zigbee and other wired or wireless technologies; and
- public awareness and needs, and changes in policies and initiatives toward environmental protection and energy savings.

If the market demand for our PLC products and solutions declines as a result of any adverse developments affecting the PLC industry, we may not be able to adapt to the changes or compete effectively in the market. As a result, our business, financial condition and results of operations could be materially and adversely affected.

## RISK FACTORS

**Our sales will decrease substantially if power grid companies cease to adopt, or significantly reduce the adoption of, our communications protocols for their procurements of AMR devices.**

We design and develop AMR products to a large extent for sale to meter manufacturers which in turn supply smart meters to power grid companies in China, as well as for sale to power grid companies, both directly and indirectly through their designated entities and from time to time, other technology companies. We rely on power grid companies to continuously select and adopt the communications protocols of our products as part of the technical specifications of the AMR devices they deploy. For instance, when State Grid procures smart meters through biddings, it usually determines the communications protocols to be adopted by setting out their technical specifications in the tendering documents. These technical specifications may correspond to the features of any competing communications protocols and products offered by different PLC technology companies, and power grid companies may select different communications protocols for different type of AMR devices in different grid locations. Power grid companies may consider a variety of factors in selecting the adopted communications protocols and there can be no assurance that they will select ours for the deployment of new AMR systems or upgrades of existing AMR systems. If power grid companies cease to adopt, or significantly reduce the adoption of, our communications protocols in their future biddings for AMR devices, we will suffer a substantial decrease in our AMR sales and our business, financial condition and results of operations could be materially and adversely affected.

**We may not be able to sustain the rapid revenue growth for our AMR business.**

Our revenue derived directly and indirectly from State Grid, as ultimate customer of AMR business, in aggregate amounted to RMB211.8 million, RMB311.4 million and RMB326.2 million for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for 91.0%, 91.4% and 83.6% of our total revenue, respectively. Our revenue derived directly and indirectly from Southern Grid, as ultimate customer of our AMR business, in aggregate amounted to nil, RMB0.4 million and RMB16.3 million for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for nil, 0.1% and 4.2% of our total revenue, respectively. Driven by the rapid deployment of AMR systems by State Grid, during the Track Record Period, revenue from our AMR business grew rapidly at 51.6% from RMB219.9 million in 2014 to RMB333.2 million in 2015. However, we cannot assure you that our AMR business will always continue its revenue growth at historical rates. In particular, we recorded a slower rate of AMR revenue growth at 13.0% in 2016 as compared to 2015. According to Frost & Sullivan, State Grid's average smart meters penetration rate had reached approximately 80% as of the end of 2016 and State Grid had slowed down its growth in bidding volume for smart meters from 91.0 million units in 2015 to 65.7 million units in 2016 and is expected to further decrease to 43.0 million units by 2018, despite an expected turnaround increase in bidding volume to 87.7 million units by 2021. As a result, it is uncertain whether we can sustain the rapid revenue growth for our AMR business in the near term.

The future performance of our AMR business will depend in part on our ability to compete effectively and increase our market share as State Grid continues to deploy AMR systems in the remaining areas and to replace and upgrade existing AMR devices. We cannot assure you that we will be successful in marketing our second-generation PLC ICs, which will depend on the timing and pace of large-scale upgrades of AMR devices, in particular smart meters, by State Grid. Our future performance will also depend on our ability to expand to new markets covered by Southern Grid, which launched its commercial deployment of AMR systems in March 2016. It is uncertain whether we will be successful in securing our presence in any of these new markets and further increasing our penetration in these markets.

## RISK FACTORS

### **We may fail to anticipate or adapt to technology innovations in a timely manner, or at all.**

The PLC technology and its applications are experiencing rapid technological changes. Failure to anticipate technology innovations or adapt to such innovations in a timely manner, or at all, may result in obsolescence to our products and solutions at sudden and unpredictable intervals. For instance, we have been actively involved with State Grid in the formulation of a new industry standard for broadband PLC, which we believe may develop over time as one of the widely adopted PLC technologies in China's AMR market. However, if we ultimately fail to develop and commercialize our broadband PLC products with technical specifications and performance in compliance with the new industry standard, or not being able to achieve commercialization in a timely manner as and when the new industry standard is adopted and deployed commercially by the power grid companies, our competitiveness and market share in the AMR business may be adversely affected. To maintain the relevancy of our products and solutions, we have continuously invested in research and development of new products and solutions. The process of developing and marketing new products and solutions is inherently complex and involves significant uncertainties. There are a number of risks, including the following:

- our research and development efforts may fail to respond to technological upgrades demanded by customers or to translate new product plans into commercially feasible products or solutions;
- our new technologies, products or solutions may not be well received by customers;
- any significant increase in our research and development expenses may adversely impact our profitability in the short term;
- we may not have adequate funding and resources necessary for continual investments in research and development;
- our products and solutions may become obsolete due to rapid advancements in PLC and other competing technologies as well as changes in user preferences; and
- our newly developed products and technologies may not be protected as proprietary intellectual property rights.

If we fail to introduce new products or solutions to meet the evolving needs of our customers, we may be unable to compete effectively in the PLC market and our business and results of operations could be materially and adversely affected.

### **It is uncertain whether the PLC technology will become widely adopted for various smart energy management applications in China.**

The PLC technology is still at an early stage of development for various smart energy management applications in China. According to Frost & Sullivan, less than 10% of street lamps installed in China in 2016 were PLC-based smart street lamps. The PLC technology is currently not as popular as other wired or wireless technologies for the building energy management applications and the PLC-based photovoltaic power management for micro-inverters has relatively limited adoption according to Frost & Sullivan. Although PLC has in recent years increased in penetration or is increasingly recognized as a viable communications technology for certain of these smart energy management applications, there can be no assurance that demand for PLC-based smart energy management applications will continue to

## RISK FACTORS

grow at any anticipated rates, or at all. Our limited operating history and scale in developing products and solutions for the smart energy management business may not provide a meaningful basis on which to evaluate our business.

**We may not be able to successfully achieve and/or manage the growth of our smart energy management business.**

We have invested significant resources in developing and scaling up our smart energy management business, including for the streetlight control, building energy management and photovoltaic power management applications. We expect the intended development of our smart energy management business will continue to draw significant amount of our resources. If we are unable to manage and support our intended development in our smart energy management business, we may not be able to take advantage of market opportunities, execute our business plan or respond to competitive pressure. To successfully manage and support our intended development and achieve our intended growth, we believe we must effectively:

- invest in developing or acquiring research and development as well as product design capabilities for various smart energy management applications;
- hire, train, integrate and manage additional qualified engineers, senior managers and sales and marketing personnel with relevant experience or expertise in the smart energy management business;
- implement additional, and improve existing, administrative and operations systems, procedures and controls;
- establish and manage our business relationships with new customers and suppliers; and
- manage our financial condition and allocate resources to address future demand for different products and solutions.

As we further develop PLC applications for our smart energy management business, we may also encounter new competitors who may offer products or solutions comparable to ours with better quality or on a more cost-efficient basis. If we are unable to manage our growth or compete effectively for our smart energy management business, our business, financial condition and results of operations could be negatively affected.

**Our business could be materially and adversely affected if we are unable to maintain our relationships with major suppliers.**

Our suppliers consist of (i) vendors of raw materials, and (ii) outsourced service providers providing certain assembly, AMR maintenance and customer services. For the years ended December 31, 2014, 2015 and 2016, purchase from our top five vendors accounted for 60.9%, 67.6% and 43.2% of our total purchase from suppliers, respectively, and purchase from our largest vendor accounted for 35.2%, 35.6% and 17.4% of our total purchase from suppliers, respectively. For the years ended December 31, 2014, 2015 and 2016, purchase from our top five outsourced service providers accounted for 19.0%, 16.9% and 34.6% of our total purchase from suppliers, respectively, and purchase from our largest outsourced service provider accounted for 10.0%, 8.8% and 22.4% of our total purchase from suppliers, respectively. If we are unable to maintain our relationships with any of our major suppliers or if any of them otherwise ceases to supply raw materials or provide services to us on the same or similar terms, or at all, such changes may result in delays to our production, sales and service supports, which could

## RISK FACTORS

negatively affect our reputation and results of operations. In addition, replacing a supplier may require that we divert attention and resources away from our business. If we are unable to identify suitable replacement suppliers in a timely manner, or at all, our business and results of operations could be materially and adversely affected.

**We may not be able to ensure a stable and adequate supply of raw materials on commercially acceptable terms, in satisfactory quality and in a timely manner.**

Our operations require that we rely on reliable and adequate sources of raw materials to maintain our supply of PLC products. Our cost of raw materials together accounted for 83.6%, 78.9% and 74.7% of our total cost of sales for the years ended December 31, 2014, 2015 and 2016, respectively, while IC chipsets, in particular, accounted for 51.8%, 49.4% and 44.3% of our total cost of sales for these periods, respectively. We purchased IC chipsets mainly from two IC chipset suppliers during the Track Record Period.

Any shortages or delay in the supply of our raw materials, in particular IC chipsets, whether by specific vendors or by the IC industry generally, could result in occasional price adjustments and cause delays in our production and delivery to customers, as well as adjusted procurement and inventory policies. We cannot assure you that such raw materials shortages or delays will not occur in the future which may adversely affect our results of operations and financial condition.

In addition, due to the technical complexities involved for the manufacturing of some raw materials, our suppliers may from time to time experience manufacturing defects and longer lead times, resulting in reduced output, increased unit cost and potential delays. In particular, unlike most of our competitors who source general purpose IC chipsets for the production of PLC ICs, we source ASICs from our IC chipset suppliers, which are technically more complex to produce and usually require longer lead times due to incorporation of our customary IC designs as well as the coordination and other back-end services needed by our IC chipset suppliers. If we fail to purchase our ASICs that are technically suitable for our PLC products, or if we cannot maintain a stable supply of our ASICs on a timely basis, our business and results of operations could be materially and adversely affected. Conversely, given the long production and delivery cycle of our ASICs, our purchase orders placed for our ASICs are based not only on power grid companies' bidding results with our PLC products and communications protocols but also sales forecasts and market analysis of our product demand. Any failure to forecast customer demand accurately could cause us to build up excess ASIC inventories and expose us to higher risks of long-aging inventories and stock obsolescence, increase our operating costs and materially and adversely affect our financial condition and results of operations. During the Track Record Period, our inventory balances had experienced a significant increase from RMB27.7 million as of December 31, 2014 to RMB73.7 million as of December 31, 2015 mainly as a result of increase in our inventory balances of raw materials, in particular IC chipsets. Similarly, our inventory turnover days also increased from 86 days in 2014 to 163 days in 2015. While our inventory balances and inventory turnover days had reduced to RMB47.4 million as of December 31, 2016 and 89 days for 2016, respectively, there can be no assurance that we will not experience such fluctuations in our inventories going forward, which may lead to stock obsolescence, increase our operating costs, and in turn adversely affect our financial condition and business operations.

Moreover, our supply agreements with many suppliers, including for IC chipsets, do not fix the unit prices of raw materials and these prices are subject to negotiation upon the placing of purchase orders. While the prices of IC chipsets and other raw materials were relatively stable during the Track Record Period, there can be no guarantee that the prices of our raw materials will not increase in the future.

## RISK FACTORS

If the supply of raw materials is substantially reduced or disrupted, or if the lead times for the supply of raw materials are extended, or if there are significant increases in their prices, we may incur additional costs to acquire sufficient quantities of these raw materials to maintain our production schedules and commitments to customers. In such cases, there can be no assurance that we would be able to identify suitable replacement suppliers with commercially acceptable terms in a timely manner and to pass on any additional costs to our customers, or at all, and our profitability and financial condition could be materially and adversely affected.

**We rely on outsourced service providers to assemble our PLC modules and provide certain AMR maintenance and customer services.**

We outsource the PCBA assembly of our PLC modules to certain assembly houses in China. We also outsource some of our AMR maintenance and customer services to certain power grid service providers in China. Our outsourcing fees and expenses are reflected as (i) PCBA assembly fees and AMR maintenance services outsourcing fees included in our cost of sales, and (ii) outsourcing fees as part of the customer service expenses included in sales and marketing expenses, which in aggregate accounted for 10.1%, 11.8% and 15.6% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. We typically enter into framework agreements with our outsourced service providers, pursuant to which the outsourced service providers are not obligated to deliver to us any minimum quantity of products or services on a specified schedule or at a fixed price except as provided in a specific purchase order. As such, especially at times of high demand, our outsourced service providers could choose to prioritize the orders of other customers, delay deliveries to us, or increase their prices for the delivery schedule we demand. If we experience a shortage of outsourced service providers or any delay in the services that they deliver, we may not meet customer demand for our products on time or at a reasonable cost, which would negatively affect our revenues and our reputation.

In addition, outsourcing arrangements may at times expose us to manufacturing risks beyond our control. For example, changes in the manufacturing process or the inadvertent use of defective or contaminated materials could result in lower than anticipated yields of products or unacceptable product performance. Any quality issues of our outsourced service providers may affect our product quality, damage our reputation and increase our costs for further maintenance. If these or other quality control problems arise, the quality of our products could be compromised and our business and results of operations could be materially and adversely affected.

**Our business could be materially and adversely affected if we are unable to maintain our relationships with major customers and any concentration of customer credit risk could adversely affect our financial position and results of operations.**

For the year ended December 31, 2015 and 2016, our five largest customers accounted for 36.0% and 28.3% of our total revenue, respectively, and our largest customer accounted for 15.0% and 12.9% of our total revenue for the respective periods. We generally do not enter into long-term agreements of over one year with our customers, including our major customers during the Track Record Period. Our customers may reduce or cease purchasing products and services from us at any time in the future. There is no guarantee that our existing or future agreements with customers can be negotiated on terms and prices equivalent to or better than the current terms and prices. If any of our major customers were to substantially reduce their purchase volume or terminate their business relationship with us and we are unable to develop new customers on a timely basis and with similar terms, if at all, our business and results of operations would be materially and adversely affected.

## RISK FACTORS

We had certain concentration of credit risks during the Track Record Period. As of December 31, 2015 and 2016, approximately 58.5% and 42.1% of our trade and bills receivables was due from our five largest customers, respectively, and approximately 33.8% and 13.6% of our trade and bills receivables was due from our largest customer, respectively. In addition, our trade receivables increased from RMB40.2 million as of December 31, 2014 to RMB104.3 million as of December 31, 2016 and our trade receivables turnover days increased from 63 days in 2014 to 94 days in 2016, primarily due to the increase in sales to local power grid companies (and their designated entities) who generally require longer settlement period given their governmental background and relatively lengthy payment approval process. If we continue to increase our direct sales to these local power grid companies and their designated entities, our trade receivables and trade receivables turnover days are likely to increase in the future which may in turn adversely affect our liquidity. Any adverse change in the business or financial condition of our customers, including any liquidity problems, restructuring, bankruptcy or liquidation, may result in a higher level of credit risks to us, including (without limitation) risk of default by debtors, which could have a material adverse effect on our financial condition and results of operations. For more information, see the sections headed “Business — Sales and Marketing — Major Customers”, “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade and Bills Receivables” and “Financial Information — Quantitative and Qualitative Disclosures about Market Risks — Credit Risk” in this prospectus.

### **Changes in our deferred tax assets may reduce our taxable income in the future.**

Our deferred tax assets are recognized principally on temporary differences in respect of deductible expenses. We recorded deferred tax assets of RMB3.4 million, RMB8.6 million and RMB3.5 million as of December 2014, 2015 and 2016, respectively. As those deferred tax assets can only be utilized to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be realized, we are required to exercise judgment in assessing the probability of future taxable profits when deciding on the recognition of deferred tax assets. As such, our deferred tax assets that is considered realizable could be reduced from time to time if our estimates of future taxable income from our operations and tax planning strategies during the carry forward period are lower than forecasted, due to any deterioration in market conditions or other circumstances. In addition, the amount of our deferred tax assets could be reduced due to changes in applicable tax laws, regulations or accounting principles related to future deductions of income tax rates. Any such reduction will adversely affect our recoverability of deferred tax assets and our income for the period of the adjustment.

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

We place great emphasis on product quality and adhere to stringent quality control measures. To meet our customers’ requirements and expectations for the quality and safety of our products, we have adopted a stringent quality control system, including a quality manual based on the ISO 9001:2008 standards, to ensure that every step of the production or procurement process is strictly monitored and managed. Failure to maintain an effective quality control system or to obtain or renew our quality standards certifications may result in a decrease in demand for our products or cancelation or loss of purchase orders from our customers. Moreover, our reputation could be impaired. As a result, our business and results of operations could be materially and adversely affected.

### **Our product assembly hubs may be unable to maintain efficiency or otherwise meet our production requirements.**

We have product assembly hubs located in Shenzhen, Guangdong Province and our new product assembly hub in Changsha, Hunan Province had commenced trial production as of the Latest Practicable Date. In order to meet our customers’ demands and advancements in technology, we also maintain and



## RISK FACTORS

upgrade our equipment periodically. Our future growth will depend on our ability to maintain efficient operations at our product assembly hubs and our ability to further expand our production capacity. If our product assembly hubs are unable to maintain efficiency, we may be unable to fulfill our purchase orders in a timely manner, or at all. This would negatively impact our reputation, business and results of operations.

Upgrading of our production facilities for further business development involves capital expenditure. For instance, as a result of our purchase and establishment of our Changsha product assembly hub, our capital expenditure increased significantly in 2016 and we expect to incur an increased amount of depreciation expenses for the two years ending December 31, 2018. For details, see the section headed “Financial Information — Capital Expenditures” in this prospectus. Any significant upgrades of and investment in our production facilities in the future may adversely affect our working capital and results of operations.

### **We may not be able to compete effectively and increase or maintain our market share.**

We are one of the largest PLC IC suppliers in China. According to Frost & Sullivan, we had an overall market share of 11.2% in China in terms of sales volume of PLC products in 2016, ranking us third after two other companies which had market shares of 35.1% and 31.7%, respectively. We compete with these and other major competitors employing PLC or competing technologies in the markets for AMR systems and smart energy management applications. Competition will likely intensify in the future as existing competitors introduce new and advanced products and new competitors may emerge with better technology or products. Many of our existing and potential competitors have longer operating histories and significantly greater resources than we do. These provide them with competitive advantages and enable them to invest more resources than us in sales and marketing and product development to respond to technology advancement and changes in customer requirements. Failure to compete effectively could result in a decrease in our market share and revenue and could materially and adversely affect our financial condition and results of operations.

### **We may encounter difficulties in attracting or retaining key personnel.**

Our future growth and success depend to a significant extent on the continuing service and contribution of our key personnel, including our senior management and key technical and sales and marketing staff. Many of these key personnel are highly skilled and experienced and are difficult to recruit and replace, particularly due to the highly specialized technology nature of our business, the rapid development of China’s PLC industry and our plans to expand for various smart energy management applications. If one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all. In addition, our employees generally would not enter into any restrictive covenants or non-competing agreements with us. If any of them joins a competitor or forms a competing company, we may lose customers, know-how and key professional or other employees. The loss of any of our key personnel or our inability to attract or retain qualified personnel could delay the development of our new products as well as our overall business and growth prospects. We may also incur increased operating expenses and be required to divert the attention of our senior management to recruit replacement for key personnel. Failure to attract or retain key personnel could cause business disruptions and our financial condition and results of operations could be materially and adversely affected.

## RISK FACTORS

**Mergers and acquisitions involve significant risks and uncertainties and we may not be able to identify suitable targets or successfully integrate acquired businesses.**

We may pursue suitable merger and acquisition opportunities by acquiring target companies or their teams to expand into strategic businesses. Merger and acquisition activities, however, involve significant risks and uncertainties, including:

- difficulties in identifying suitable targets and competition from other potential buyers or bidders;
- difficulties in determining the appropriate purchase price of the target, which may result in potential impairment of goodwill;
- potential increases in debt, which may increase our finance costs; and
- exposure to unanticipated contingent liabilities of the target.

In addition, integration of a newly acquired business may be costly and time-consuming and could present us with significant risks and difficulties, including those in:

- integrating the operations and personnel of the acquired business within our corporate culture and management style and implementing uniform information technology systems, controls, procedures and policies;
- retaining relationships with key employees, customers, business partners and suppliers of the acquired business;
- successfully entering a business or geographic market in which we have limited prior experience;
- achieving the anticipated synergies and strategic or financial benefits from the acquisition; and
- addressing the economic, political, regulatory and foreign exchange risks associated with any new jurisdiction in which the acquired business is located.

In addition, we may consider acquisitions of non-controlling interests in target companies, over which we will not have control. Accordingly, it is uncertain whether we will be able to achieve the intended objectives or benefits of those investments.

As a result of the foregoing, we cannot assure you that any mergers and acquisitions that we will conduct in the future will be successful. Failure in executing our merger and acquisition plans could negatively affect our business, financial condition and results of operations.

**Fluctuations in exchange rates could affect our results of operations and reduce the value of your investment.**

Substantially all of our sales and most of our costs and expenses are denominated in Renminbi. Our purchase of IC chipsets, however, is primarily denominated in U.S. dollars and the cost of which accounted for 26.2%, 23.9% and 22.1% of our revenue for the years ended December 31, 2014, 2015 and 2016, respectively. We are therefore subject to the risk of fluctuations in the exchange rate of

## RISK FACTORS

Renminbi against U.S. dollar. For example, the value of Renminbi against U.S. dollar has declined by 2.5%, 4.4% and 6.3% in 2014, 2015 and 2016, respectively, according to the U.S. Federal Reserve and we had, as a result, experienced net exchange loss since 2014. Any further depreciation of Renminbi against U.S. dollar may result in increased costs and lower our profitability. On the other hand, our Company is a holding company and we may have to rely on dividends paid by our operating subsidiaries in China to make dividend payments in Hong Kong dollars to Shareholders. Depreciation of Renminbi against Hong Kong dollar will therefore have a negative impact on the Hong Kong dollar amount Shareholders could receive as dividend payments. The value of Renminbi against U.S. dollar or Hong Kong dollar is affected by, among other factors, changes in political and economic conditions and the foreign exchange policies adopted by the PRC government and will likely continue to fluctuate in the future.

### **We may encounter infringement of intellectual property rights by third parties or we may face other difficulties in protecting our intellectual property rights.**

We rely on intellectual property laws in the PRC and other applicable jurisdiction(s) to protect our intellectual property rights, including patents, software copyrights, IC layout designs and trademarks. However, we cannot assure you that there will be no infringement of our intellectual property rights by third parties or that, if any infringement occurs, we will be able to effectively detect and address the problem or enforce our rights in a timely manner, or at all. Any such event could have a material adverse impact on our relationships with our customers, our reputation and our business and results of operations. Bringing legal actions to enforce or protect our intellectual property rights is time-consuming and costly and could divert significant resources and management attention. As we have registered or applied for registration of intellectual property rights only in certain jurisdictions, we may be unable to effectively prevent third parties from using our technologies, designs and trademarks in other jurisdictions. In addition, we cannot assure you that our competitors will not be able to develop other competing technologies by designing around or reverse engineering our patents, software copyrights and IC layout designs.

As of the Latest Practicable Date, we had 13 patents and four trademarks pending registration in the relevant jurisdictions. As of the Latest Practicable Date, the registration of such intellectual property rights had not yet been approved in the relevant jurisdictions and we had not received any notice of objection to the registration of such intellectual property rights from any other third party. However, we cannot assure you that we will be successful in registering these or any future intellectual property rights or our use of them will not infringe the intellectual property rights of any third party or otherwise violate any laws in the relevant jurisdictions. Any liability claim in relation to our use of such intellectual property rights that is made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and strain our administrative and financial resources. Any of the foregoing events could negatively affect our competitive advantage and could materially and adversely affect our business and results of operations.

### **Third parties may assert or claim that we have infringed their intellectual property rights.**

Our competitors or other third parties may allege to own intellectual property rights and interests that could potentially conflict with ours. Moreover, these third parties may have registered similar company names or use similar trade names as compared to ours, which may cause market confusion even if they do not provide competing products or services or may give rise to potential disputes against us for infringement of intellectual property rights. We may incur substantial costs in defending or settling such disputes and such actions could divert significant resources and management attention. If any such claim against us is successful, we may not have a legal right to continue to produce and sell the relevant products that are found to have incorporated or used the disputed intellectual property, or to

## RISK FACTORS

continue to market those products using the same trade name. The success of such claims may also result in an increase in our costs and expenses, including additional royalties, licensing fees or further research and development expenses to develop non-infringing alternatives, or additional marketing expenses to sell our products using a new trade name, thereby negatively affecting our profitability. Moreover, such claims, whether successful or not, may cause significant damage to our reputation and a loss of customers, as a result of which our business and results of operations could be materially and adversely affected.

### **Our insurance may not completely cover the risks related to our business.**

We maintain certain insurance coverage on personal accidents for some of our employees, certain inventories at our product assembly hubs as well as transportation insurance for delivery of our products and vehicle insurance. We also make social insurance contributions and carry basic occupational injury, medical, pension, unemployment and maternity insurance for our employees. We do not maintain any fire, liability or other property insurance covering our properties, equipment or inventories, and we do not carry any business interruption or product liability insurance or any third party liability insurance to cover claims in respect of personal injuries or any damages arising from accidents on our properties or in relation to our operations. In the event that our insurance plans do not cover certain losses, damages or liabilities or our insurance coverage is insufficient to cover our claims, our financial condition and results of operations could be materially and adversely affected. In addition, premiums of our current insurance plans are subject to adjustment upon renewal and may fluctuate from period to period. We may experience substantial increases in premiums or consequently have to reduce coverage to control costs. As a result, if we elect to discontinue or reduce coverage for any particular type of claim, we will be exposed to higher risks related to the relevant type of claim.

### **Natural disasters, epidemics, acts of terrorism, wars and other events could materially and adversely affect our business.**

Natural disasters such as floods and earthquakes, severe weather conditions and other catastrophic events may severely affect the areas in which we, our customers or end users of our products and solutions, and suppliers or their upstream production support for our key raw materials are located. An outbreak or epidemic, such as those of the Severe Acute Respiratory Syndrome (“SARS”), Middle East Respiratory Syndrome (“MERS”) or the H1N1 and H5N1 viruses, in particular in the areas in which we, our customers or end users of our products and solutions, and suppliers or their upstream production support for our key raw materials are located, may lead to widespread health crisis and restrict business activities in the affected areas, which may in turn materially and adversely affect our business, financial condition and results of operations. Similarly, acts of terrorism, wars, threats of war, social unrest and political uncertainty and tension could affect the business development and projects of us, our customers or end users of our products and solutions, and suppliers or their upstream production support for our key raw materials. Any of these events could cause damage and disruption to our business and our financial condition and results of operations could be materially and adversely affected.

## **RISKS RELATING TO CONDUCTING BUSINESS IN CHINA**

### **Economic, political and social conditions and legal developments in China could affect our business.**

The vast majority of our assets are located in China and substantially all of our revenue is derived from our businesses in China. Accordingly, our financial condition and results of operations are, to a certain degree, subject to the economic, political and social conditions and legal developments in China. The PRC economy differs from the economies of other countries in many respects. The PRC economy

## RISK FACTORS

has historically been a planned economy and has been transitioning to a more market-oriented economy. Although the PRC government has implemented measures emphasizing the use of market forces for economic reform and reform of various sectors, including the power sector, we cannot assure you that the economic, political or social conditions in China will not develop in a way that is detrimental to our business. For example, the significant economic growth in the past decade has resulted in increases in the general price and salaries and wage levels, which may cause our costs to increase. Moreover, interpretation and enforcement of PRC laws and regulations involve substantial uncertainties. Accordingly, adverse changes in the economic, political or social conditions or legal developments in China could negatively affect our business, financial condition and results of operations.

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

Most of our assets and our Directors and senior management are located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or our Directors or senior management. Moreover, the enforcement of foreign judgments in the PRC is subject to uncertainties. The PRC does not have treaties providing for the reciprocal enforcement of judgments with many countries. Accordingly, recognition and enforcement of foreign judgments in the PRC, including with respect to matters arising under applicable securities laws, may be difficult or impossible.

### **We may be subject to CIT on our worldwide income if we were considered a PRC “resident enterprise.”**

Pursuant to the CIT Law and its implementation rules, enterprises established outside of the PRC with “de facto management bodies” within the PRC are considered a “resident enterprise” and will be subject to CIT at a rate of 25% on their worldwide income. The implementation rules under CIT define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the production, operation, personnel, accounting, properties, etc. of an enterprise.” The SAT promulgated the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“**Circular 82**”) on April 22, 2009, which provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in the PRC. On July 27, 2011, the SAT issued the Measures for Administration of Income Tax of Chinese-Controlled Resident Enterprises Incorporated Overseas (Trial) (“**Circular 45**”) to supplement Circular 82 and other tax laws and regulations. Circular 45 clarifies certain issues relating to resident status determination. On January 29, 2014, the SAT issued the Circular on Issues Concerning Determination of PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“**Circular 9**”), Circular 9 amended some clauses of Circular 82. Although Circular 82, Circular 45 and Circular 9 apply only to offshore enterprises controlled by PRC enterprises or PRC group companies and not those controlled by PRC individuals or foreigners, the determining criteria set forth in Circular 82, Circular 45 and Circular 9 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals or foreign enterprises. The majority of our senior management team is located in China. If we were considered by the competent tax authority to be a PRC “resident enterprise,” we would be subject to CIT at a rate of 25% on our worldwide income.

### **Dividends payable by us to Shareholders and gains on the sale of our Shares may be subject to PRC income tax.**

Under the CIT Law and its implementation rules, dividend income of non-resident enterprises (enterprises that do not have an establishment or place of business in the PRC or that have such establishment or place of business but the relevant income is not effectively connected with such

## RISK FACTORS

establishment or place of business) is generally subject to CIT at a rate of 10% to the extent such dividend has its source within the PRC unless it can be reduced pursuant to the respective tax treaty between the PRC and the jurisdiction in which the non-resident enterprise resides which reduces or exempts the relevant tax. Similarly, any gain realized on the transfer of shares by such non-resident enterprises is subject to CIT at a rate of 10% if such gain is regarded as income derived from sources within the PRC. It is uncertain whether our Company will be considered a PRC “resident enterprise.” If our Company were considered by the competent tax authority to be a PRC “resident enterprise,” dividends payable to our Shareholders with respect to our Shares, or the gains our Shareholders may realize from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax.

### **The preferential income tax treatment that we enjoy and the government grants that we receive in the PRC may be altered or terminated.**

We cannot assure you that the PRC policies on preferential tax treatment will not change or that any preferential tax treatment we enjoy or will be entitled to enjoy will not be terminated. During the Track Record Period, our PRC subsidiary Risecomm WFOE was recognized as a “High and New Technology Enterprise” and was entitled to a preferential PRC income tax rate of 15% for each of 2014, 2015 and 2016. We cannot assure you that Risecomm WFOE will continue to be accredited as a “High and New Technology Enterprise” upon expiration of the relevant certificate in the future. If Risecomm WFOE fails to renew this qualification in time or at all, or if any change or termination of preferential tax treatment occurs, the increase in our tax charge could materially and adversely affect our results of operations and financial condition.

In addition, we had during the Track Record Period received government grants which represented (i) unconditional value-added tax (“VAT”) refund by the PRC tax authorities for our self-developed software embedded in our PLC products; and (ii) conditional subsidies from the local PRC government for our research and development projects. For details on the relevant PRC tax law regarding our VAT refund, see the section headed “Regulatory Overview — PRC Laws and Regulations relating to Taxation — Value-added Tax” in this prospectus. Separately, to receive government subsidies for our research and development projects, we generally have to meet conditions on factors such as our research and development specialties and historical expenditure, the number and professional level of our research and development staff, as well as our registered intellectual property rights. Alteration or discontinuation of such government grants, resulting from changes to the PRC laws, regulations and policies or our failure to meet the relevant conditions, may adversely affect our business and results of operations.

### **We may not be entitled to the preferential tax rates under the special tax arrangement between the PRC and Hong Kong on dividend from our wholly foreign-owned PRC subsidiary.**

Our PRC subsidiary Risecomm WFOE, which holds the equity interests in all our other PRC operating subsidiaries, is directly and wholly owned by our Hong Kong subsidiary Risecomm HK. Under the CIT Law and its implementation rules, dividends paid by a PRC foreign-invested enterprise to its immediate parent company outside the PRC are subject to PRC withholding tax at a rate of 10%, unless there are applicable treaties that reduce such rate. Under a special arrangement between the PRC and Hong Kong, the withholding tax rate is reduced to 5% for dividend payments if a Hong Kong resident enterprise owns more than 25% equity interest in the PRC company on a continuous basis for at least 12 months prior to the dividend payments made by such PRC company. Nonetheless, in October 2009, the SAT issued the Circular on How to Interpret and Recognize the “Beneficial Owner” in Tax Agreements (“Circular 601”) and certain other related rules. According to Circular 601, non-resident enterprises that cannot provide valid supporting documents as “beneficial owners” may not be approved to enjoy tax treaty benefits. “Beneficial owners” are individuals, enterprises or other organizations that are

## RISK FACTORS

normally engaged in substantive operations. Circular 601 also sets forth certain adverse factors to the recognition of a “beneficial owner.” Specifically, Circular 601 expressly excludes a “conduit company,” or any company established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in actual operations such as manufacturing, sales or management, from being a “beneficial owner.” As such, there can be no assurance that pursuant to Circular 601 or any new PRC laws or regulations we will be able to enjoy the applicable preferential withholding tax rates under the special tax arrangement between the PRC and Hong Kong.

### **RISKS RELATING TO THE GLOBAL OFFERING AND THE SHARES**

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

Prior to the Global Offering, no public market existed for our Shares. The initial Offer Price to the public for our Shares is the result of negotiations between us and China Galaxy International (for itself and on behalf of the Underwriters) and the final Offer Price may differ significantly from the market price for our Shares following the Global Offering. We cannot assure you that an active trading market for our Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our Shares will not decline below the Offer Price.

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

The trading price of the Shares may be volatile and could fluctuate widely in response to factors beyond our control, including the general market conditions of the securities markets in Hong Kong and elsewhere in the world. In particular, the trading price performance of other companies offering products and services related to ours, such as our customers and competitors, may affect the trading price of the Shares. In addition to market and industry factors, the price and trading volume for the Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flows could cause the market price of the Shares to change substantially. Any of these factors may result in large and sudden changes in the trading volume and price of the Shares.

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

The Offer Price of the Shares is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be around five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of the Shares are subject to the risk that the price of the Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**Any sale of a substantial amount of the Shares in the public market, or the perception that such sale may occur in the near future, could negatively affect the market price of the Shares.**

As at the date of this prospectus, SAIF is the controlling shareholder (as defined in the Listing Rules) of our Company holding approximately 32.89% of the issued share capital of our Company. Accordingly, Shares held by SAIF will be subject to lock-up for the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date as required under Rule 10.07(1)(a) of the Listing Rules. However, since the shareholding percentage of SAIF in our Company

## RISK FACTORS

will be diluted to 24.67% (without taking into account any Shares which may be issued upon exercise of the Over-Allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme) as a result of the Global Offering and SAIF will cease to be the controlling shareholder of our Company upon Listing, Shares held by SAIF will not be subject to lock-up for the second six-month period from the Listing Date as required under Rule 10.07(1)(b) of the Listing Rules. Nevertheless, for the purpose of the Global Offering, SAIF has given a lock-up undertaking in relation to its Shares for the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months from the Listing Date. As the aforesaid undertaking given by SAIF for the purpose of the Global Offering can be waived by China Galaxy International (on behalf of the Hong Kong Underwriters) and our Company, subject to such waiver(s) being granted, SAIF will be able to dispose its Shares after the expiry of the first six-month period from the Listing Date.

In addition, our other Shareholders and the grantees of options under the Pre-IPO Share Option Scheme have also given lock-up undertakings for the purpose of the Global Offering. As the aforesaid undertakings given by such other Shareholders pursuant to the Hong Kong Underwriting Agreement can also be waived by China Galaxy International (on behalf of the Hong Kong Underwriters), subject to such waiver(s) being granted, such other Shareholders will be able to dispose their Shares any time after Listing. See the sections headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings to the Stock Exchange under the Listing Rules — By SAIF” and “Underwriting — Underwriting Arrangements and Expenses — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus. Any sale of a substantial amount of the Shares in the public market after the completion of the Global Offering, or the perception that these sales may occur in the near future, could negatively affect the market price of the Shares. Such sale or perception could also significantly impair our ability to raise capital through offerings of additional Shares in the future.

### **The availability of Shares for sale in the future could reduce the market price of the Shares.**

In the future, we may issue additional Shares, or securities convertible into the Shares, to raise capital. We may also acquire interests in other companies by issuing Shares, or using a combination of cash and Shares. Any of these events may dilute your ownership interest in our Company and could negatively affect the market price of the Shares.

### **Any exercise of options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme will have a dilutive effect on your shareholding and may result in our issuance of Shares at prices lower than their trading price or fair market value.**

We adopted the Pre-IPO Share Option Scheme and conditionally adopted the Share Option Scheme on August 25, 2016 and May 16, 2017, respectively. The maximum number of Shares that may be subscribed for pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date and the options that may be granted under the Share Option Scheme will initially represent 2.03% and 10%, respectively, of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be allotted and issued upon the exercise of any options under the Pre-IPO Share Option Scheme and the Share Option Scheme. If any grantees exercise their options under the Pre-IPO Share Option Scheme or the Share Option Scheme, additional Shares will be issued at a price which may be lower than the trading price or fair market value of our Shares at the time. Therefore, your shareholding in our Company is subject to dilution in terms of both your ownership percentage in our Company and the fair value of the Shares you hold. For more information, see the paragraphs headed



## RISK FACTORS

“Statutory and General Information — Other Information — 15. (I) Share Option Scheme” and “Statutory and General Information — Other Information — 15. (II) Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

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

If you purchase Shares in the Global Offering, you will pay more for your Shares than our net book value on a per Share basis. As a result, you will experience an immediate dilution of approximately HK\$0.47 per Share, representing the difference between our pro forma net tangible book value per Share as of December 31, 2016, after giving effect to the Global Offering, and the assumed initial public offering price of HK\$0.95 per Share (being the mid-point of the Offer Price range of HK\$0.90 and HK\$1.00 per Offer Share).

**There is no assurance that the Company will declare dividends in the future.**

We declared cash dividends in the amounts of US\$13.0 million (equivalent to RMB84.0 million) in March 2016, which was fully settled by us in May 2016. Details of our Company’s dividend policy and dividends are set out in the section headed “Financial Information — Dividends and Dividend Policy” in this prospectus. There is no assurance that future dividends will be similar to historical dividends or will be declared at all, and potential investors should be aware that historical dividends will not be used as a reference or basis upon which future dividends may be determined. The declaration, payment and amount of any future dividends of the Company will be subject to the discretion of the Directors, and will depend on, among other things, our earnings, financial condition, cash requirements and availability of profits, the provisions of the Articles of the Company and the Companies Law and other relevant factors.

In particular, our Company is a holding company and conducts substantially all of our business through our operating subsidiaries. As a result, our ability to pay dividends depends on dividends and other distributions received from our operating subsidiaries, which in turn depend on the legal and regulatory requirements to which the relevant subsidiary is subject. Generally, our subsidiaries could not pay any dividends to us if they do not have any distributable profit. Limitation on the ability of our subsidiaries to remit their after-tax profits to us in the form of dividends or other distributions could adversely affect our ability to grow, invest, pay dividends and other distributions and conduct our business. In addition, restrictive covenants in banking facilities, joint venture agreements or other arrangements that our subsidiaries have entered or may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions to us. These restrictions would reduce the amount of dividends or other distributions we could receive from our subsidiaries, which in turn would restrict our ability to pay dividends to our Shareholders.

**The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from the laws of Hong Kong and other jurisdictions.**

Our corporate affairs are governed by, among other things, the Memorandum and Articles of the Company and the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has

## RISK FACTORS

persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

**We cannot guarantee the accuracy of facts and other statistics with respect to our industry contained in this prospectus.**

We have derived certain facts and other statistics in this prospectus relating to the PLC industry from various third-party sources that we believe to be reliable and appropriate. While we have taken reasonable care in the reproduction of the information and our Directors have no reason to believe that any of the information is false or misleading or that any fact has been omitted that would render it false or misleading, such facts and statistics not been prepared or independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering. Therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC or available from other sources. Due to possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such facts and statistics may be inaccurate and may not be comparable to official statistics and you should not place undue reliance on them. Accordingly, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

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

This document contains certain statements that are “forward-looking” and indicated by the use of forward-looking terms such as “aim,” “anticipate,” “believe,” “likely,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “plan,” “potential,” “project,” “seek,” “should,” “assuming,” “will” or “would” or similar expressions. You are cautioned that any forward-looking statement involves risks and uncertainties and any or all of the assumptions relating to the forward-looking statements could prove to be inaccurate. As a result, the forward-looking statements could be incorrect. The inclusion of forward-looking statements in this prospectus should not be regarded as a representation by us that the plans and objectives will be achieved and you should not place undue reliance on such statements.

## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waiver from strict compliance with the requirements under certain provisions of the Listing Rules.

### MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This usually means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that our principal business operations are located, managed and conducted in the PRC, and all of our executive Directors and senior management predominantly reside in the PRC (save for Mr. Leung Ka Lok who ordinarily resides in Hong Kong), we do not and, in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we will comply with the Listing Rules at all times. The two authorized representatives are Mr. Yue Jingxing (our executive Director and chief executive officer) and Mr. Leung Ka Lok (our chief financial officer and company secretary). Our authorized representatives will be readily contactable by telephone, facsimile and email, will be available to meet with the Stock Exchange on reasonable notice as and when required and will be able to contact our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters;
- (b) each of our Directors (including our non-executive Director and our independent non-executive Directors) holds valid travel documents and will be available to travel to Hong Kong to meet with the Stock Exchange within a reasonable timeframe upon request. Each of them will be readily contactable by telephone, facsimile and email, and is authorized to communicate on our behalf with the Stock Exchange;
- (c) each of our authorized representatives (i) has provided his office phone number, mobile phone number, facsimile number and email address to the Stock Exchange; and (ii) will be able to contact our Directors and the other authorized representative promptly by telephone, facsimile and email at all times as and when the Stock Exchange wishes to contact our Directors on any matters. The mobile phone numbers, residential addresses, office phone numbers, facsimile numbers and e-mail addresses of all our Directors, authorized representatives have also been provided to the Stock Exchange;
- (d) we have appointed Messis Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will have access at all times to our authorized representatives, our Directors and other members of our senior management and will act as our additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules. Our compliance advisor will have access at all times to our authorized representatives, Directors and other officers to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange;

## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) to further enhance communication among the Stock Exchange, our authorized representatives and our Directors, we have implemented a policy whereby (i) each Director will have to provide his mobile phone number, residential address, facsimile number and email address to our authorized representatives; (ii) in the event that a Director expects to travel and be out of office, he will have to provide the phone number of the place of his accommodation or other means of communications to our authorized representatives; and (iii) all Directors will provide their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Stock Exchange;
- (f) meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or our compliance advisor, or directly with our Directors within a reasonable timeframe; and
- (g) our Company will also appoint other professional advisors (including legal advisors and accountants) after the Listing to assist our Company in dealing with any queries or questions raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

Our Company will inform the Stock Exchange promptly in respect of any change in our authorized representatives and/or compliance advisor.

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

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

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

### **INFORMATION ON THE HONG KONG PUBLIC OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Hong Kong Public Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any subsequent time.

### **UNDERWRITING**

The Global Offering comprises the Hong Kong Public Offering of initially 20,000,000 Hong Kong Offer Shares and the International Offering of initially 180,000,000 International Offer Shares.

The application for listing of our Shares is sponsored by the Sole Sponsor. The Global Offering is managed by the Joint Bookrunners and Joint Lead Managers. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and is subject to our Company and China Galaxy International (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

If, for any reason, the Offer Price is not agreed between China Galaxy International (for itself and on behalf of the Underwriters) and us on or before June 5, 2017, unless otherwise announced, the Global Offering will not proceed and will lapse. Further information about the Underwriters and the Underwriting Agreements is set out in the section headed "Underwriting" in this prospectus.

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

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offer and sale of the Offer Shares described in this prospectus, where applicable.

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

No action has been taken to permit a public offer of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to any registration made with or authorization by the relevant securities regulatory authorities or an exemption from applicable securities laws.

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

We have applied to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, our Shares in issue prior to the Global Offering and to be issued pursuant to the Capitalization Issue and the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be allotted and issued pursuant to any exercise of the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date and options to be granted under the Share Option Scheme.

No part of our Shares is listed on or dealt in any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

### **STAMP DUTY**

Dealings in our Shares registered on our Hong Kong branch register of members will be subject to Hong Kong stamp duty. If you are unsure about the taxation implications of subscribing for the Offer Shares, or about purchasing, holding or disposing of or dealing in them, you should consult an expert.

### **PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES**

The procedures for applying for the Hong Kong Offer Shares are set forth under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

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

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.

### **OVER-ALLOTMENT AND STABILIZATION**

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the sections headed “Structure of the Global Offering — The Over-allotment Option” and “Structure of the Global Offering — Stabilizing Action” in this prospectus.

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

### **REGISTER OF MEMBERS**

Our Company's principal register of members will be maintained by its Principal Share Registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Company's branch register of members will be maintained by its Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Capitalization Issue, the Global Offering (including any Shares to be issued upon the exercise of the Over-allotment Option), the exercise of the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date and options which may be granted under the Share Option Scheme will be registered on our Company's branch register of members maintained in Hong Kong. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

### **ROUNDING**

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

### **EXCHANGE RATE CONVERSION**

Unless otherwise specified, amounts denominated in Renminbi have been translated, for the purpose of illustration only, into Hong Kong dollars, and vice versa, in this prospectus at the following rates:

RMB0.8861 : HK\$1.00

No representation is made that any amounts in Renminbi or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
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**DIRECTORS**

Name	Address	Nationality
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*Executive Directors*

Mr. Yue Jingxing (岳京興)	1703, Block B Meishu Lanshan Community Nanshan District Shenzhen PRC	American
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Mr. Wang Shiguang (王世光)	Room 108, 7/F Southern District No. 1 Xiangheyuan Road Dongcheng District Beijing PRC	Chinese
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Mr. Zhang Youyun (張友運)	Unit 604, Tower 3 5 Ande Street Futian District Shenzhen PRC	Chinese
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*Non-executive Director*

Mr. Ng Benjamin Jin-ping (吳俊平)	8/F, Repulse Bay Garden 26 Belleview Drive Repulse Bay Hong Kong	Australian
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*Independent non-executive Directors*

Mr. Ong King Keung (王競強)	Room A, 3/F Yat Wing Mansion Lei King Wan 43 Tai Hong Street Hong Kong	Chinese
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Mr. Chen Yong (陳永)	C-8-1-2701 Lingxiucheng Shizhong District Jinan City Shandong Province PRC	Chinese
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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. Pan Song (潘嵩)	Rongyujiayuan 1-3-101 Yuqing Street Chaoyang District Beijing PRC	Chinese

Please see the section headed “Directors, Senior Management and Employees” for further information.

### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor**

**China Galaxy International Securities (Hong Kong) Co., Limited**  
Units 3501–3507 & 3513–14  
35/F, Cosco Tower  
183 Queen’s Road Central  
Hong Kong

**Joint Bookrunners and Joint Lead Managers**

**China Galaxy International Securities (Hong Kong) Co., Limited**  
Units 3501–3507 & 3513–14  
35/F, Cosco Tower  
183 Queen’s Road Central  
Hong Kong

**Long Asia Securities Limited**  
Unit A, 23/F, The Wellington  
198 Wellington Street  
Sheung Wan  
Hong Kong

**Co-lead Managers**

**Pacific Foundation Securities Limited**  
11/F New World Tower II  
16–18 Queen’s Road Central  
Hong Kong

**Gransing Securities Co., Limited**  
17/F, Hing Yip Commercial Centre  
272–284 Des Voeux Road, Central  
Hong Kong

**Sinolink Securities (Hong Kong) Company Limited**  
Units 2503, 2505–06  
25/F Low Block, Grand Millennium Plaza  
181 Queen’s Road Central  
Hong Kong

**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

**Wellington Financial Limited**

Unit B 10/F  
128 Wellington Street  
Central  
Hong Kong

**Legal advisors to our Company**

*As to Hong Kong law:*

**Mayer Brown JSM**

16th–19th Floors  
Prince’s Building  
10 Chater Road  
Central  
Hong Kong

*As to PRC law:*

**Shu Jin Law Firm**

12/F, Tai Ping Finance Tower  
Yitian Road 6001, Futian District  
Shenzhen  
PRC

*As to Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

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

*As to Hong Kong law:*

**Norton Rose Fulbright Hong Kong**

38th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

*As to PRC law:*

**Jingtian & Gongcheng**

34th Floor, Tower 3  
China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing 100025  
PRC

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
--

<b>Auditors and reporting accountants</b>	<b>KPMG</b> <i>Certified Public Accountants</i> 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
<b>Compliance advisor</b>	<b>Messis Capital Limited</b> Room 1606, 16th Floor Tower 2 Admiralty Center 18 Harcourt Road Hong Kong
<b>Industry Consultant</b>	<b>Frost &amp; Sullivan (Beijing) Inc., Shanghai Branch Co.</b> Room 1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai PRC
<b>Receiving bank</b>	<b>Bank of China (Hong Kong) Limited</b> 1 Garden Road Hong Kong

## CORPORATE INFORMATION

<b>Registered Office</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	Skyworth Building C501 Hi-tech Industrial Park Shenzhen PRC
<b>Principal place of business in Hong Kong</b>	Unit No. 2, 12/F. Emperor Group Centre No. 288 Hennessy Road Hong Kong
<b>Company Secretary</b>	Mr. Leung Ka Lok (梁家樂) (HKICPA, FCCA) Flat A, 10/F., Block 1 Park Island Ma Wan, New Territories Hong Kong
<b>Authorized representatives</b>	Mr. Yue Jingxing (岳京興) 1703, Block B Meishu Lanshan Community Nanshan District Shenzhen PRC  Mr. Leung Ka Lok (梁家樂) (HKICPA, FCCA) Flat A, 10/F., Block 1 Park Island Ma Wan, New Territories Hong Kong
<b>Audit committee</b>	Mr. Ong King Keung (王競強) (Chairman) Mr. Chen Yong (陳永) Mr. Pan Song (潘嵩)
<b>Remuneration committee</b>	Mr. Ong King Keung (王競強) (Chairman) Mr. Yue Jingxing (岳京興) Mr. Chen Yong (陳永)
<b>Nomination committee</b>	Mr. Wang Shiguang (王世光) (Chairman) Mr. Ong King Keung (王競強) Mr. Chen Yong (陳永)

## CORPORATE INFORMATION

**Principal share registrar and transfer office**

**Conyers Trust Company (Cayman) Limited**  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Hong Kong branch share registrar and transfer office**

**Tricor Investor Services Limited**  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Principal bankers**

**Bank of China Limited**  
Shenzhen Gaoxin Area Sub-branch  
1st Floor, Lenovo R&D Center  
Shenzhen High-Tech Industrial Park  
Nanshan District  
Shenzhen  
PRC

**China Merchants Bank**  
Beijing Taoranting Sub-branch  
No. 39 Nanwei Road  
Xicheng District  
Beijing  
PRC

**Bank of China (Hong Kong) Limited**  
1 Garden Road  
Central  
Hong Kong

**The Hongkong and Shanghai Banking Corporation Limited**  
1/F, Tower 2, HSBC Center  
1 Sham Mong Road, Kowloon  
Hong Kong

**Company website address**

[www.risecomm.com.cn](http://www.risecomm.com.cn)  
*(The information contained on the website of our Company does not form part of this prospectus)*

## INDUSTRY OVERVIEW

*Certain information contained in this section and elsewhere in this prospectus has been derived from various public sources or extracted from a commissioned market research report prepared by Frost & Sullivan for the purposes of this prospectus. We believe that the sources of the information in this section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or that any fact has been omitted that would render such information misleading. In addition, we believe there is no adverse change in market information since the date of the Frost & Sullivan report which may qualify, contradict or have an impact on such information. However, such information has not been independently verified by us or any of our Directors, the Sole Sponsor, the Joint Bookrunners or the Underwriters and no representation is given as to its accuracy. Such information may not be consistent with the information compiled by other sources.*

### SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to conduct market research and analysis of the PLC market and its various applications in China and prepare a report entitled “China’s Power Line Communication (PLC) Market Study” dated the date of this prospectus (the “**Frost & Sullivan Report**”). Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. It provides industry research, consulting and corporate training services.

In preparing the Frost & Sullivan Report, Frost & Sullivan conducted primary research including interviews with selected industry participants, as well as secondary research including analysis of company reports, independent research reports and relevant data based on its own research database. Frost & Sullivan obtained the figures for various market size estimates from historical data analysis plotted against macroeconomic data, taking into consideration the identified key drivers and using multiple forecasting techniques such as expert-opinion forecasting methodology, integrated with its analysis of market trends and econometric variables. Frost & Sullivan prepared its report based on the assumptions that the social, economic and political conditions of China are likely to remain stable and related industry growth drivers are likely to drive the PLC market and the relevant applications in the forecasted periods.

We incurred RMB850,000 for the preparation of the Frost & Sullivan Report. Our payment of such fee to Frost & Sullivan is not contingent upon the results of its research and analysis.

Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

Our Directors are of the view that the sources of information used in this section are reliable as the information was extracted from the Frost & Sullivan Report. Our Directors believe that the Frost & Sullivan Report is reliable and not misleading as Frost & Sullivan is an independent professional research agency with extensive experience in its profession.

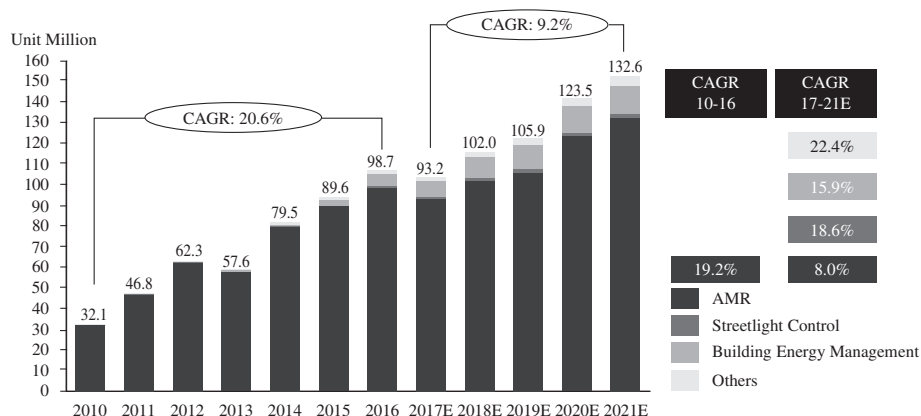
### THE OVERALL PLC MARKET IN CHINA

While PLC products were first developed and applied in Europe as early as the 1930s, the PLC technology was first applied commercially in the power distribution sector in China in the 2000s. Notably, State Grid launched its pilot PLC-based AMR projects in 2008, setting off a rapid development of China’s PLC industry. As of today, the PLC technology has been widely adopted as the dominant communications technology for the deployment of AMR systems, which are a key part of the smart grid infrastructure in China. According to Frost & Sullivan, AMR systems accounted for more than 90% of the use of PLC products in 2016 and have become, and are expected to continue to be, the main PLC application in China.

The PLC industry in China has also seen an increasing penetration for other applications as the development of the PLC technology continues to mature. Among these are selected smart energy management applications involving the remote control and monitoring of various kinds of energy consumption or generation systems, including streetlight control, building energy management and photovoltaic power management applications.

## INDUSTRY OVERVIEW

The following chart sets out the historical and projected sales volume of PLC products in China by major applications from 2010 to 2021:



Source: Frost & Sullivan

China's PLC market had grown rapidly during the period from 2010 to 2016. According to Frost & Sullivan, the total sales volume of PLC products in China grew at a CAGR of 20.6% from 32.1 million units in 2010 to 98.7 million units in 2016. The significant increase in sales of PLC products during this period was mainly driven by the massive procurement of AMR devices, in particular smart meters, by State Grid in connection with its continual deployment of AMR systems.

Frost & Sullivan estimates that China's PLC market will continue its growth at a CAGR of 9.2% during the period from 2017 to 2021, with total sales volume of PLC products increasing from 93.2 million units in 2017 to 132.6 million units in 2021. China's PLC market is expected to slow down its growth from 2017 to 2021 as compared to the period from 2010 to 2016, mainly affected by (i) the penetration rate of smart meters under State Grid's first-round commercial deployment, which commenced back in 2010, has already reached approximately 80% as of the end of 2016 and is reaching saturation, and (ii) other non-AMR PLC applications in China are relatively at a development stage to reach a stage of stable growth. The future growth of China's PLC market is expected to continue to be driven by governmental support for the IC industry, increasing deployment of smart grids in China and continual advancement in the PLC technology.

Key raw materials for PLC ICs are IC chipsets. According to Frost & Sullivan, the production volume of IC chipsets in China grew at a CAGR of 12.6% from 2010 to 2016, reaching 132.9 billion units in 2016, and the import volume of IC chipsets in China grew at a CAGR of 9.3% from 2010 to 2016, reaching 342.5 billion units in 2016. As the demand of PLC ICs only account for a limited portion of the entire IC chipsets market in China, the supply of IC chipsets is expected to be sufficient for the growing production needs from PLC technology companies in China, according to Frost & Sullivan.

### THE AMR APPLICATION

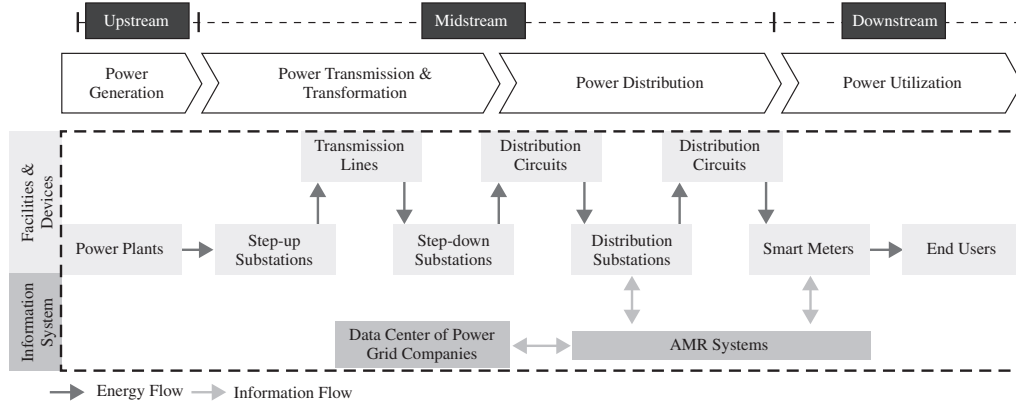
#### Smart Grids and AMR Systems

The power distribution sector in China (except for middle and western Inner Mongolia<sup>1</sup>) is controlled by State Grid and Southern Grid, the two state-owned enterprises established both in 2002 in connection with the reform of China's power system to separate power generation from power transmission and distribution. State Grid is the largest power grid company in China which invests in, constructs and operates power grids in 26 provinces<sup>2</sup>, covering approximately 85% of electric power users in China as of December 31, 2016, while Southern Grid is responsible for the five provinces in Southern China, namely, Guangdong, Guangxi, Yunnan, Guizhou and Hainan. These two power grid companies implement power grids investment and development plans and policies promulgated by the PRC government, including the State Council, the NDRC and the NEA, from time to time.

1&2. State Grid operates the power grids in the eastern part of the Inner Mongolia Autonomous Region, while the power grids in the middle and western parts are covered by Inner Mongolia Power (Group) Co., Ltd. (內蒙古電力(集團)有限責任公司) ("Inner Mongolia Power"), which operates independently from State Grid and Southern Grid.

## INDUSTRY OVERVIEW

State Grid has led in promoting and implementing the PRC government's plan of building a modern smart grid system. State Grid launched its pilot PLC-based AMR projects in 2008 and commenced commercial deployment of AMR systems in 2010. Pursuant to its White Paper on Green Development (《綠色發展白皮書》) issued in 2010, State Grid targets to roll out a reliable, effective, clean and environmentally friendly nationwide smart grid system by 2020. A smart grid system differs from a conventional power grid system in a number of ways, including, among others, the use of communications technologies to transmit electric power usage data more efficiently and reliably. This is enabled at the power distribution and utilization end of the power grid value chain by the deployment of an AMR system, which is designed to automatically collect, process and monitor data relating to power distribution and consumption, as well as to enable the remote control of the local components in a power grid system. The following diagram illustrates the power grid value chain and the deployment of AMR systems in China:



Source: Frost & Sullivan

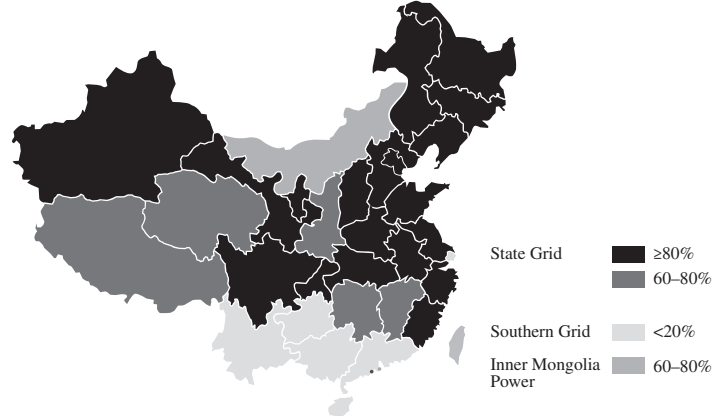
According to Frost & Sullivan, China's annual power grid investment reached RMB542.6 billion in 2016 while the total sales value of smart meters in China was RMB26.6 billion in 2016. The majority of China's power grid investment goes to the construction of ultra-high voltage power grids which are deployed in the midstream power transmission stage of the power grid value chain. In recent years, the PRC government has been extensively promoting the utilization of ultra-high voltage transmission systems for long-distance power transmission due to reduced power loss. Electricity transmitted by ultra-high voltage transmission needs to be transformed and sent to power distribution networks with power voltage reduced to under 10kV and further transformed to the low-voltage of 220V/380V for electricity consumption to be metered by AMR systems which, as opposed to ultra-high voltage power systems, fall under the downstream last-mile power utilization stage of the power grid value chain. According to Frost & Sullivan, as ultra-high voltage transmission systems are utilized in the midstream stage of the power grid value chain while AMR systems are utilized in the downstream stage of the power grid value chain, there is generally no compatibility issue between the shift to ultra-high voltage technology and the continuous adoption and evolution of the PLC technology under China's power grid value chain. Rather, the advancements and evolutions of technologies in these two components of the power grid value chain together could further enhance the efficiency and effectiveness of China's power grid value chain. According to Frost & Sullivan and as is believed by us, the shift to ultra-high voltage in power transmission is unlikely to impact the application of PLC technologies in AMR systems. Although the amount of investment for the deployment and upgrade of AMR systems accounts for a relatively small portion of the total power grid investment in China, there has been an increase of investment by the PRC government on the AMR systems in recent years underlined by the shift in China to smart grid infrastructure and power distribution and power utilization for end-users.

In particular, State Grid has commercially deployed AMR systems since 2010 in all of the 26 provinces it covers with an average smart meters penetration rate of approximately 80% as of the end of 2016, according to Frost & Sullivan. According to Frost & Sullivan, prior to 2016, Southern Grid was only engaged in pilot AMR projects and it commenced commercial deployment of AMR systems in its five provinces in March 2016. According to Frost & Sullivan, as Southern Grid plans to achieve full deployment of AMR systems by 2020, it is estimated to fuel the demand for more than 80 million units of smart meters from 2017 to 2021.



## INDUSTRY OVERVIEW

The following map shows the geographic coverage of AMR systems deployed by power grid companies in China with the respective penetration level of smart meters as of December 31, 2016:



Source: Frost & Sullivan

### Existing Technologies for AMR Systems

An AMR system generally consists of the host station located at the power grid company and the on-site terminals located at the power distribution end, including concentrators, collectors and smart meters. The primary function of AMR systems in China is for the automated meter reading of power usage data from end users. Currently, the vast majority of AMR systems deployed in China only allow master-slave communications in which smart meters can only respond to instructions from the host station but cannot voluntarily initiate communications to the host station. It requires an upgrade of the communications protocols from the host station level for an AMR system to achieve peer-to-peer communications.

It is essential for AMR systems to adopt suitable communications technologies to maintain a transmission environment that is reliable, timely, non-interrupted and flexible to adapt to varying interference signals. While the upstream data transmission between the host station and the concentrators is typically conducted by non-PLC technologies through public or private wireless network or optical fiber cable network, the downstream data transmission between the concentrators and smart meters or collectors can be conducted by PLC or other communications technologies as follows:

- **PLC.** The PLC technology is a communications technology which allows transmission of data through low-voltage power lines, usually with voltage at 220V/380V. Compared to other communications technologies, such as RS-485, wireless and optical fiber cable, PLC has two significant advantages in (i) lower installation and maintenance cost due to utilization of existing power lines; and (ii) greater potential for application in various fields attributable to the widespread of power grid systems. The major types of PLC technologies include:
  - **Narrowband PLC**, which is currently the most widely adopted and mature communications technology for the AMR application in China and accounted for approximately 80% of the AMR systems deployed in China, according to Frost & Sullivan. Compared to broadband PLC, narrowband PLC has lower cost and lower energy consumption but is more susceptible to power line signal interference and can be easily influenced by electrical load.
  - **Broadband PLC**, which has a significantly higher data transmission rate theoretically ten times faster than narrowband PLC. Broadband PLC is a more recently developed technology and has the advantages of higher data capacity, reliability and anti-interference capability. However, due to its limitation of shorter transmission distance, broadband PLC requires higher cost for construction of repeaters. Currently, the PLC technology, whether narrowband or broadband, adopted in China's AMR systems generally cannot achieve interconnection and intercommunication (互聯互通), meaning that AMR products and PLC communications protocols of different PLC technology companies are not compatible with all others. As such, a new industry standard for broadband PLC is currently being developed in China, which to our best understanding is being pursued and promoted by State Grid to ultimately become a unified standard of

## INDUSTRY OVERVIEW

communications to be complied by all PLC technology companies in China supplying broadband PLC products for State Grid's AMR systems to ensure their interconnection and intercommunication, which in turn should greatly facilitate the efficiency of advancements in smart energy management and functionality enablement in the long run. At present, there is only very limited adoption of broadband PLC in China's AMR systems with a penetration rate of only approximately 1% according to Frost & Sullivan, which are not conformed to a unified standard of communications and currently do not support interconnection and intercommunication. Given the formulation of the intended new industry standard is still in progress, to our best understanding and experience, we expect that any commercial launch of new AMR systems bearing the new unified industry standard of broadband PLC will much likely be preceded by a period of local pilot installations, evaluations and fine tuning to validate a stable mass deployment. Accordingly, it is currently expected that while broadband PLC technology is being proposed for future promotion and adoption under China's AMR systems, it will undergo a period of gradual migration after the new industry standard is formally adopted as more local pilot installations are carried out and evaluated, and will take a faster and more comprehensive penetration once the local pilot installation and evaluation stage has yielded sufficient success. According to forecast by Frost & Sullivan, the penetration rate of broadband PLC in China's AMR systems is expected to reach 20% by 2021, assuming such unified industry standard of broadband PLC can be formally adopted in 2017.

OFDM is a newer generation and higher-speed modulation scheme for the PLC technology, as opposed to lower speed modulation schemes, such as BPSK. OFDM modulation scheme can be adopted in both narrowband and broadband PLC. OFDM PLC has a higher data transmission rate, stronger anti-interference capability and higher frequency utilization than conventional non-OFDM PLC but requires a higher cost for production. Several major PLC IC suppliers in China, including us, have been focusing on developing new products based on OFDM PLC. OFDM PLC, both narrowband and broadband, is currently at an early stage of commercial application with relatively limited adoption in China's AMR systems, according to Frost & Sullivan.

- **RS-485.** RS-485 is a communications technology for transmitting data between AMR devices connected by the RS-485 cable. RS-485 is a mature technology adopted in China since the 1980s and is the second most widely adopted communications technology for the deployment of AMR systems in China, according to Frost & Sullivan. RS-485 has high reliability in transmitting data through the RS-485 cable, but it requires a large quantity of additional wiring and thus a higher installation and maintenance costs. RS-485 can be combined with PLC in a semi-PLC AMR system in which collectors gather data from RS-485 cable connected meters and transmit data to concentrators through power lines.
- **Wireless.** The wireless technology requires no additional wiring and is not subject to the interference of and limitations imposed by the power grid infrastructure. However, it has relatively poor reliability, short transmission distance and low penetrating capability and is exposed to higher security risks. Moreover, wireless communications require a large amount of network nodes and therefore significant maintenance costs. Due to these limitations, the adoption of the wireless technology is low for the AMR application in China.
- **Optical fiber cable.** Using an existing optical fiber cable network, such as the television cable network, could allow installation of AMR devices at low costs and avoid electromagnetic interference from the power lines. However, this requires collaboration between different government authorities and industry participants, such as those of the power sector and the broadcasting sector, which has significantly limited the adoption of this technology for the AMR application in China.

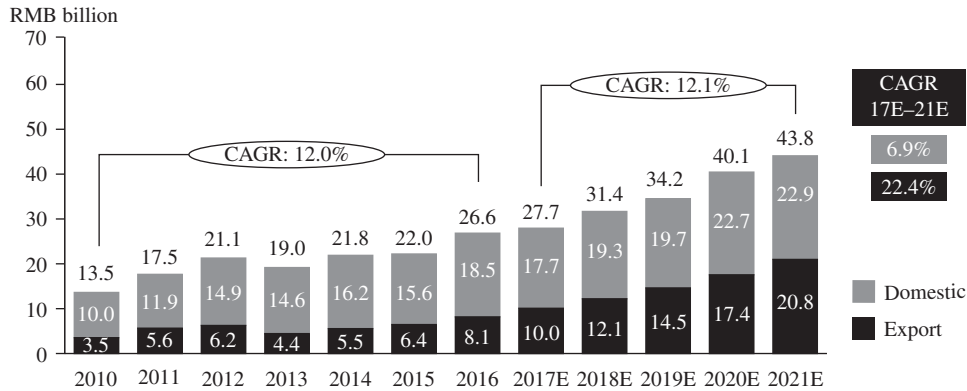
### Market Size for the AMR Application

The major AMR devices are smart meters, concentrators and collectors, each of which, when deployed in an AMR system adopting PLC as its communications technology, is in general embedded with one PLC module containing one PLC IC. In a typical PLC AMR system, each concentrator is connected, directly or indirectly, with up to around 100 smart terminals (i.e. smart meters or collectors). Collectors are only used in semi-PLC AMR systems, which have a lower penetration in China than the

## INDUSTRY OVERVIEW

full PLC AMR systems. As such, according to Frost & Sullivan, the vast majority of PLC ICs produced for the AMR application in China are used for the assembly of smart meters, and the sale of smart meters also accounts for the vast majority of AMR devices sold in China.

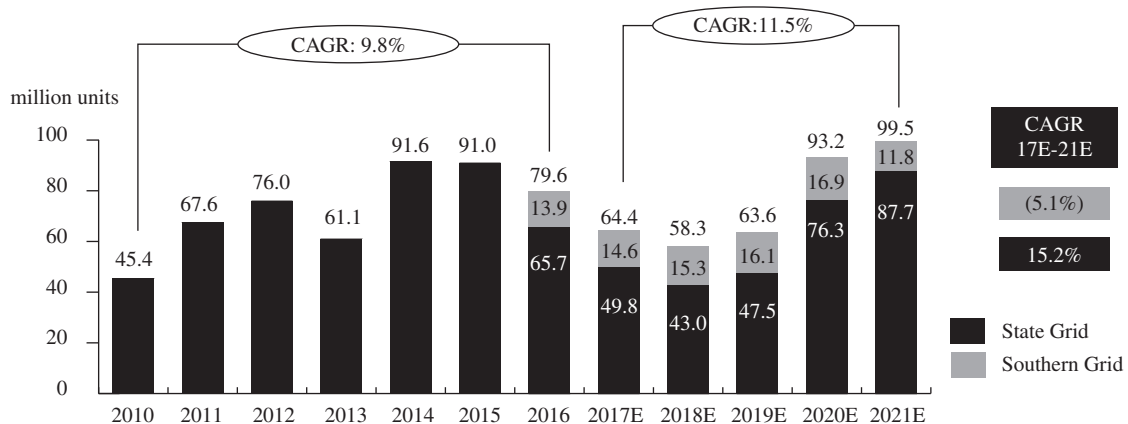
The following chart sets out the historical and projected sales value of smart meters in China from 2010 to 2021:



Source: Frost & Sullivan

According to Frost & Sullivan, total sales value of smart meters in China grew from RMB13.5 billion in 2010 to RMB26.6 billion in 2016, representing a CAGR of 12.0%. This general increase was mainly driven by the massive procurement of smart meters by State Grid in connection with its commercial deployment of AMR systems since 2010. On the other hand, China is also a major exporter of smart meters in the world. As a number of overseas markets such as Asia-Pacific, Africa and Latin America are also promoting the deployment of AMR systems, the global demand for smart meters and consequently the export demand for smart meters from China are expected to grow in the next few years. Frost & Sullivan estimates that total sales value of smart meters in China will grow at a CAGR of 12.1% from RMB27.7 billion in 2017 to RMB43.8 billion in 2021.

From the demand side, State Grid and Southern Grid are the largest purchasers of smart meters in China and they generally procure smart meters through bidding process. The following chart sets out the aggregate historical and projected total bidding volume of smart meters by State Grid and Southern Grid from 2010 to 2021:



Source: Frost & Sullivan

According to Frost & Sullivan, State Grid commenced commercial deployment of AMR systems in 2010, as a result, State Grid's annual bidding volume for smart meters increased at a CAGR of 6.5% from 45.4 million units in 2010 to 65.7 million units in 2016 and is expected to grow at a CAGR of 15.2% from 2017 to 2021. According to Frost & Sullivan, State Grid's bidding volume of smart meters decreased from 91.0 million units in 2015 to 65.7 million units in 2016 and is expected to further decrease to 43.0 million units by 2018, partly as penetration of smart meters under State Grid's first-

## INDUSTRY OVERVIEW

round commercial deployment is reaching saturation, and also as State Grid has exhibited a trend of slow-down in its procurement of smart meters in anticipation of a new industry standard for broadband PLC which is expected to be formally adopted in 2017. Such bidding volume is expected to pick up and increase to 87.7 million units by 2021 as smart meters in China are expected to enter into a new phase of upgrades from 2018 onward.

According to Frost & Sullivan, Southern Grid commenced commercial deployment of AMR systems in 2016 and its bidding volume of smart meters reached 13.9 million units in the same year. Southern Grid's first-round commercial deployment of AMR systems is expected to cover all of its current 75 million users by 2020 with bidding volume of smart meters expected to increase from 14.6 million units in 2017 to 16.9 million units in 2020 and decrease to 11.8 million units in 2021, according to Frost & Sullivan.

In addition to smart meters, concentrators are also an important type of AMR device which serves as a critical link between the host station located at the power grid companies and other on-site terminals of an AMR system. To ensure seamless communications between concentrators and downstream AMR devices, such as collectors and smart meters, power grid companies are usually more inclined to adopt the same or the most compatible communications protocols for collectors and smart meters as is adopted for the concentrator in an AMR system. We believe supplying concentrators in an AMR system enables PLC technology companies to better secure their market share for other AMR system components. According to Frost & Sullivan, the sales volume of concentrators in China adopting the PLC technology increased at a CAGR of 7.0% from 2010 to 2016, and is expected to grow at a CAGR of 6.8% from 2017 to 2021, reaching 1.5 million units in 2021.

### Key Drivers for the AMR Application

As described above, China's PLC market for the AMR application is expected to continue to grow during the period from 2017 to 2021. The key drivers for the growth are:

- ***Cost benefit and management efficiency for AMR systems.*** AMR systems replace traditional meters with smart meters, which enable the automated meter reading of power consumption instead of manual meter reading and consequently help reduce the operational cost of power grid companies considerably. AMR systems also enable real-time monitoring of power consumption data and help improve the management efficiency of power grid companies for routine maintenance. Moreover, AMR systems can accurately calculate power line transmission loss on the terminal side, which help power grid companies avoid large energy loss.
- ***Favorable governmental policies and industry initiatives.*** The development of the AMR application in China has been, and will continue to be, driven by favorable policies of the PRC government as well as initiatives implemented by State Grid and other major industry participants, including:
  - the Guidance on Promoting the Development of Smart Grids (《關於促進智能電網發展的指導意見》) jointly issued by the NDRC and the NEA in 2015 to promote the enhancement of intelligence of the power grid system;
  - the Guidance on Accelerating the Construction and Overhaul of Power Grids (《關於加快配電網建設改造的指導意見》) issued by the NDRC in 2015 to promote the equipment upgrades and technological innovation of power grids in China;
  - the Action Plan for Overhauling the Construction of Power Grids (2015–2020) (《配電網建設改造行動計劃 (2015–2020)》) issued by the NEA in 2015 for the increase in investment in the construction of power grids in China;
  - the Development Plan of China Southern Power Grid (2013–2020) (《南方電網發展規劃 (2013–2020)》) issued by Southern Grid in 2013 to, among others, promote the development of smart grids; and
  - the White Paper on Green Development (《綠色發展白皮書》) issued by State Grid in 2010 with the target to roll out a sophisticated smart grid system with the full deployment of AMR systems by 2020.

## INDUSTRY OVERVIEW

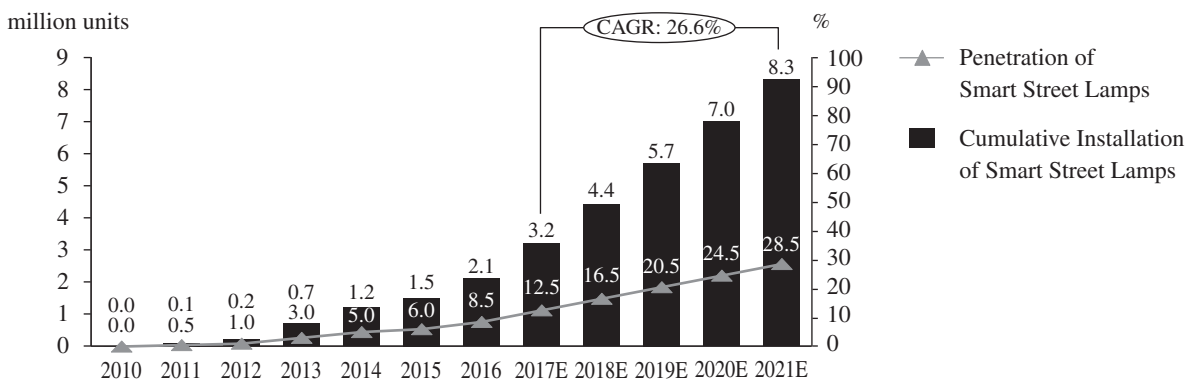
- **More sophisticated power demand side management.** Users are expected to have increasing needs for power demand side management. Power grid companies in China are likely to see more diversified user demand, such as distributed power generation monitoring and peer-to-peer communication services. The higher demand for new AMR functionality is expected to fuel the demand for and further development of the AMR application in China.
- **Advancement in technology.** With the advent of smart grids and fueled by the continual improvements in big data technology and communications technology, the power grid companies are likely to have increasing needs for AMR systems in terms of data processing and peer-to-peer communications capabilities. The advancement in technology is likely to continue to drive the further upgrades of AMR systems in the future.
- **“Four-Meters-In-One” (“四表合一”) Initiative.** There is a trend in China to integrate electric, water, gas and heat meters into one single AMR system, which is led by State Grid because of the successful deployment of AMR systems in the power grid sector. The Four-Meters-in-One initiative is likely to strengthen the application of PLC technology. Starting from the end of 2015, State Grid began to implement such pilot integration projects currently covering more than ten provinces in China, according to Frost & Sullivan.
- **Export growth.** An increasing number of countries is expected to deploy AMR systems in the world, according to Frost & Sullivan. These include selected markets in Asia-Pacific, Africa and Latin America, which are the main export destinations of smart meters manufactured in China. The potential growth in export of smart meters from China is expected to drive the future growth of China’s PLC industry.

### SMART ENERGY MANAGEMENT APPLICATIONS

#### Streetlight Control

A streetlight control system is a centralized public street lighting system equipped smart street lamps which incorporate real-time data communication components that can enable the monitoring and management of such a system on a highway or within a district. PLC and ZigBee, a form of wireless solution, are at present the two dominant communications technologies used for the streetlight control application in China. Due to PLC’s higher reliability and data transmission rate as well as lower installation cost, PLC has become the most popular communications technology for streetlight control in China and accounts for a market share of approximately 60% to 70% by the installation volume of smart street lamps, according to Frost & Sullivan.

The following chart sets out the historical and projected cumulative number of street lamps installed in connection with streetlight control systems in China and their penetration rate from 2010 to 2021:



Source: Frost & Sullivan

Streetlight control is still at an early stage of development in many areas in China. According to Frost & Sullivan, the cumulative number of smart street lamps installed in China reached 2.1 million units in 2016, accounting for only approximately 8.5% of all street lamps installed in China. The number of smart street lamps is expected to achieve significant future growth as the development of streetlight control application becomes more mature and offers higher reliability. Frost & Sullivan estimates that the cumulative number of smart street lamps installed in China will grow at a CAGR of 26.6% from 3.2

## INDUSTRY OVERVIEW

million units in 2017 to 8.3 million units in 2021, reaching a penetration rate of approximately 28.5% in 2021. In particular, the accumulative number of smart street lamps adopting the PLC technology is expected to increase from 2.3 million units in 2017 to 7.3 million units in 2021 at a CAGR of 33.9%, according to Frost & Sullivan. This growth rate is mainly attributable to (i) the relatively small number of PLC smart street lamps currently installed as compared to the total number of street lamps installed in China, and (ii) the expected increasing market share of PLC technology in streetlight control as it had, during the pilot phase in recent years, demonstrated its advantages of low installation costs, long transmission distance and better anti-interference capabilities from surrounding environment over competing technologies and is expected to be adopted more widely in larger-scale installation in China.

The key growth drivers for streetlight control application are:

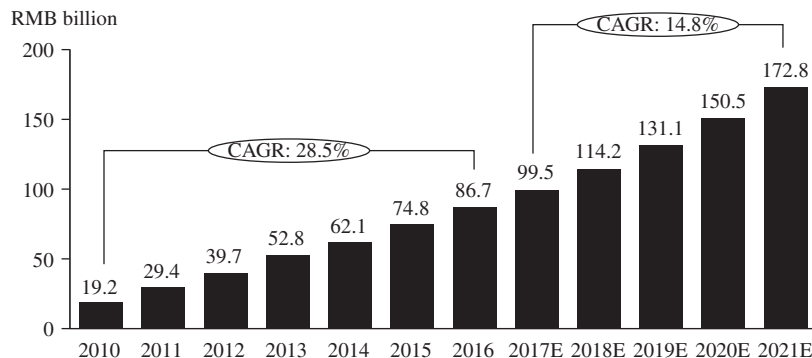
- **Need for energy and cost saving.** Compared to the traditional approach of installing energy-saving streetlight equipment, such as LED lighting, the deployment of streetlight control systems provides a further means to lower energy costs and increase the operational efficiency of streetlight systems to a significant extent.
- **Advantages in PLC technology.** As the PLC technology evolves, the functionality and performance of the PLC-based streetlight control systems have improved and will likely to continue to improve. The installation process of a PLC-based streetlight control system is relatively simple without requiring extra cabling, which greatly lowers the installation and maintenance costs of the system compared to other competing technologies.
- **Increased functionality of streetlight control systems.** Streetlight control systems are being further developed to offer enriched functions such as collection and analysis of environmental data such as temperature, humidity and density of hazardous particles. Streetlight control systems may be further equipped with various sensors and monitors to enable ancillary functions such as loudness detection and vehicle plate recognition.
- **Development of smart city initiative.** As highlighted by the Guidance on Active Promotion of “Internet+” Actions (《關於積極推進“互聯網+”行動的指導意見》) issued by the State Council in 2015, the PRC government is promoting the development of the smart city initiative, which would further drive the development of the streetlight control application as a main component of the smart city development plan.

### Building Energy Management

Building energy systems, in particular HVAC and interior lighting systems, constitute one of the main uses of urban energy consumption in China. Building energy management solutions have been developed using the PLC technology to enable real-time control, monitoring and processing of energy consumption data for various energy systems within a building or multiple buildings.

The major communications technologies used for control and communication systems of the building energy management application include PLC, wired technology (such as twisted pair) and wireless technology. With lower installation cost, strong anti-interference ability and higher stability, PLC is increasingly being recognized as a viable communications technology used for building energy management, particularly for industrial and commercial buildings in China.

The following chart sets out the historical and projected total sales revenue for building energy management application in China from 2010 to 2021:



Source: Frost & Sullivan

## INDUSTRY OVERVIEW

The building energy management application is at its early stage of development in China. According to Frost & Sullivan, total sales revenue for the building energy management application in China grew at a CAGR of 28.5% from RMB19.2 billion in 2010 to RMB86.7 billion in 2016 and is expected to grow further at a CAGR of 14.8% from RMB99.5 billion in 2017 to RMB172.8 billion in 2021.

The key growth drivers for building energy management application are:

- **Corporate awareness of energy management.** With the promotion of smart city and green building concepts by the Ministry of Housing and Urban-Rural Development of the PRC, real estate companies have become more aware of, and play an increasingly active role in implementing building energy management.
- **Need for energy saving and management.** Building energy management solutions can bring substantial economic benefits as it can reduce as much as 40% of the amount of energy consumption. In addition, the PLC control system allows real-time remote control of the energy systems within a building or a multiple-building area and enables effective energy management through collection and analysis of power consumption data and environmental metrics.
- **Advantages in PLC technology.** As PLC-based building energy management solutions can be tailored to different client needs, the advancement in the PLC technology allows increased flexibility in the design of solutions to address evolving market needs. In addition, PLC-based solutions do not require extra re-wiring, which lowers the installation costs significantly and gives a comparative advantage over major competing technologies. More particularly, PLC-based solutions have a cost advantage for buildings constructed in earlier periods without built-in cable infrastructure where re-wiring for the whole building structure would otherwise be required. Moreover, when building energy management is applied to a multi-story and multi-unit building as a whole, data transmission interference would cause the communications via wireless technology to be less practicable and more costly than PLC. Future trends of PLC applications in building energy management include the use of “PLC+RF” dual mode technologies which utilize the complementary merits of PLC and RF technologies to overcome both signal blockage in concrete structure and noise-interruption. “PLC+RF” technology is expected to become a mainstream PLC technology for control and communication systems of building energy management in the next few years. PLC technology is also seeing increasing use in the monitor and control of various energy systems within a building by a single unified control platform. As PLC technology evolves over the years, the sales revenue for the building energy management application adopting PLC technology in China are expected to increase from RMB1.0 billion in 2017 to RMB2.3 billion in 2021 at a CAGR of 23.1%, according to Frost & Sullivan. This growth rate is mainly attributable to (i) the relatively low level of PLC technology currently adopted for building energy management in China, and (ii) the expected increasing market share of PLC as it continues to demonstrate its advantages of low installation costs, anti-interference ability and capability in dealing with transmission congestion, especially in high-rise buildings with complicated structure, in an increasing number of larger-scale building energy management projects in China.
- **Favorable governmental policies.** The PRC government has promulgated a series of favorable policies to support the development of smart building energy management, including:
  - Chapter 43 (Promoting Effective Resource Utilization) of the 13th Five-Year Plan of National Economy and Social Development (《國民經濟和社會發展第十三個五年規劃綱要》) issued by the NDRC in 2016;
  - the 13th Five-Year Special Plan for Energy Saving for Buildings (《十三五建築節能專項規劃》) issued by the Ministry of Housing and Urban-Rural Development of China in 2015;
  - the Opinion on Accelerating the Development of the Energy Saving and Environmental Protection Industry (《關於加快發展節能環保產業的意見》) issued by the State Council in 2013; and
  - the Proposal for Green Building Action (《綠色建築行動方案》) issued by the Ministry of Housing and Urban-Rural Development of the PRC in 2013.

## INDUSTRY OVERVIEW

### Photovoltaic Power Management

In distributed photovoltaic power stations, micro-inverters are often used to convert direct current generated by a single solar module to alternating current. Photovoltaic power management systems are developed to control and manage micro-inverters to achieve higher efficiency in solar power generation.

PLC and ZigBee are the two commonly used technologies to enable data transmission with and remote control of micro-inverters in a photovoltaic power management system. PLC has lower installation cost due to utilization of existing power lines while ZigBee offers better stability within a limited transmission distance.

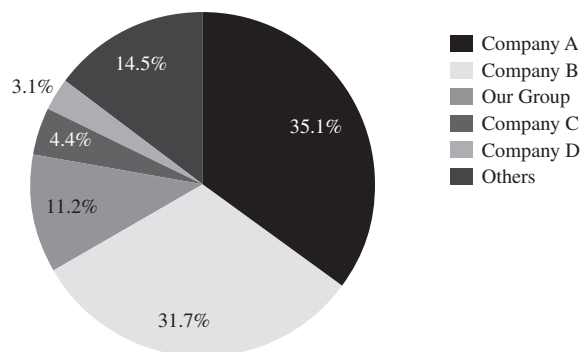
The photovoltaic power management application is also at its early stage of development in China. The key drivers for the development of this application are:

- **Increasing demand for solar power.** With the rising public awareness for use of renewable energy and the PRC government's subsidies for installation of distributed photovoltaic power stations, there is a growing demand for solar power generation from distributed photovoltaic stations and stronger demand for micro-inverters.
- **Advantages of micro-inverters over conventional inverters.** Micro-inverters adopt a one-to-one energy converting process in which one micro-inverter is connected to only one solar module for converting direct current to alternating current, whereby a conventional inverter is connected to multiple solar modules. Micro-inverters offer several benefits over conventional inverters, such as higher flexibility and system efficiency by setting different controls for each solar module to monitor its respective voltage on a real time basis and achieve greatest possible power output.

### COMPETITIVE LANDSCAPE OF CHINA'S PLC MARKET

China's PLC market is largely concentrated with a few major PLC IC suppliers. According to Frost & Sullivan, there were approximately 20 PLC suppliers in China as of the end of 2016 and the top five PLC IC suppliers, which were all domestic players, accounted for more than 85% of total sales volume of PLC products in 2016. Most of the major PLC IC suppliers, including us, have a fabless production model under which IC chipsets are not produced, or "fabricated," in-house but sourced from suppliers such as IC foundries or back-end IC service providers, with the relevant IC designs provided by PLC IC suppliers.

According to Frost & Sullivan, we were the third largest PLC IC supplier in China in 2016 with a market share of 11.2% in terms of sales volume of PLC products. Our two major competitors accounted for 35.1% and 31.7% of the total sales volume of PLC products in China in 2016, respectively. The following chart sets out the market shares of major PLC IC suppliers in China in terms of sales volume of PLC products in 2016:



Source: Frost & Sullivan

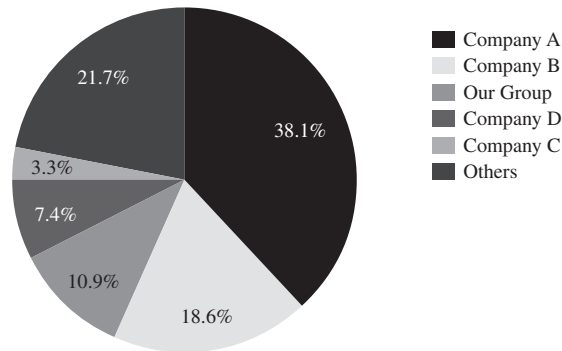
#### Notes:

- (1) Company A is listed on the Shanghai Stock Exchange and supplies PLC products mainly for the AMR and streetlight control applications.
- (2) Company B is listed on the Shenzhen Stock Exchange and is one of the earliest PLC IC suppliers in China. Company B focuses on the AMR and smart home applications.



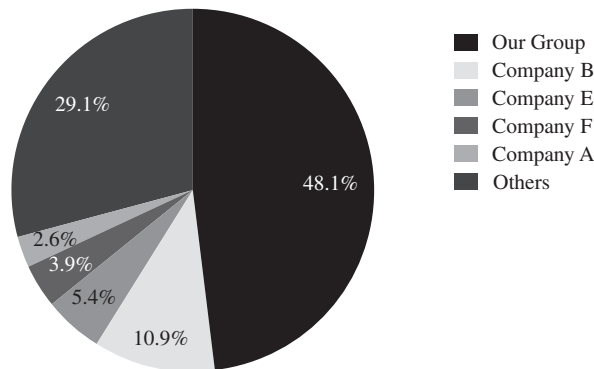
## INDUSTRY OVERVIEW

With respect to the AMR application, we were the third largest PLC IC supplier in 2016 in China, with our sales accounting for 10.9% of State Grid’s total bidding volume for PLC-based AMR devices in 2016. The following chart sets out the market shares of major PLC IC suppliers in China in terms of State Grid’s bidding volume for PLC-based AMR devices in 2016:



Source: Frost & Sullivan

With respect to the streetlight control application, we were the largest PLC IC supplier in China with a market share of 48.1% in terms of sales volume of streetlight control PLC products in 2016. The following chart sets out the market shares of major PLC IC suppliers in China in terms of sales volume for the streetlight control application in 2016:



Source: Frost & Sullivan

### Barriers of Entry to China’s PLC Market

High barriers of entry exist for the PLC market in China. These include:

- Technical barrier.** China’s power grid systems are featured by massive users, complicated power grid structure and networks, intensive interference on the power lines, as well as large disparity between regions. New entrants, especially foreign PLC providers, face high technical barriers to come up with customized and flexible PLC products to address the substantial technical problems and requirements resulting from the complexity of China’s power grid infrastructure and operating environment.
- Customer barrier.** For the AMR application, as the power distribution sector is dominated by the two state-owned power grid companies, a substantial amount of time and efforts will be required for new entrants to become a qualified supplier of and cultivate business relationships with these power grid companies. New entrants face significant barriers in competing with existing PLC IC suppliers who have already established stable relationships with the power grid companies.
- Talent barrier.** The PLC industry is technology-intensive. There is constant pressure on the new entrants to attract and retain suitable professional talent who possess sufficient technological expertise in the design and development of PLC products, as well as adequate experience in such fields related to the PLC applications.

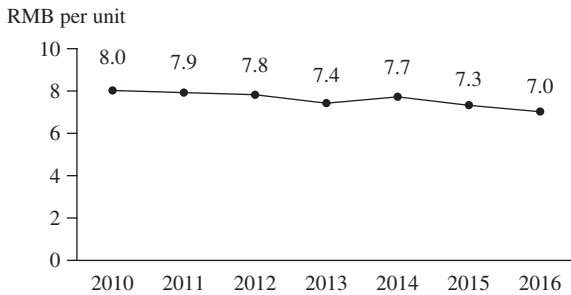
# INDUSTRY OVERVIEW

## PRICE TRENDS IN CHINA'S PLC MARKET

### Prices of Raw Materials

Raw materials for PLC ICs mainly consist of IC chipsets and electronic components, such as capacitors and inductors. IC chipsets account for the majority of raw materials for PLC ICs. According to Frost & Sullivan, the average price of IC chipsets decreased gradually from RMB8.0 per unit in 2010 to RMB7.0 per unit in 2016 and is expected to remain relatively flat for the next few years due to the long-term relationships between IC chipset providers and PLC IC suppliers. The price index of electronic components showed a similar pattern during the period from 2010 to 2016 and is expected to fluctuate within a narrow range for the next few years, according to Frost & Sullivan. The following charts set out the prices of IC chipsets and the price index of electronic components in China from 2010 to 2016, respectively:

**Average Price of IC Chipsets**



**Price Index for Electronic Components**

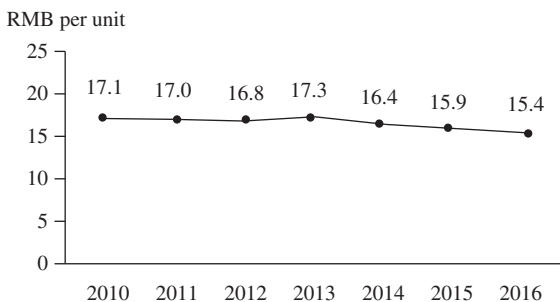


Source: Frost & Sullivan

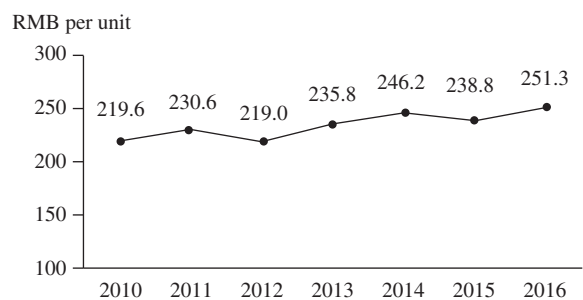
### Market Prices of PLC ICs and Smart Meters

The vast majority of the PLC ICs sold in China are used to produce AMR devices, in particular smart meters. According to Frost & Sullivan, the market prices of PLC ICs and smart meters in China are mainly determined by the bidding process of power grid companies. The market price of PLC ICs decreased gradually from RMB17.1 per unit in 2010 to RMB15.4 per unit in 2016 and is expected to decline gradually due to lower costs from increased production scale of PLC IC suppliers. The market price of smart meters ranged between RMB200 to RMB255 per unit during the period from 2010 to 2016 and is expected to decline slowly for the next few years as competition will likely increase among meter manufacturers in China. The following charts set out the market prices of PLC ICs and smart meters from 2010 to 2016, respectively:

**Average Price of PLC ICs**



**Average Price of Smart Meters**



Source: Frost & Sullivan

## REGULATORY OVERVIEW

### OVERVIEW

We are engaged in the development and sale of ICs, modules and devices of the PLC technology and other related business in the PRC. This section sets out a summary of the applicable PRC laws, rules, regulations, government and industry policies and requirements that have a significant impact on our Group's operations and business in the PRC. This summary does not purport to be a complete description of all the laws and regulations, which are applicable to our business and operations. Investors should note that the following summary is based on relevant laws and regulations in force as of the date of this prospectus, which may be subject to change.

### PRC POLICIES AND REGULATIONS RELATING TO THE INTEGRATED CIRCUIT INDUSTRY AND THE SOFTWARE INDUSTRY

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalog of Industries for Foreign Investment (2015 Version) (《外商投資產業指導目錄(2015年修訂)》) (the “**Foreign Investment Catalog**”), which was jointly amended and promulgated by the MOFCOM and the NDRC on March 10, 2015 and became effective on April 10, 2015. The Foreign Investment Catalog contains specific provisions guiding market access of foreign capital, stipulating in detail different areas of entry pertaining to the categories, which includes encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. According the catalogs 246 and 253 of encouraged foreign invested industries listed in the Foreign Investment Catalog, the business engaged by our Group falls within the encouraged foreign-invested industry.

Pursuant to the Provisions for Guiding the Foreign Investment Direction (《指導外商投資方向規定》), projects with foreign investment fall into 4 categories, namely encouraged, permitted, restricted and prohibited ones. Projects with foreign investment that are encouraged, restricted or prohibited shall be listed in the Foreign Investment Catalog. Projects with foreign investment not listed as encouraged, restricted or prohibited projects are permitted projects.

The Circular of the State Council on Printing and Distributing Policies for Encouraging the Development of the Software Industry and the Integrated Circuit Industry (《國務院關於印發鼓勵軟件產業和集成電路產業發展若干政策的通知》) issued on June 24, 2000, China continually execute policies of encouraging new and high technology and enact further policies to support the software and IC industries.

Pursuant to the Circular of the State Council on Printing and Distributing Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry(《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》) effective from January 28, 2011 and the Announcement of the State Administration of Taxation on Issues Concerning the Accreditation and Administration for Software and Integrated Circuit Enterprises (《關於軟件和集成電路企業認定管理有關問題的公告》) effective from May 30, 2012 (abolished on May 29, 2016), the following financial and tax policies were formulated:

- (i) preferential value-added tax policies for softwares shall continue to be implemented;
- (ii) relevant preferential business tax policies shall be further implemented and improved. Eligible software enterprises shall be exempt from business tax and relevant procedures for them shall be simplified;
- (iii) upon certification, CIT shall be exempt or levied thereon at half of the statutory rate of 25%;

## REGULATORY OVERVIEW

- (iv) granting software and IC manufacturing enterprises more preferential policies on investment and financing in central budgets, policy-oriented financial institutions and commercial institutions; and
- (v) other preferential policies on intellectual properties, research and development, human resources, input and output and marketing.

### PRC LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

#### Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) promulgated on March 12, 1984 with the last amendment effective from October 1, 2009, and the Implementing Regulations of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated on June 15, 2001 with the last amendment effective from February 1, 2010, respectively, an inventor or a designer may apply to the State Intellectual Property Office (the “**SIPO**”) for the grant of an invention patent, an utility model patent or a design patent. According to the Patent Law, the right to apply for a patent (a patent application) and of registered patent can be transferred upon completion of registration with the SIPO. The patent right duration is 20 years for invention and 10 years for utility model and design, counted from the date of application. A patentee is obligated to pay annual fee beginning with the year in which the patent right was granted. Failure to pay the annual fee may result in a termination of the patent right duration.

#### Trademark

The Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”) was promulgated on March 1, 1983 with the last amendment effective from May 1, 2014. The Implementing Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) was promulgated on August 3, 2002 by the State Council and amended on April 29, 2014 and became effective on May 1, 2014. These current effective laws and regulations provide the basic legal framework for the regulations of trademarks in the PRC, covering registered trademarks including commodity trademarks, service trademarks, collective marks and certificate marks. The Trademark Office under the State Administration for Industry and Commerce (the “**SAIC**”) is responsible for the registration and administration of trademarks in the PRC. Trademarks are granted on a term of 10 years commencing on its registration date. Six months prior to the expiration of the 10-year term, an applicant may renew the trademark for another 10 years.

Under the Trademark Law, any of the following acts may be regarded as an infringement of the exclusive right to use a registered trademark:

- Use of a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities without the authorization of the trademark registrant;
- Sale of commodities infringing upon the exclusive right to use a registered trademark;
- Counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark; and
- Infringing upon other person’s exclusive right to use a registered trademark in other ways and causing damages.

Violation of the Trademark Law may result in imposition of fines, confiscation and destruction of infringing commodities.

### Copyright

The Copyright Law of the PRC (《中華人民共和國著作權法》), promulgated on September 7, 1990 with the last amendment effective from April 1, 2010, protects copyright and explicitly covers computer software copyright. The Regulations on the Protection of Computer Software (《計算機軟件保護條例》), promulgated on December 20, 2001 and amended on January 30, 2013 and came into force on March 1 2013, protects the rights and interests of the computer software copyright holders and encourages the development of software industry and information economy. In the PRC, software developed by Chinese citizens, legal persons or other organizations are automatically protected immediately after its development, whether published or not. Foreigners or stateless persons having software first published within the territory of the PRC enjoy copyright in accordance with these regulations. Software owned by foreigners or stateless persons are protected in the PRC under these regulations according to an agreement signed between the country to which it belongs or the habitual residence of its developer and China or according to the international conventions China participated in. A software copyright owner may register with the software registration institution recognized by the copyright administration department of the State Council. A registration certificate issued by the software registration institution is a preliminary proof of the registered items. On February 20, 2002, the National Copyright Administration of the PRC promulgated the Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》), which came into force on the date of promulgation and outline the operational procedures for registration of software copyright, as well as registration of software copyright license and transfer contracts. The Copyright Protection Center of the PRC is mandated as the software registration agency under the regulations.

### Layout Designs of Integrated Circuits

The Regulations on the Protection of Layout Designs of Integrated Circuits (《集成電路布圖設計保護條例》) was promulgated by the State Council on April 2, 2001 and became effective on October 1, 2001, and the Detailed Implementing Rules of the Regulations on the Protection of Layout Designs of Integrated Circuits (《集成電路布圖設計保護條例實施細則》) were promulgated by SIPO, the authority to receive and examine applications for registration of layout IC designs, on September 18, 2001 and came into effect on October 1, 2001 (collectively, the “**Layout-design Regulations**”).

Pursuant to the Layout-design Regulations, any layout-design created by a Chinese citizen, legal person or other organization shall be eligible for the exclusive right of layout-design in accordance with the Layout-design Regulations. The holder of the right of a layout-design shall enjoy the following exclusive right:

- (1) reproducing a protected layout-design in its entirety or any part thereof that complies with the requirement of originality; and
- (2) commercially exploiting a protected layout-design, an IC incorporating a protected layout-design, or an article incorporating such an IC.

The exclusive right of a layout-design is acquired after its being registered with the intellectual property administration department of the State Council. Any unregistered layout-design shall not be protected under the Layout-design Regulations. The term of protection of the exclusive right of a layout-design shall be 10 years counted from the date of filing for registration or from the date on which it was

## REGULATORY OVERVIEW

first commercially exploited anywhere in the world, whichever expires earlier. However, no matter whether it has been registered or commercially exploited, a layout-design shall no longer be protected under the Layout-design Regulations 15 years after the date of the completion of its creation.

Any layout-design, if no application for its registration has been filed with the intellectual property administration department of the State Council within two years from the date on which it was first commercially exploited anywhere in the world, shall no longer be registered by the intellectual property administration department of the State Council.

The following acts, without the authorization of the holder of the right of a layout-design, would constitute an infringement of the layout-design:

- (1) reproducing a protected layout-design in its entirety or any part thereof that complies with the requirement of originality;
- (2) importing, selling, or otherwise distributing for commercial purposes a protected layout-design, an IC incorporating such a layout-design, or an article incorporating such an IC.

The amount of compensation for the damage caused by an infringement of the exclusive right of a layout-design shall be the profits which the infringer has earned through the infringement or the losses suffered by the person whose right was infringed, including the reasonable expenses paid by the infringed person for the purposes of stopping the infringement.

### Domain Name

Internet domain name registration and related matters are primarily regulated by the Administrative Measures for the Internet Domain Names of China (《中國互聯網絡域名管理辦法》) issued by the Ministry of Information Industry (中華人民共和國信息產業部) (the “**MI**”) on November 5, 2004 and became effective on December 20, 2004, the Implementing Rules of Domain Name Registration (《域名註冊實施細則》) issued by China Internet Network Information Center (中國互聯網絡信息中心) (the “**CINIC**”) which became effective on May 29, 2012, and the Measures on Domain Name Disputes Resolution (《中國互聯網絡信息中心域名爭議解決辦法》) issued by CINIC with effect from September 1, 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. Domain name disputes shall be submitted to institutions authorized by the CINIC for resolution.

### PRC LAWS RELATING TO PRODUCT QUALITY

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was promulgated on February 22, 1993 and amended on July 8, 2000 and August 27, 2009, respectively. The product quality supervision department under the State Council is responsible for nationwide product quality supervision. All the relevant departments under the State Council are in charge of product quality supervision according to their respective responsibilities. Local product quality supervision departments at or above the county level are responsible for product quality supervision within their own administrative areas.

Producers and sellers shall establish and improve their internal product quality management systems and rigorously implement quality norms, quality responsibilities and corresponding measures for their assessment.

## REGULATORY OVERVIEW

The PRC government encourages the use of scientific quality management methods and adoption of advanced science and technology, and encourages enterprises to ensure their product quality reach or surpass the trade standards, national standards and even international standards. The entities and individuals that have made outstanding achievements in exercising advanced management of product quality and in bringing product quality up to the advanced international levels shall be awarded.

### PRC LAWS RELATING TO PRODUCTION SAFETY

The Work Safety Law of the PRC (《中華人民共和國安全生產法》) promulgated on June 29, 2002, with latest amended version effective from December 1, 2014, is the principal law governing the supervision and administration of production safety in the PRC. Entities engaged in production and business activities within the territory of the PRC shall abide by the relevant legal requirements such as providing its staff with training on production safety and providing safe working environment in compliance with relevant laws and regulations. Any entities unable to provide the required safe working environment may not engage in production activities. Any failure to comply with the aforesaid provisions or to rectify noncompliance within a time limit may subject the relevant entities to fines and penalties, the suspension of operations, ceasing of operations, or even criminal liability in severe situations.

### PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The PRC laws and regulations on environmental protection mainly include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on December 26, 1989 which was amended on April 24, 2014 and became effective on January 1, 2015, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) revised on August 29, 2015 and effective from January 1, 2016, the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) revised on February 28, 2008 and effective from June 1, 2008 and the Implementing Rules thereof (《中華人民共和國水污染防治法實施細則》) promulgated and effective from March 20, 2000, the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), with latest revised version coming into force on April 24, 2015.

Pursuant to the laws and regulations stated above, all units and individuals shall have the obligation to protect the environment. Enterprises, public institutions and any other producers/business operators shall prevent and reduce environmental pollution and ecological destruction, and shall bear the liability for their damage caused by them in accordance with the law.

### PRC LAWS AND REGULATIONS RELATING TO TAXATION

#### Corporate Income Tax

According to the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)(the “**CIT Law**”) which was promulgated by the National People’s Congress on March 16, 2007 and took effect on January 1, 2008, and its implementing rules, a unified CIT rate of 25% is applied equally to both domestic enterprises and foreign invested enterprises excluding non-resident enterprises. The CIT rate could be reduced to 15% for High and New Technology enterprises in need of special support from the PRC government.

Pursuant to the newly revised Administrative Measures for the Accreditation of High and New Technology Enterprises (《高新技術企業認定管理辦法》) (the “**Administrative Measures**”) which became effective on January 1, 2016, High and New Technology enterprises, which are recognized in

## REGULATORY OVERVIEW

accordance with the Administrative Measures, may apply for the tax preferential policy in accordance with the CIT Law and the Implementing Measures thereof, the Law of PRC Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) and Implementing Rules of the Law of the PRC Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法實施細則》). The qualified high-tech enterprises would be taxed at a rate of 15% on CIT. The validity period of High and New Technology enterprises shall be effective for three years from the date of issuance of the certificate of High and New Technology enterprise. After obtaining the High and New Technology enterprise qualification, such enterprise shall file an annual form containing the following: intellectual property rights, scientific and technical personnel, research and development expenses, operating income and other developments in “High and New Technology enterprise management website” before the end of every May. Where a significant change occurred such as change of name or other conditions related to the High and New Technology enterprises identified (eg, separation, merger, restructuring and change of business, etc.), such enterprise should report it to the relevant competent tax authority, which would accredit such enterprise within three months. Upon such accreditation, the High and New Technology enterprise would either remain its qualification or be disqualified. For enterprises undergoing a change of name, the authority would re-issue the certificate with the certificate number and duration of validity remains unchanged.

Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning the Corporate Income Taxes on the Indirect Transfer of Properties by Non-resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) promulgated and with effect from February 3, 2015 (“**Circular 7**”), where a non-resident enterprise indirectly transfers equities and other properties of a Chinese resident enterprise (“**PRC Taxable Properties**”) to evade its obligation of paying CIT by implementing arrangements that are not for bona fide commercial purpose, such indirect transfer shall be re-identified and recognized as a direct transfer of equities and other properties of the Chinese resident enterprise, in accordance with the provisions of Article 47 of the CIT Law. PRC Taxable Properties in this announcement include properties of a PRC entity or establishment located in China, real estate in China and an equity investment in a PRC resident enterprise, that are directly held by a non-resident enterprise and proceeds from such transfer shall be subject to CIT in China in accordance with the PRC tax laws. An indirect transfer of PRC Taxable Properties refers to a transfer by a non-resident company of an equity interest or other similar right or interest in an overseas enterprise (excluding the PRC resident enterprise registered overseas) (the “**Overseas Enterprises**”) that in turn directly or indirectly holds the PRC Taxable Properties, which effectively has the same or a similar effect as a direct transfer of such PRC Taxable Properties. Circular 7 also provides that an indirect transfer of PRC Taxable Properties, which satisfies one of the following conditions, will not be subject to the aforesaid provisions:

- A non-resident enterprise buys and sells the shares of one same overseas listed company in a public stock exchange; and
- If the non-resident enterprise directly held and transferred PRC Taxable Properties, the proceeds derived thereof would be exempt from CIT under the applicable tax treaty or arrangement.

### Value-added Tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the Stated Council on December 13, 1993 and latest revised on January 13, 2016 with effect from February 6, 2016, and its implementing rules (《中華人民共和國增值稅暫行條例實施細則》) promulgated by MOF on December 25, 1993 and revised on December 18, 2008 and



## REGULATORY OVERVIEW

October 28, 2011, respectively, tax payers engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax (the “VAT”). Unless stated otherwise, the rate of value-added tax is 17%.

Pursuant to the Notice on Value-added Tax Policies of Software Products (《關於軟件產品增值稅政策的通知》), a general taxpayer who sells its self-develop software products and borne a VAT more than 3%, could enjoy a levy-refund policy on VAT after being taxed at the fixed rate of 17%. However, in practice, such general taxpayer should present the license of software products (軟件產品登記證書) or registration certificates of software copyrights (計算機軟件著作權登記證書) to prove the software products were developed and produced by its own.

### PRC LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

Under the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was promulgated by the National People’s Congress of the PRC in 1986 and revised by the Standing Committee of National People’s Congress on October 31, 2000, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China are also required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of such enterprises. These reserves are not distributable as cash dividends.

According to the CIT Law and its implementing rules, dividends paid to investors of an eligible PRC resident enterprise can be exempted from CIT and dividends paid to foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC government provide otherwise.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “Arrangement”) on August 21, 2006. According to the Arrangement, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% of withholding tax rate shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Circular on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT and became effective on February 20, 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the 12 months prior to obtaining the dividends, reach a percentage specified in the tax agreement.

According to the Tentative Administrative Measures on Tax Convention Treatment for Non-Residents (《非居民享受稅收協定待遇管理辦法(試行)》), which was promulgated by the SAT on August 24, 2009 and became effective on October 1, 2009, where a non-resident enterprise that receives dividends from a Chinese resident enterprise wishes to enjoy the favorable tax benefits under the tax

## REGULATORY OVERVIEW

arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatment provided in the tax agreements.

However, the Tentative Administrative Measures on Tax Convention Treatment for Non-Residents (《非居民享受稅收協定待遇管理辦法(試行)》) has been repealed by the Administrative Measures on Tax Convention Treatment for Non-Resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》), which was promulgated by the SAT on August 27, 2015 and became effective on November 1, 2015, where a non-resident enterprise that receives dividends from a PRC resident enterprise, it could directly enjoy the favorable tax benefits under the tax arrangements at tax returns, and subject to the subsequent regulation of the competent tax authority.

### PRC LAWS AND REGULATIONS RELATING TO LABOR

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》) promulgated on July 5, 1994 with effect from January 1, 1995, and revised on August 27, 2009, as well as the PRC Labor Contract Law (《中華人民共和國勞動合同法》) promulgated on June 29, 2007, revised on December 28, 2012 and effective from July 1, 2013, if an employment relationship is established between an entity and its employees, written labor contracts shall be executed between them. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the PRC government on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the Interim Regulations on Levying Social Insurance Premiums (《社會保險費徵繳暫行條例》) effective from January 22, 1999, the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) effective from March 19, 1999, Decisions of the State Council on Modifying the Basic Endowment Insurance System for Enterprise Employees (《國務院關於完善企業職工基本養老保險制度的決定》) promulgated on December 3, 2005, Decision on Establishment of Basic Medical System for Urban Employee (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by State Council with effect from December 14, 1998, the Regulations on Unemployment Insurance (《失業保險條例》) effective from January 22, 1999, Regulations on Work-Related Injury Insurance (《工傷保險條例》) promulgated on April 27, 2003 with effect from January 1, 2004, and as amended on December 20, 2010, and the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) promulgated on December 14, 1994 with effect from January 1, 1995, employers are required to register with the competent social insurance authorities and provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which became effective on July 1, 2011, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make all social insurance contributions. Except for mandatory exceptions such as force majeure, social insurance premiums may not be paid late, reduced or be exempted. Where an employer fails to make social insurance contributions in full and on time, the social insurance contribution collection agencies shall order it to make all or outstanding contributions within a specified period and impose a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine equivalent to 1–3 times the overdue amount.

Pursuant to the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》) effective from April 3, 1999, and amended on March 24, 2002, enterprises are required to register with the competent administrative centers of housing provident fund and open bank accounts for housing provident funds for their employees. Employers are also required to timely pay all housing fund contributions for their employees. Where an employer fails to submit and deposit registration of housing

## REGULATORY OVERVIEW

provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management center shall order it to go through the formalities within a prescribed time limit. Failing to do so at the expiration of the time limit will subject the employer to a fine of not less than RMB10,000 and up to RMB50,000. When an employer fails to pay housing provident fund due in full and in time, housing provident fund center is entitled to order it to rectify, failing to do so would result in enforcement exerted by the court.

### PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

#### Foreign Exchange

Pursuant the Administrative Regulations of the PRC on Foreign Exchange(《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and amended on August 1, 2008 with effect from August 5, 2008, and various regulations issued by the State Administration of Foreign Exchange (國家外匯管理局) (the “SAFE”) and other PRC regulatory agencies, foreign currency could be exchanged or paid through two different accounts, namely current account and capital account. Payment of current account items, including commodity, trade and service-related foreign exchange transactions and other current payment, may be made by conversion between Renminbi and foreign currencies without approval of the SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion between Renminbi and the foreign currency, and remittance of the foreign currency outside the PRC.

#### SAFE Circular 59

On November 19, 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (“SAFE Circular 59”), which became effective on December 17, 2012 and were amended on May 4, 2015. SAFE Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to SAFE Circular 59, the opening of various special purpose foreign exchange accounts (e.g. pre-investment expenses account, foreign exchange capital account, asset realization account, guarantee account) no longer requires SAFE’s approval. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, which was not possible before the issuance of SAFE Circular 59. Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) no longer requires SAFE’s approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer requires SAFE’s approval.

#### SAFE Circular 19

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“SAFE Circular 19”), which came into effect on June 1, 2015. According to SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises (the “FIE”) shall be subject to a discretionary foreign exchange settlement (the “Discretionary Foreign Exchange Settlement”). The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of an FIE for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of

## REGULATORY OVERVIEW

monetary contribution by the banks) and can be settled at the banks based on the actual operational needs of the FIE. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of an FIE is temporarily determined as 100%. Renminbi converted from a foreign exchange capital will be kept in a designated account and if an FIE needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

Furthermore, SAFE Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of an FIE and capital in Renminbi obtained by the FIE from foreign exchange settlement shall not be used for the following purposes:

1. directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
2. directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations;
3. directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and
4. paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

### **SAFE Circular 37**

On July 4, 2014, Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”) became effective on July 4, 2014. Pursuant to SAFE Circular 37, SAFE and its branches shall enforce registration management for establishment of a special purpose vehicle (an “**SPV**”) by domestic residents (including domestic institutions and domestic resident individuals, and domestic resident individuals shall refer to Chinese citizens holding the identity cards for Chinese domestic residents, military identity certificates or identity certificates for armed police force, and overseas individuals that do not hold any domestic legitimate identity certificates but have habitual residences within the territory of the PRC due to relationships of economic interests). Prior to contributing domestic and overseas legitimate assets or interests to an SPV, a domestic resident shall apply to SAFE for foreign exchange registration of overseas investment. Where a registered overseas SPV undergoes changes of its domestic resident individual shareholders, name, operating period or other basic information, or experiences substantial changes including without limitation the increase or reduction of registered capital by domestic resident individuals, transfer or replacement of equity and merger or split, the SPV shall go through modification registration of foreign exchange for overseas investment with SAFE. Where a non-listed SPV uses its own equity interests or options to grant equity incentives to the directors, supervisors and senior management of a domestic enterprise under its direct or indirect control, as well as other employees in employment or labor relationships with the aforesaid company, relevant domestic resident individuals may, before exercising their rights, apply to SAFE for foreign exchange registration of the SPV.

## REGULATORY OVERVIEW

### SAFE Circular 13

Pursuant to Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular 13”), which was promulgated by SAFE on February 13, 2015 and became effective on June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment will be directly reviewed and handled by banks in accordance with SAFE Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### HISTORY AND DEVELOPMENT

Prior to founding our Group in May 2006, Mr. Yue Jingxing (岳京興) (“**Mr. Yue**”) and Dr. Gu Jian (顧建) (“**Dr. Gu**”), together with Mr. Li Shaohua (李少華) and Mr. Chen Guo (陳果), were shareholders holding in aggregate 85% of the equity interest in Shenzhen Haoyuan Technology Co., Ltd. (深圳市昊元科技有限公司) (“**Shenzhen Haoyuan**”), a company principally engaged in research and development of electronic, communications, networks, integrated circuits, information terminal devices, intelligent controllers and related software products. In April 2006, SAIF saw the potential of the industry knowledge and experience of Mr. Yue and Dr. Gu in the PLC industry and decided to invest in and provide funding to support Mr. Yue and Dr. Gu in their design, development and commercialization of PLC products and solutions. In connection with SAIF’s investment, Risecomm WFOE, our major operating entity, was established in May 2006 to acquire certain assets related to the design and development of PLC products and solutions from Shenzhen Haoyuan and commenced business. For details of the SAIF’s investment, see the section headed “— Investment of SAIF” below.

Mr. Yue is an executive Director and the chief executive officer of our Company and Dr. Gu is a member of the senior management of our Group. For the background and experience of Mr. Yue and Dr. Gu, see the section headed “Directors, Senior Management and Employees” in this prospectus.

### Investment of SAIF

On April 7, 2006, SAIF, Old Cayman, a company then wholly owned by SAIF as its original investment entity, Mr. Yue, Dr. Gu, Mr. Li Shaohua, Mr. Chen Guo and Shenzhen Haoyuan entered into a share purchase agreement (the “**Old Cayman SPA**”), pursuant to which (i) SAIF subscribed for 5,800,000 series A preferred shares of US\$0.001 each in Old Cayman (the “**Series A Old Cayman Preferred Shares**”) for a consideration of US\$5,000,000 with a warrant (the “**Warrant**”) entitling SAIF to purchase from Old Cayman up to 2,320,000 Series A Old Cayman Preferred Shares at the purchase price of US\$1.2931 per share; (ii) Mr. Yue, Dr. Gu, Mr. Li Shaohua and Mr. Chen Guo procured the transfer by Shenzhen Haoyuan of certain of its tangible and intangible assets related to the design and development of PLC products and solutions to a wholly foreign owned enterprise to be set up by Old Cayman (being Risecomm WFOE) at a cash consideration of approximately RMB8.1 million; (iii) Mr. Yue, Dr. Gu, Mr. Li Shaohua and Mr. Chen Guo transferred in aggregate their 85% equity interest in Shenzhen Haoyuan to the then remaining shareholder of Shenzhen Haoyuan, an Independent Third Party holding 15% equity interest in Shenzhen Haoyuan, and ceased to be shareholders of Shenzhen Haoyuan; and (iv) 2,800,000 voting common shares of US\$0.001 each in Old Cayman (the “**Old Cayman Common Shares**”) were allotted and issued to Mr. Yue, Dr. Gu, Mr. Li Shaohua and Mr. Chen Guo for an aggregate consideration of US\$2,800. On the same date, SAIF, Old Cayman, Mr. Yue, Dr. Gu, Mr. Li Shaohua and Mr. Chen Guo entered into a shareholders agreement and a right of first refusal and co-sale agreement to give effect to the rights and obligations of the shareholders of Old Cayman.

Following the completion of the Old Cayman SPA, Old Cayman was beneficially owned as to approximately 67.44% by SAIF, 11.63% by Mr. Yue, 9.30% by Dr. Gu, 8.14% by Mr. Li Shaohua and 3.49% by Mr. Chen Guo, respectively, on October 25, 2006.

For details regarding the subsequent dilution of SAIF’s shareholding interest in Old Cayman to SAIF’s shareholding interest of 32.89% in our Company as at the Latest Practicable Date, please see the sections headed “— History and Development — Introduction and Exit of certain Shareholders”, “— Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman”, “— Reorganization — Acquisition of the entire issued share capital of Old Cayman by our Company” and “— Reorganization — Exercise of share options granted by our Company” below.

## HISTORY, DEVELOPMENT AND REORGANIZATION

The following table sets out the key particulars of SAIF's investment:

<b>Information of SAIF</b>	:	SAIF is an exempted limited partnership registered under the laws of the Cayman Islands. The general partner of SAIF is SAIF II GP L.P., whose general partner is SAIF Partners II L.P. (“SAIF Partners”). The general partner of SAIF Partners is SAIF II GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands wholly owned by Mr. Andrew Y. Yan.
<b>Number of Series A Old Cayman Preferred Shares subscribed</b>	:	5,800,000
<b>Amount of consideration paid</b>	:	US\$5,000,000
<b>Basis of determination of the consideration</b>	:	Based on arm's length negotiations between the parties after taking into consideration the business prospects of the PLC products and solutions then pursued by Mr. Yue and Dr. Gu, and certain tangible and intangible assets related to the design and development of PLC products and solutions transferred to the Group by Shenzhen Haoyuan pursuant to the Old Cayman SPA.
<b>Date of payment of full consideration</b>	:	July 24, 2006
<b>Cost per Share paid under the SAIF's Investment</b>	:	Approximately US\$0.0253 per Share (equivalent to approximately HK\$0.1961 per Share at the conversion rate of US\$1.00: HK\$7.75 for illustration purpose only), calculated on the basis of 197,340,537 Shares to be held by SAIF upon completion of the Reorganization, the Capitalization Issue and the Global Offering.
<b>Discount to the Offer Price</b>	:	Approximately 79.36%, calculated on the basis of the Offer Price of HK\$0.95, being the mid-point of the indicative Offer Price range.
<b>Use of proceeds and whether they have been fully utilized</b>	:	The proceeds from SAIF's investment were used in funding the design, development and commercialization of PLC products and solutions of our Group.
<b>Strategic benefits</b>	:	Our then Directors were of the view that our Company could benefit from the seed capital provided by SAIF's investment in our Company and our Company could also leverage on SAIF's network, knowledge and experience in the information technology sector.

## HISTORY, DEVELOPMENT AND REORGANIZATION

**Shareholding upon Listing** : 24.67% (without taking into account any Shares which may be issued upon exercise of the Over-Allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme).

**Public float** : Our Shares held by SAIF are not considered as part of the public float for the purposes of Rule 8.24 of the Listing Rules as SAIF is a substantial shareholder of our Company and thus is a core connected person of our Company upon Listing.

**Lock up** : (i) **Undertaking to the Stock Exchange under the Listing Rules**

As at the date of this prospectus, SAIF is the controlling shareholder (as defined in the Listing Rules) of our Company holding approximately 32.89% of the issued share capital of our Company. Accordingly, Shares held by SAIF will be subject to lock-up for the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date as required under Rule 10.07(1)(a) of the Listing Rules. For further details, please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings to the Stock Exchange under the Listing Rules” in this prospectus.

However, since the shareholding percentage of SAIF in our Company will be diluted to 24.67% (without taking into account any Shares which may be issued upon exercise of the Over-Allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme) as a result of the Global Offering and SAIF will cease to be the controlling shareholder of our Company upon Listing, Shares held by SAIF will not be subject to lock-up for the second six-month period from the Listing Date as required under Rule 10.07(1)(b) of the Listing Rules.

(ii) **Undertaking pursuant to the Hong Kong Underwriting Agreement**

For the purpose of the Global Offering, SAIF has given a lock-up undertaking in relation to its Shares for the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months from the Listing Date. For further details on SAIF’s lock-up undertaking given pursuant to the Hong Kong Underwriting Agreement, please see the section headed “Underwriting — Underwriting Arrangements and Expenses — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus.



## HISTORY, DEVELOPMENT AND REORGANIZATION

### *Prior Special Rights*

Prior to the transfer of all of its Series A Old Cayman Preferred Shares to our Company pursuant to the Reorganization (see “Reorganization” in this section for further details), SAIF was entitled to the following special rights attached to the Series A Old Cayman Preferred Shares:

- Preference to dividend** : SAIF was entitled to receive a dividend at a fixed rate of 6% per annum of the original issue price of the Series A Old Cayman Preferred Shares prior and in preference to any dividend on any other shares of Old Cayman.
- Liquidation preferences** : SAIF was entitled to receive an amount equal to the original issue price of the Series A Old Cayman Preferred Shares together with all dividends declared and unpaid upon any liquidation, dissolution or winding up of Old Cayman before any distribution or payment to be made to the holders of any Old Cayman Common Share on a pro rata basis.
- Directors nomination right** : SAIF was entitled to nominate one director to the board of directors of Old Cayman, which should be consisted of not more than three directors.
- Prior consent (veto right) for certain corporate actions** : Certain corporate actions involving the business, operations, finance management and constitutions of Old Cayman, including without limitation, entering into material agreements, declaration of dividend with respect to any shares of Old Cayman and change in the authorized size of board of directors of Old Cayman, could only proceed with the prior approval of SAIF.
- Pre-emptive right** : SAIF had a right to purchase up to its pro rata share of any new Old Cayman Common Shares to be issued and allotted by Old Cayman.
- Right of first refusal and co-sale** : SAIF was granted a right of first refusal to purchase the Old Cayman Common Shares held by the other shareholders of Old Cayman at the same price and on the same terms and conditions to a third party purchaser. If SAIF did not exercise its right of first refusal, it had the right to participate in the sale of the Old Cayman Common Shares on the same terms and conditions offered to the third party purchaser.
- Conversion rights** : SAIF was entitled to convert their Series A Old Cayman Preferred Shares into Old Cayman Common Shares with an initial conversion ratio of 1:1 (subject to adjustments to be made to preserve the conversion rights against dilution in certain dilutive events).

## HISTORY, DEVELOPMENT AND REORGANIZATION

- Voting rights** : Series A Old Cayman Preferred Shares carried voting rights equal to such number of Old Cayman Common Shares as if converted on the date the voting is to be taken.
- Redemption of shares** : SAIF was entitled to require Old Cayman to redeem all of the outstanding Series A Old Cayman Preferred Shares then held by it at the redemption price of 150% of the original issue price of each Series A Old Cayman Preferred Share commencing from the fifth anniversary of the first date of issue and allotment of the Series A Old Cayman Preferred Shares.
- Information and inspection right** : SAIF was entitled to receive Old Cayman's financial statements, budgets and other information and visit the properties of Old Cayman and its then subsidiaries to inspect books of accounts and records and obtain other information regarding their operations, business and financial conditions.

### *Waiver and Lapse of Special Rights*

In order to facilitate a more equitable treatment and better align the rights among all shareholders of Old Cayman in the overall interests of the growth and development of our Group, particularly having regard that a possible listing on the Stock Exchange, for which the special rights and privileges of SAIF would be required to be terminated, was among the potential milestones along our long-term development path, in March 2014, save for the veto right in respect of certain corporate actions of Old Cayman, SAIF waived all the special rights and privileges attached to the Series A Old Cayman Preferred Shares and its rights to subscribe additional Series A Old Cayman Preferred Shares under the Warrant.

Upon completion of the Reorganization, Old Cayman became a wholly-owned subsidiary of our Company as all the Series A Old Cayman Preferred Shares and the Old Cayman Common Shares were held by our Company and SAIF ceased to be a holder of the Series A Old Cayman Preferred Shares. The aforesaid special rights attached to the Series A Old Cayman Preferred Shares were no longer available to SAIF, and accordingly, SAIF does not have any special rights attached to the Shares or its investments in our Company after the Reorganization.

Save as disclosed herein, SAIF and the other Shareholders has not entered into any other arrangements in relation to their interests in our Company.

### *Sole Sponsor's confirmation*

The Sole Sponsor considers that the investment by SAIF is in compliance with the "Interim Guidance on Pre-IPO Investments," "Guidance on Pre-IPO Investments" and "Guidance on Pre-IPO Investments in Convertible Instruments" issued by the Stock Exchange in January 2012, October 2012 (updated in July 2013) and October 2012, respectively, for reasons that: (i) the relevant consideration under SAIF's investment in Old Cayman was fully and irrevocably settled and received by us on July 24, 2006, which was more than 28 clear days before the date of the first submission of the first listing application form to the Stock Exchange in relation to the Listing; and (ii) SAIF ceased to have any of the special rights granted in conjunction with its original investment after completion of the Reorganization.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### *Background of SAIF*

SAIF is an exempted limited partnership registered under the laws of the Cayman Islands. The general partner of SAIF is SAIF II GP L.P., whose general partner is SAIF Partners. The general partner of SAIF Partners is SAIF II GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands wholly owned by Mr. Andrew Y. Yan.

SAIF Partners is an Asia-based private equity firm with over US\$4 billion of capital under management and dedicated local offices and investment teams in Hong Kong and China (Beijing, Shanghai, Shenzhen, Hangzhou, Changzhou, Xiamen and Hefei). SAIF Partners makes privately negotiated equity or equity-linked investments across several growth sectors such as information technology, Internet, healthcare and clean technology and/or energy. The firm focuses on investment opportunities in the greater China region.

### *Delineation of Business of SAIF's Portfolio and our Group*

SAIF has been investing in various businesses and, amongst the companies it has invested, one is engaged in chipset related businesses, namely, Alchip Technologies, Limited (Taiwan Stock Exchange stock code: 3661) (“**Alchip**”).

The business of Alchip is different from the Group's business as Alchip is engaged in providing silicon design and manufacturing services for companies developing ASIC and system-on-chip. Accordingly, Alchip provides back-end services to companies like our Company.

Given the different nature of our business and the business of Alchip, SAIF does not have any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group's business.

### *Independence of SAIF and our Group*

To the best knowledge of our Directors, save for its shareholding interest and directorships in our Group, each of SAIF and its ultimate beneficial shareholders is independent of and not connected with our Company and any of its connected persons or their respective associates.

Mr. Ng Benjamin Jin-ping (吳俊平), being an advisory partner of SAIF Advisors Ltd., which is the advisory company of SAIF, is a non-executive Director who will hold 6,547,283 Shares, and Ms. Lau Chung Ki Lynda (劉琮琪), being a principal of SAIF Advisors Ltd., is a director of Risecomm WFOE who will hold options entitling her to subscribe for 877,303 Shares pursuant to the Pre-IPO Share Option Scheme, upon completion of the Capitalization Issue and the Global Offering. Save for Mr. Ng and Ms. Lau, each of SAIF and our Group has its own management team and staff. Each of Mr. Ng and Ms. Lau serves as an SAIF's representative in our Group, taking a non-executive role responsible for advisory on capital investment direction and strategic capital structure of our Group. None of Mr. Ng and Ms. Lau participates in the management and daily operation of our Group.

SAIF will hold 197,340,537 Shares upon completion of the Capitalization Issue and the Global Offering. Save for SAIF's equity investment and shareholding interest in our Group, there has not been any financial assistance from SAIF to our Group or any continuing connected transaction between our Group and SAIF. Therefore, we conduct our business independently from SAIF.

## HISTORY, DEVELOPMENT AND REORGANIZATION

Save for the shareholding interest and directorships in our Group, SAIF is not involved in the management and daily operation of our Group. SAIF does not have any other relationships with our Company, its subsidiaries, their respective directors or senior management, their shareholders and their respective associates, whether in the past or at present. The acquisition and subscription of the Series A Old Cayman Preferred Shares by SAIF was not financed directly or indirectly by any connected person of our Company or our Group.

Based on the above, SAIF is considered a passive financial investor of our Group, and we operate independently from SAIF in terms of management, operational and financial aspects.

### Introduction and Exit of certain Shareholders

We collaborated with Beijing RSK Electronics as our strategic sales partner from 2009 to 2014. For more details of our business relationship with Beijing RSK Electronics, see the section headed “Business — Sales and Marketing — Historical Sales Collaboration with Beijing RSK Electronics” in this prospectus. During the course of our sales collaboration with Beijing RSK Electronics, Mr. Wang Shiguang (王世光), the founder of Beijing RSK Electronics, gained an understanding of our core technological capabilities and was optimistic about the business prospects of our Group. At the beginning of 2014, Mr. Wang Shiguang initiated discussions with the then shareholders of Old Cayman to pursue an equity investment in our Group. As a result, in March 2014, each of Mr. Wang Shiguang, Ms. Chen Junling (陳俊玲) (the spouse of Mr. Wang Shiguang), and Mr. Wang Wenshan (王文善) (who had been providing business and operational advices to Beijing RSK Electronics), became a beneficial owner of 4,271,376, 907,195 and 907,195 Old Cayman Common Shares for a consideration of US\$5,510,075, US\$1,170,282 and US\$1,170,282, respectively.

Mr. Han Yuan (韓源) and Mr. Zhang Baojun (張保軍) have been our employees since 2012 and after acknowledging the possible introduction of Mr. Wang Shiguang, Ms. Chen Junling and Mr. Wang Wenshan as new shareholders of Old Cayman at the beginning of 2014, they expressed their interest in becoming shareholders of Old Cayman. As the then shareholders of Old Cayman considered that each of Mr. Han Yuan and Mr. Zhang Baojun was a key member of the senior management of our Group, each of Mr. Han Yuan and Mr. Zhang Baojun was invited to participate in the share subscription and, in March 2014, became a beneficial owner of 188,999 and 755,996 Old Cayman Common Shares for a consideration of US\$243,809 and US\$975,235, respectively.

Mr. Zhang Xin (張鑫), a business acquaintance of Mr. Yue, was optimistic about the business prospects of our Group and requested to invest in Old Cayman as a passive investor. In March 2014, Mr. Zhang Xin became a beneficial owner of 907,195 Old Cayman Common Shares for a consideration of US\$1,170,282.

The aforesaid considerations were determined with reference to the estimated market value of Old Cayman evaluated based on the then available market data of comparable businesses.

In March 2014, Mr. Zhang Youyun (張友運) and Mr. Liu Ming (劉明), being employees of our Group, exercised their respective share options (see the section headed “— Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman — Share Options” below for further details) to subscribe for Old Cayman Common Share at the exercise price of US\$0.01 per share granted by Old Cayman. As a result, each of Mr. Zhang Youyun and Mr. Liu Ming became a beneficial owner of 100,000 Old Cayman Common Shares.

## HISTORY, DEVELOPMENT AND REORGANIZATION

SAIF's shareholding interest in Old Cayman was diluted mainly as a result of the introduction of Mr. Wang Shiguang, Ms. Chen Junling, Mr. Wang Wenshan, Mr. Han Yuan, Mr. Zhang Baojun, Mr. Zhang Xin, Mr. Zhang Youyun and Mr. Liu Ming as new shareholders of Old Cayman in March 2014, details of which are set out in the section headed "— Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman" below. SAIF has been a passive financial investor of our Group, and we operate independently from SAIF in terms of management, operational and financial aspects (save for the seed capital provided by SAIF's investment to fund the design, development and commercialization of PLC products and solutions of our Group). SAIF's primary objective is to enhance the long-term value of its investment as opposed to safeguarding or preserving a controlling interest in our Group. Accordingly, SAIF concurred with the dilution of its shareholding interest in Old Cayman as it considered that the introduction of new shareholders for Old Cayman was a natural progression for a business under growth, and a more diversified shareholder base could bring upon positive contributions such as new ideas and business networks in the interests of the growth and development of our Group.

Pursuant to certain repurchase arrangements agreed between each of Mr. Chen Guo and Mr. Li Shaohua (two of the initial shareholders of Old Cayman) and Old Cayman, all shares and share options of Old Cayman then held by Mr. Chen Guo and Mr. Li Shaohua were repurchased (or, in respect of the share options, canceled) by Old Cayman and each of Mr. Chen Guo and Mr. Li Shaohua ceased to be a shareholder of Old Cayman (see "Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman — Share Repurchase" in this section for further details). As of the Latest Practicable Date, Mr. Li Shaohua had passed away while Mr. Chen Guo remained an Independent Third Party.

### Business Milestones

The following table sets out various milestones in the history of our business development:

Year	Milestone
2006	<ul style="list-style-type: none"><li>● Risecomm WFOE, our key operating subsidiary in the PRC, was established to engage in the business of design and development of PLC ICs</li><li>● We developed the first model of our first-generation PLC ICs "RISE3301"</li></ul>
2008	<ul style="list-style-type: none"><li>● We were selected by State Grid to participate in its first AMR pilot project in China undertaken in Heilongjiang Province</li><li>● We embarked on the smart energy management business with the development and sales of PLC products for the streetlight control application</li></ul>
2010	<ul style="list-style-type: none"><li>● Our AMR products began to be commercially deployed in State Grid's AMR systems</li></ul>
2011	<ul style="list-style-type: none"><li>● We commenced sales of PLC products in connection with photovoltaic power management for solar micro-inverters</li></ul>
2012	<ul style="list-style-type: none"><li>● We were invited by State Grid to participate in the formulation and setting of PLC industry standards</li></ul>
2013	<ul style="list-style-type: none"><li>● Risecomm WFOE became a "National High and New Technology Enterprise" and a "Shenzhen High and New Technology Enterprise"</li></ul>

## HISTORY, DEVELOPMENT AND REORGANIZATION

Year	Milestone
	<ul style="list-style-type: none"><li>• We participated in the formulation and setting of Part 11 of the national standards of low-voltage narrowband PLC by the National Technical Committee 104 on Electrical Measuring Instruments of Standardization Administration of China (全國電工儀器儀錶標準化技術委員會)</li><li>• We launched our first building energy management pilot project by providing and installing our PLC air-conditioning energy management products for Foxconn's staff dormitories in its production complex in Zhengzhou, Henan Province</li></ul>
2014	<ul style="list-style-type: none"><li>• We developed our second-generation PLC ICs adopting the OFDM modulation scheme which were first used in State Grid's AMR pilot project</li><li>• We received the National Key New Products award for our "RISE3501E" PLC ICs</li></ul>
2015	<ul style="list-style-type: none"><li>• We became a qualified PLC technology company to directly participate in Southern Grid biddings for concentrators and collectors</li></ul>
2016	<ul style="list-style-type: none"><li>• We commenced sales of AMR products to Southern Grid for its commercial deployment of AMR systems</li><li>• We began to take part in State Grid's pilot projects for the "Four-Meters-in-one" initiative and broadband PLC, respectively</li></ul>

### OUR COMPANY AND MAJOR SUBSIDIARIES

The following describes the corporate history of our Company and our major subsidiaries.

#### Our Company

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on August 19, 2015 with an initial authorized share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. It is the holding company of our subsidiaries and its principal business activity is investment holding. As at the Latest Practicable Date, our Company was beneficially owned as to approximately 32.89%, 28.25%, 15.32%, 5.82%, 4.95%, 4.95%, 4.12%, 1.09%, 1.03%, 0.78% and 0.78% by SAIF, Magical Success, Seashore Fortune, Hope Thrive, Best Gala, Unicorn Beauty, Golden Shell, Mr. Ng Benjamin Jin-ping, Key Surplus, Glorious Lead and Rainbow Dawn, respectively.

Following completion of the Reorganization, our Company became the holding company of our subsidiaries, which are principally engaged in the AMR business and the smart energy management business. Please see "Reorganization" in this section for further details about the Reorganization.

#### Our Subsidiary in the Cayman Islands

##### *Old Cayman*

Old Cayman was incorporated under the laws of Cayman Islands with limited liability on February 10, 2006 with an initial authorized share capital of US\$50,000 divided into 50,000,000 shares of US\$0.001 each. Old Cayman was an investment holding company incorporated to facilitate SAIF's investment in our Group's business and was, prior to the Reorganization, the holding company of our subsidiaries. On April 7, 2006, the authorized share capital of Old Cayman became US\$50,000 divided

## HISTORY, DEVELOPMENT AND REORGANIZATION

into 41,880,000 Old Cayman Common Shares and 8,120,000 Series A Old Cayman Preferred Shares pursuant to the adoption of the amended and restated memorandum and articles of association of Old Cayman.

Following completion of the Old Cayman SPA, SAIF, Mr. Yue, Dr. Gu, Mr. Li Shaohua and Mr. Chen Guo held 5,800,000 Series A Old Cayman Preferred Shares, 1,000,000, 800,000, 700,000 and 300,000 Old Cayman Common Shares, respectively, in Old Cayman. Accordingly, Old Cayman was beneficially owned as to approximately 67.44% by SAIF, 11.63% by Mr. Yue, 9.30% by Dr. Gu, 8.14% by Mr. Li Shaohua and 3.49% by Mr. Chen Guo on October 25, 2006. For more details on SAIF's investment, please see "History and Development — Investment of SAIF" in this section.

### *Share Repurchase*

On September 28, 2012, Mr. Chen Guo entered into a memorandum of understanding with Old Cayman, pursuant to which, Old Cayman agreed to repurchase 300,000 Old Cayman Common Shares held by Mr. Chen Guo at the consideration of RMB1,500,000. On the same date, Mr. Li Shaohua entered into a memorandum of understanding with Old Cayman, pursuant to which, Old Cayman agreed to repurchase 700,000 Old Cayman Common Shares and share options (see "Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman — Share Options" in this section for further details) to subscribe for 150,000 Old Cayman Common Share at the exercise price of US\$0.01 per share held by Mr. Li Shaohua at the consideration of RMB1,600,000. The aforesaid considerations were determined after arm's length negotiation between the parties, having regard to both of Mr. Chen Guo and Mr. Li Shaohua ceasing their involvement in the operation of our Group and deciding to realize their corresponding investments in our Group. On January 31, 2013 and February 6, 2013, each of Mr. Chen Guo and Mr. Li Shaohua entered into a share repurchase agreement with Old Cayman, respectively, formalizing the aforesaid memoranda of understanding. The repurchase of the Old Cayman Common Shares was completed on March 26, 2014 and the share options held by Mr. Li Shaohua were canceled accordingly and each of Mr. Chen Guo and Mr. Li Shaohua ceased to be a shareholder of Old Cayman.

### *Introduction of New Shareholders*

Pursuant to the board resolutions of Old Cayman passed on March 26, 2014 and the register of members updated on March 28, 2014, Mr. Wang Shiguang, Ms. Chen Junling, Mr. Wang Wenshan, Mr. Han Yuan, Mr. Zhang Baojun and Mr. Zhang Xin became the beneficial owner of 4,271,376, 907,195, 907,195, 188,999, 755,996 and 907,195 Old Cayman Common Shares for a consideration of US\$5,510,075, US\$1,170,282, US\$1,170,282, US\$243,809, US\$975,235 and US\$1,170,282, respectively. Moreover, Mr. Yue and Dr. Gu subscribed for and became beneficial owners of additional 1,438,086 and 107,195 Old Cayman Common Shares at a consideration of US\$1,855,131 and US\$138,282, respectively. The aforesaid considerations were determined with reference to the estimated market value of Old Cayman evaluated based on the then available market data of comparable businesses. Each of the foregoing individuals delivered a promissory note in the respective amount of subscription money above on March 26, 2014 to Old Cayman for settlement and completion of the share subscription and all the promissory notes were fully redeemed by cash on May 10, 2016. For background leading to the introduction of the aforesaid new shareholders of Old Cayman, please see "History and Development — Introduction and Exit of certain Shareholders" in this section.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### *Share Options*

In order to reward and recognize the contribution of certain parties to the development and growth of our Group, Old Cayman granted share options to SAIF, certain employees, members of the senior management and directors of our Group to subscribe for Old Cayman Common Share at the exercise price of US\$0.01 per share. Details of the share options granted by Old Cayman are set out as follows:

<b>Date of grant</b>	<b>Total number of share options granted (approximate percentage of the then issued share capital of Old Cayman)</b>
February 1, 2007	931,334 <sup>(1)</sup> (10.83%)
April 21, 2011	368,666 <sup>(2)</sup> (4.29%)
March 26, 2014	666,657 <sup>(3)</sup> (8.77%)

*Notes:*

- (1) The grantees and their respective number of share options granted on February 1, 2007 are as follows:

<b>Names of grantees</b>	<b>Number of share options granted</b>
Mr. Ng Benjamin Jin-ping	200,000
Mr. Yue	150,000
Dr. Gu	150,000
Mr. Li Shaohua	150,000
Mr. Zhang Youyun	100,000
Mr. Liu Ming	100,000
Mr. Yang Qingming (楊慶明)	28,000
Mr. Fan Weiguang (范偉光)	24,000
Mr. Chen Zhilong (陳支龍)	16,000
Mr. Zhao Feng (趙峰)	6,667
Ms. Hong Aixia (洪愛霞)	6,667

- (2) The grantees and their respective number of share options granted on April 21, 2011 are as follows:

<b>Names of grantees</b>	<b>Number of share options granted</b>
Mr. Yue	200,000
SAIF	168,666



## HISTORY, DEVELOPMENT AND REORGANIZATION

(3) The grantees and their respective number of share options granted on March 26, 2014 are as follows:

Names of grantees	Number of share options granted
SAIF	136,000
Mr. Zhang Youyun	100,000
Mr. Liu Ming	100,000
Mr. Yue	46,898
Mr. Zhao Feng	38,333
Ms. Hong Aixia	34,528
Mr. Chen Zhilong	34,000
Mr. Yang Qingming	27,000
Ms. Lau Chung Ki Lynda	26,799
Mr. Jiang Zhoujin (蔣周金)	23,000
Dr. Gu	20,099
Ms. Chen Shuiying (陳水英)	20,000
Mr. Xiao Hongdong (肖洪東)	20,000
Mr. Liu Zaile (劉再樂)	20,000
Mr. Qu Shiqi (瞿詩琦)	20,000

As described above, Mr. Li Shaohua entered into a share repurchase agreement with Old Cayman on February 6, 2013, pursuant to which, Old Cayman agreed to repurchase 700,000 Old Cayman Common Shares and share options to subscribe for 150,000 Old Cayman Common Shares held by Mr. Li Shaohua at the consideration of RMB1,600,000. As a result, the share options to subscribe for 150,000 Old Cayman Common Shares were canceled and terminated.

On March 26, 2014, Mr. Zhang Youyun and Mr. Liu Ming exercised their respective share options to subscribe for Old Cayman Common Shares at the exercise price of US\$0.01 per share. Pursuant to the board resolutions of Old Cayman passed on March 26, 2014 and the register of members updated on March 28, 2014, each of Mr. Zhang Youyun and Mr. Liu Ming became a beneficial owner of 100,000 Old Cayman Common Shares.

Following the completion of the aforesaid share repurchase, introduction of new shareholders of Old Cayman and exercise of share options in March 2014, Old Cayman was beneficially owned as to approximately 33.56% by SAIF, 24.71% by Mr. Wang Shiguang, 14.11% by Mr. Yue, 5.25% by Dr. Gu, 5.25% by Ms. Chen Junling, 5.25% by Mr. Zhang Xin, 5.25% by Mr. Wang Wenshan, 4.37% by Mr. Zhang Baojun, 1.09% by Mr. Han Yuan, 0.58% by Mr. Zhang Youyun and 0.58% by Mr. Liu Ming. By way of an instrument of transfer dated September 30, 2015 and entered into between Mr. Wang Shiguang and Ms. Chen Junling (spouse of Mr. Wang Shiguang), Mr. Wang Shiguang transferred the beneficial interest in all of his 4,271,376 Old Cayman Common Shares, representing approximately 24.71% of the then issued share capital of Old Cayman, to Ms. Chen Junling at a nominal consideration of US\$1.00 in pursuance to a family arrangement between Mr. Wang and Ms. Chen.

On December 31, 2015, SAIF, Mr. Yue, Dr. Gu, Mr. Zhang Youyun and Mr. Liu Ming exercised their respective share options to subscribe for Old Cayman Common Shares at the exercise price of US\$0.01 per share. Pursuant to the board resolutions of Old Cayman passed on December 31, 2015 and the register of members updated on January 6, 2016, SAIF, Mr. Yue, Dr. Gu, Mr. Zhang Youyun and Mr. Liu Ming became beneficial owners of additional 228,166, 370,518, 158,793, 43,750 and 43,750 Old Cayman Common Shares, respectively. Following the completion of the aforesaid exercise of share options, Old Cayman was beneficially owned as to approximately 33.25% by SAIF, 28.57% by Ms. Chen Junling, 15.49% by Mr. Yue, 5.88% by Dr. Gu, 5.00% by Mr. Zhang Xin, 5.00% by Mr. Wang Wenshan, 4.17% by Mr. Zhang Baojun, 1.04% by Mr. Han Yuan, 0.79% by Mr. Zhang Youyun and 0.79% by Mr. Liu Ming.

## HISTORY, DEVELOPMENT AND REORGANIZATION

Following the abovementioned various exercises of share options, options to subscribe for an aggregate of 771,680 shares in Old Cayman remained outstanding, representing approximately 4.26% of the then issued share capital of Old Cayman. In which, Mr. Ng Benjamin Jin-ping, SAIF, Mr. Zhang Youyun, Mr. Liu Ming, Mr. Yang Qingming, Mr. Chen Zhilong, Mr. Zhao Feng, Ms. Hong Aixia, Ms. Lau Chung Ki Lynda, Mr. Yue, Mr. Fan Weiguang, Mr. Jiang Zhoujin, Ms. Chen Shuiying, Mr. Xiao Hongdong, Mr. Liu Zaile, Mr. Qu Shiqi and Dr. Gu held 200,000, 76,500, 56,250, 56,250, 55,000, 50,000, 45,000, 41,195, 26,799, 26,380, 24,000, 23,000, 20,000, 20,000, 20,000, 20,000 and 11,306 outstanding share options of Old Cayman, respectively. As it is decided that the Company shall be the holding company after the Reorganization, all the outstanding options to subscribe for shares in Old Cayman have been mutually terminated by the grantees and Old Cayman with the adoption of the Pre-IPO Share Option Scheme and the grant of options to subscribe for Shares under the Pre-IPO Share Option Scheme by our Company to each grantee with same terms and conditions on August 25, 2016. Further details on the Pre-IPO Share Option Scheme are disclosed in the section headed “Statutory and General Information — Other Information — 15. (II) Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

Following the completion of the Reorganization, Old Cayman became a direct wholly-owned subsidiary of our Company. Please see “Reorganization” in this section for further details about the Reorganization.

### **Our subsidiary in Hong Kong**

#### ***Risecomm HK Technology***

Risecomm HK Technology was incorporated under the laws of Hong Kong with limited liability on February 27, 2015, the share capital of which is in the total amount of HK\$1 with one issued ordinary share. Risecomm HK Technology is principally engaged in trading and research and development.

Following the completion of the Reorganization, Risecomm HK Technology became an indirect wholly-owned subsidiary of our Company through Prime Key. Please see “Reorganization” in this section for further details about the Reorganization.

### **Our subsidiaries in the PRC**

#### ***Risecomm WFOE***

Risecomm WFOE was established under the laws of the PRC as a limited liability company on May 10, 2006 with an initial registered capital of US\$2.5 million, which was increased to US\$7.5 million as of the Latest Practicable Date. Risecomm WFOE is principally engaged in the manufacturing of PLC products.

Following completion of the Reorganization, Risecomm WFOE became a direct wholly-owned subsidiary of Risecomm HK. Please see “Reorganization” in this section for further details about the Reorganization.

#### ***Risecomm Beijing Comm***

Risecomm Beijing Comm was established under the laws of the PRC as a limited liability company on March 7, 2014 with an initial registered capital of RMB3 million. Risecomm Beijing Comm is principally engaged in the sales and marketing of related products of telecommunication facilities.

## HISTORY, DEVELOPMENT AND REORGANIZATION

Risecomm Beijing Comm has been owned as to 100% by Risecomm WFOE since the date of its establishment.

### *Risecomm Shenzhen*

Risecomm Shenzhen was established under the laws of the PRC as a limited liability company on April 1, 2014 with an initial registered capital of RMB2 million. Risecomm Shenzhen is principally engaged in research and development.

Risecomm Shenzhen has been owned as to 100% by Risecomm WFOE since the date of its establishment.

### *Risecomm Wuxi*

Risecomm Wuxi was established under the laws of the PRC as a limited liability company on October 11, 2010 with an initial registered capital of RMB1 million, which was increased to RMB3.1 million as of the Latest Practicable Date. Risecomm Wuxi is principally engaged in the research and development of telecommunication products.

Risecomm Wuxi has been owned as to 100% by Risecomm WFOE since the date of its establishment.

### *Risecomm Changsha*

Risecomm Changsha was established under the laws of the PRC as a limited liability company on December 26, 2014 with an initial registered capital of RMB1 million. Risecomm Changsha is principally engaged in the research and development of telecommunication products.

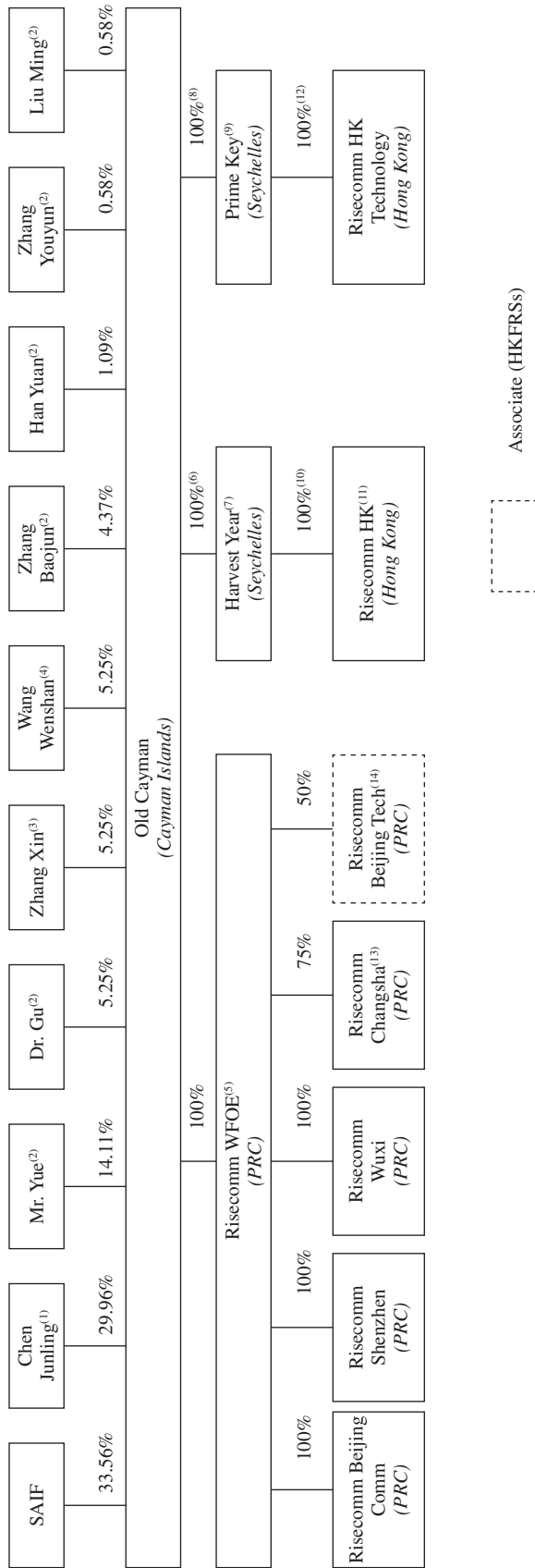
Risecomm Changsha was owned as to 75% by Risecomm WFOE and as to 25% by Ms. Gao Xiaohong (高曉紅) (the spouse of Mr. Qiu Renfeng (邱仁峰), an employee of Risecomm Changsha) at the time of its establishment. On November 19, 2015, Ms. Gao as transferor entered into an equity transfer agreement with each of Mr. Qiu Renfeng, Mr. Yi Mo (易模), Mr. Li Dingzhang (黎定章), Mr. Xiong Haifeng (熊海峰), Mr. Huang Zhourong (黃洲容), Mr. Lei Zhenkun (雷振坤), Mr. Yang Chao (楊超), Mr. Xu Liang (許亮) and Mr. Zhang Bin (張斌) as transferees, respectively, all of whom are employees of Risecomm Changsha, pursuant to which, Ms. Gao transferred her entire equity interest in Risecomm Changsha to each of the aforesaid transferees for an aggregate consideration of RMB250,000, which was determined with reference to the registered capital of Risecomm Changsha. The aforesaid transfers were registered by the competent PRC government authority on December 22, 2015 and the considerations of such transfers were settled as of March 23, 2016. As advised by our PRC Legal Advisors, the above transfers were properly and legally completed and settled and all necessary approvals from the relevant PRC authorities have been obtained. Upon the completion of the aforesaid transfers, Risecomm Changsha was owned as to 75% by Risecomm WFOE, 13% by Mr. Qiu Renfeng, 2% by Mr. Yi Mo, 2% by Mr. Li Dingzhang, 2% by Mr. Xiong Haifeng, 2% by Mr. Huang Zhourong, 1% by Mr. Lei Zhenkun, 1% by Mr. Yang Chao, 1% by Mr. Xu Liang and 1% by Mr. Zhang Bin, respectively.

Our PRC Legal Advisors have confirmed that the registered capital of each of Risecomm WFOE, Risecomm Shenzhen, Risecomm Beijing Comm, Risecomm Wuxi and Risecomm Changsha has been fully paid up.

# HISTORY, DEVELOPMENT AND REORGANIZATION

## REORGANIZATION

The following chart sets forth the corporate and beneficial ownership structure of the Group immediately before the Reorganization:



## HISTORY, DEVELOPMENT AND REORGANIZATION

*Notes:*

- (1) Ms. Chen Junling, a member of our senior management, is the spouse of Mr. Wang Shiguang, the chairman of our Board and an executive Director. By way of an instrument of transfer dated September 30, 2015 and entered into between Mr. Wang Shiguang and Ms. Chen Junling, Mr. Wang Shiguang transferred the beneficial interest in all of his 4,271,376 Old Cayman Common Shares, representing approximately 24.71% of the then issued share capital of Old Cayman, to Ms. Chen Junling at a nominal consideration of US\$1.00 in pursuance to a family arrangement between Mr. Wang and Ms. Chen.
- (2) Each individual is either a Director or a member of the senior management of our Group.
- (3) Mr. Zhang Xin is a business acquaintance of Mr. Yue and a passive investor without any involvement in the business and operation of our Group.
- (4) Mr. Wang Wenshan has been providing business and operational advices to our Group.
- (5) Risecomm WFOE has two branch offices, namely Risecomm WFOE Yantian Branch and Risecomm WFOE Hunan Branch, which were established in the PRC on October 31, 2012 and February 19, 2016, respectively.
- (6) A representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Harvest Year on trust for Old Cayman.
- (7) Harvest Year was incorporated under the laws of Seychelles with limited liability on January 16, 2015 with an authorized share capital of US\$1,000,000 divided into 1,000,000 shares of US\$1.00 each. Harvest Year is an investment holding company.
- (8) A representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Prime Key on trust for Old Cayman.
- (9) Prime Key was incorporated under the laws of Seychelles with limited liability on January 6, 2015 with an authorized share capital of US\$1,000,000 divided into 1,000,000 shares of US\$1.00 each. Prime Key is an investment holding company.
- (10) A representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Risecomm HK on trust for Harvest Year.
- (11) Risecomm HK was incorporated under the laws of Hong Kong with limited liability on February 27, 2015, the share capital of which is in the total amount of HK\$1 with one issued ordinary share. Risecomm HK is an investment holding company.
- (12) A representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Risecomm HK Technology on trust for Prime Key.
- (13) Among the remaining 25% equity interest in Risecomm Changsha, 13% is held by Mr. Qiu Renfeng, 2% is held by Mr. Yi Mo, 2% is held by Mr. Li Dingzhang, 2% is held by Mr. Xiong Haifeng, 2% is held by Mr. Huang Zhoucong, 1% is held by Mr. Lei Zhenkun, 1% is held by Mr. Yang Chao, 1% is held by Mr. Xu Liang and 1% is held by Mr. Zhang Bin, respectively. Each of the aforesaid shareholders is an employee of Risecomm Changsha.
- (14) Risecomm Beijing Tech was established under the laws of the PRC as a limited liability company on June 3, 2014 with an initial registered capital of RMB2 million. Risecomm Beijing Tech is principally engaged in research and development. Since the establishment of Risecomm Beijing Tech, it has been owned as to 50% by Risecomm WFOE, 25% by Mr. Yu Xinmin (于新民) and 25% by Mr. Fu Weiji (付偉際), respectively. Mr. Yu Xinmin and Mr. Fu Weiji are Independent Third Parties save for their respective interests and directorships in Risecomm Beijing Tech. The registered capital of Risecomm Beijing Tech has to be paid up on or before May 1, 2020. As at the Latest Practicable Date, our PRC Legal Advisors have confirmed that RMB1,000,000 of the registered capital has been paid up by Risecomm WFOE.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### **Incorporation of our Company**

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on August 19, 2015 with an initial authorized share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. On the same day, one share of HK\$0.01 each was subscribed at par value by Offshore Incorporations (Cayman) Limited, an Independent Third Party, credited as fully paid and such one share of HK\$0.01 was subsequently transferred by Offshore Incorporations (Cayman) Limited at par value to a representative of a corporate secretarial service provider, an Independent Third Party. On January 22, 2016, the above representative transferred such one share of HK\$0.01 at par value to Seashore Fortune by an instrument of transfer.

### **Acquisition of 100% equity interest in Risecomm WFOE by Risecomm HK**

On October 19, 2015, an equity transfer agreement was entered into between Old Cayman and Risecomm HK, pursuant to which, Old Cayman transferred its 100% equity interest in Risecomm WFOE to Risecomm HK for a consideration of RMB113,439,587.47, which was determined with reference to the net asset value of Risecomm WFOE as of June 30, 2015 and was settled on October 19, 2015. The aforesaid transfer of the equity interest in Risecomm WFOE to Risecomm HK was approved on October 27, 2015 and registered on November 6, 2015 by the relevant competent PRC government authorities. As advised by our PRC Legal Advisors, the above transfer was properly and legally completed and settled and all necessary approvals from the relevant PRC authorities have been obtained.

Immediately following the registration of the aforesaid transfer, Risecomm WFOE became a direct wholly-owned subsidiary of Risecomm HK.

### **Incorporation of Risecomm HK by Harvest Year**

By way of a declaration of trust dated February 27, 2015, a representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Risecomm HK as a nominee on trust for and on behalf of Harvest Year, which was the beneficial owner of the entire issued share capital of Risecomm HK.

On November 19, 2015, the above representative transferred the entire issued share capital of Risecomm HK to Harvest Year by an instrument of transfer for nil consideration in order to unwind the nominee arrangement.

Risecomm HK has been a wholly-owned subsidiary of Harvest Year since its incorporation.

### **Incorporation of Risecomm HK Technology by Prime Key**

By way of a declaration of trust dated February 27, 2015, a representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Risecomm HK Technology on trust for and on behalf of Prime Key, which was the beneficial owner of the entire issued share capital of Risecomm HK Technology.

On November 19, 2015, the above representative transferred the entire issued share capital of Risecomm HK Technology to Prime Key by an instrument of transfer for nil consideration in order to unwind the nominee arrangement.

Risecomm HK Technology has been a wholly-owned subsidiary of Prime Key since its incorporation.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### Exercise of share options granted by Old Cayman

As set out in the section headed “— Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman — Share Options” above, each of SAIF, Mr. Yue, Dr. Gu, Mr. Zhang Youyun and Mr. Liu Ming exercised his or its share options to subscribe for 228,166, 370,518, 158,793, 43,750 and 43,750 Old Cayman Common Shares, respectively, at the exercise price of US\$0.01 per share on December 31, 2015. Pursuant to the board resolutions of Old Cayman passed on December 31, 2015 and the register of members updated on January 6, 2016, Old Cayman was beneficially owned as to approximately 33.25% by SAIF, 28.57% by Ms. Chen Junling, 15.49% by Mr. Yue, 5.88% by Dr. Gu, 5.00% by Mr. Zhang Xin, 5.00% by Mr. Wang Wenshan, 4.17% by Mr. Zhang Baojun, 1.04% by Mr. Han Yuan, 0.79% by Mr. Zhang Youyun and 0.79% by Mr. Liu Ming, respectively.

### Acquisition of the entire issued share capital of Old Cayman by our Company

Pursuant to a sale and purchase agreement dated February 1, 2016, SAIF, Ms. Chen Junling, Mr. Yue, Dr. Gu, Mr. Zhang Xin, Mr. Wang Wenshan, Mr. Zhang Baojun, Mr. Han Yuan, Mr. Zhang Youyun and Mr. Liu Ming transferred their beneficial interests in the entire issued share capital of Old Cayman, being 18,128,214 shares (5,800,000 of which are Series A Old Cayman Preferred Shares and 12,328,214 of which are Old Cayman Common Shares) of US\$0.001 each in Old Cayman to our Company, in consideration of our Company, with reference to the net book value of Old Cayman and its subsidiaries as at December 31, 2015, issuing and allotting an aggregate of 18,128,213 ordinary shares of HK\$0.01 each as follows:

Name of Beneficial Owners	Number of shares in Old Cayman transferred to our Company	Number of shares in our Company allotted and issued, as fully paid, by our Company as consideration	Name of Allottees	Number of shares held and approximate shareholding of our Company after the said transfer
SAIF	6,028,166 (5,800,000 being Series A Old Cayman Preferred Shares and 228,166 being Old Cayman Common Shares)	6,028,166	SAIF	6,028,166 (33.25%)
Ms. Chen Junling	5,178,571	5,178,571	Magical Success	5,178,571 (28.57%)
Mr. Yue	2,808,604	2,808,603	Seashore Fortune	2,808,604 (15.49%)
Dr. Gu	1,065,988	1,065,988	Hope Thrive	1,065,988 (5.88%)

## HISTORY, DEVELOPMENT AND REORGANIZATION

Name of Beneficial Owners	Number of shares in Old Cayman transferred to our Company	Number of shares allotted and issued, as fully paid, by our Company as consideration	Name of Allottees	Number of shares held and approximate shareholding of our Company after the said transfer
Mr. Zhang Xin	907,195	907,195	Best Gala	907,195 (5.00%)
Mr. Wang Wenshan	907,195	907,195	Unicorn Beauty	907,195 (5.00%)
Mr. Zhang Baojun	755,996	755,996	Golden Shell	755,996 (4.17%)
Mr. Han Yuan	188,999	188,999	Key Surplus	188,999 (1.04%)
Mr. Zhang Youyun	143,750	143,750	Glorious Lead	143,750 (0.79%)
Mr. Liu Ming	143,750	143,750	Rainbow Dawn	143,750 (0.79%)

The completion of the acquisition of the entire issued share capital of Old Cayman by our Company was completed on February 3, 2016.

Immediately upon completion of the abovementioned acquisition, Old Cayman became a direct wholly-owned subsidiary of our Company.

### **Acquisition of the entire issued share capital of Harvest Year by our Company**

By way of a declaration of trust dated January 16, 2015, a representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Harvest Year as a nominee on trust for and on behalf of Old Cayman, which was the beneficial owner of the entire issued share capital of Harvest Year.

On February 22, 2016, the above representative, at the instruction of Old Cayman, transferred the entire issued share capital of Harvest Year to our Company, which holds the entire issued share capital of Old Cayman, by an instrument of transfer for nil consideration in order to unwind the nominee arrangement.

Harvest Year has been a wholly-owned subsidiary of our Group since its incorporation.



## HISTORY, DEVELOPMENT AND REORGANIZATION

### **Acquisition of the entire issued share capital of Prime Key by our Company**

By way of a declaration of trust dated January 6, 2015, a representative of a corporate secretarial service provider, an Independent Third Party, held the entire issued share capital of Prime Key as a nominee on trust for and on behalf of Old Cayman, which was the beneficial owner of the entire issued share capital of Prime Key.

On February 22, 2016, the above representative, at the instruction of Old Cayman, transferred the entire issued share capital of Prime Key to our Company, which holds the entire issued share capital of Old Cayman, by an instrument of transfer for nil consideration in order to unwind the nominee arrangement.

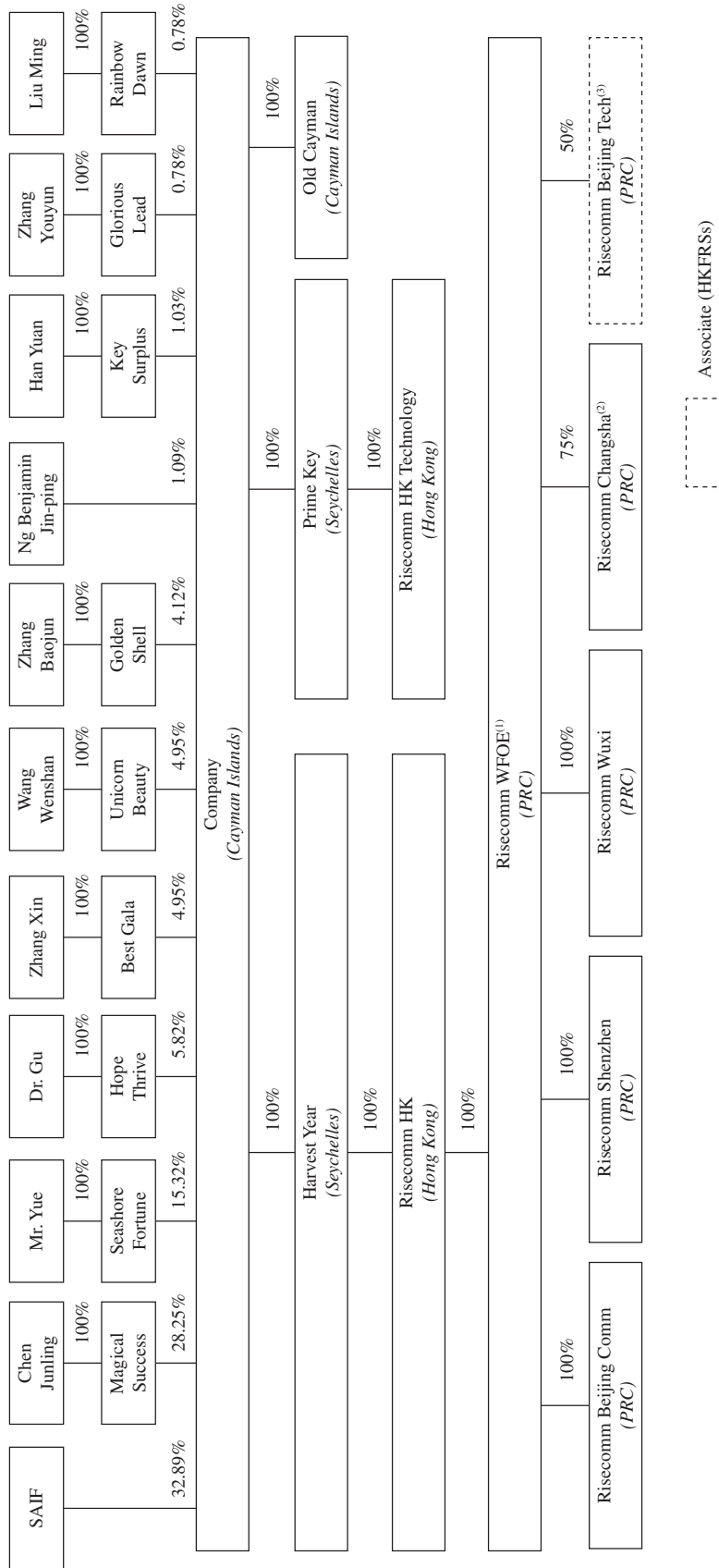
Prime Key has been a wholly-owned subsidiary of our Group since its incorporation.

### **Exercise of share options granted by our Company**

On January 26, 2017, Mr. Ng Benjamin Jin-ping exercised his options to subscribe for 200,000 Shares at the exercise price of US\$0.01 per Share. Pursuant to the register of members updated on January 26, 2017, our Company was beneficially owned as to approximately 32.89% by SAIF, 28.25% by Ms. Chen Junling, 15.32% by Mr. Yue, 5.82% by Dr. Gu, 4.95% by Mr. Zhang Xin, 4.95% by Mr. Wang Wenshan, 4.12% by Mr. Zhang Baojun, 1.09% by Mr. Ng Benjamin Jin-ping, 1.03% by Mr. Han Yuan, 0.78% by Mr. Zhang Youyun and 0.78% by Mr. Liu Ming, respectively.

# HISTORY, DEVELOPMENT AND REORGANIZATION

The following chart sets forth the corporate and shareholding structure of the Group immediately after the completion of the Reorganization:



## HISTORY, DEVELOPMENT AND REORGANIZATION

*Notes:*

- (1) Risecomm WFOE has two branch offices, namely Risecomm WFOE Yantian Branch and Risecomm WFOE Hunan Branch, which were established in the PRC on October 31, 2012 and February 19, 2016, respectively.
- (2) Among the remaining 25% equity interest in Risecomm Changsha, 13% is held by Mr. Qiu Renfeng, 2% is held by Mr. Yi Mo, 2% is held by Mr. Li Dingzhang, 2% is held by Mr. Xiong Haifeng, 2% is held by Mr. Huang Zhourong, 1% is held by Mr. Lei Zhenkun, 1% is held by Mr. Yang Chao, 1% is held by Mr. Xu Liang and 1% is held by Mr. Zhang Bin, respectively. Each of the aforesaid shareholders is an employee of Risecomm Changsha.
- (3) Risecomm Beijing Tech was established under the laws of the PRC as a limited liability company on June 3, 2014 with an initial registered capital of RMB2 million. Risecomm Beijing Tech is principally engaged in research and development. Since the establishment of Risecomm Beijing Tech, it has been owned as to 50% by Risecomm WFOE, 25% by Mr. Yu Xinmin (于新民) and 25% by Mr. Fu Weiji (付偉際), respectively. Mr. Yu Xinmin and Mr. Fu Weiji are Independent Third Parties save for their respective interests and directorships in Risecomm Beijing Tech. The registered capital of Risecomm Beijing Tech has to be paid up on or before May 1, 2020. As at the Latest Practicable Date, our PRC Legal Advisors have confirmed that RMB1,000,000 of the registered capital has been paid up by Risecomm WFOE.

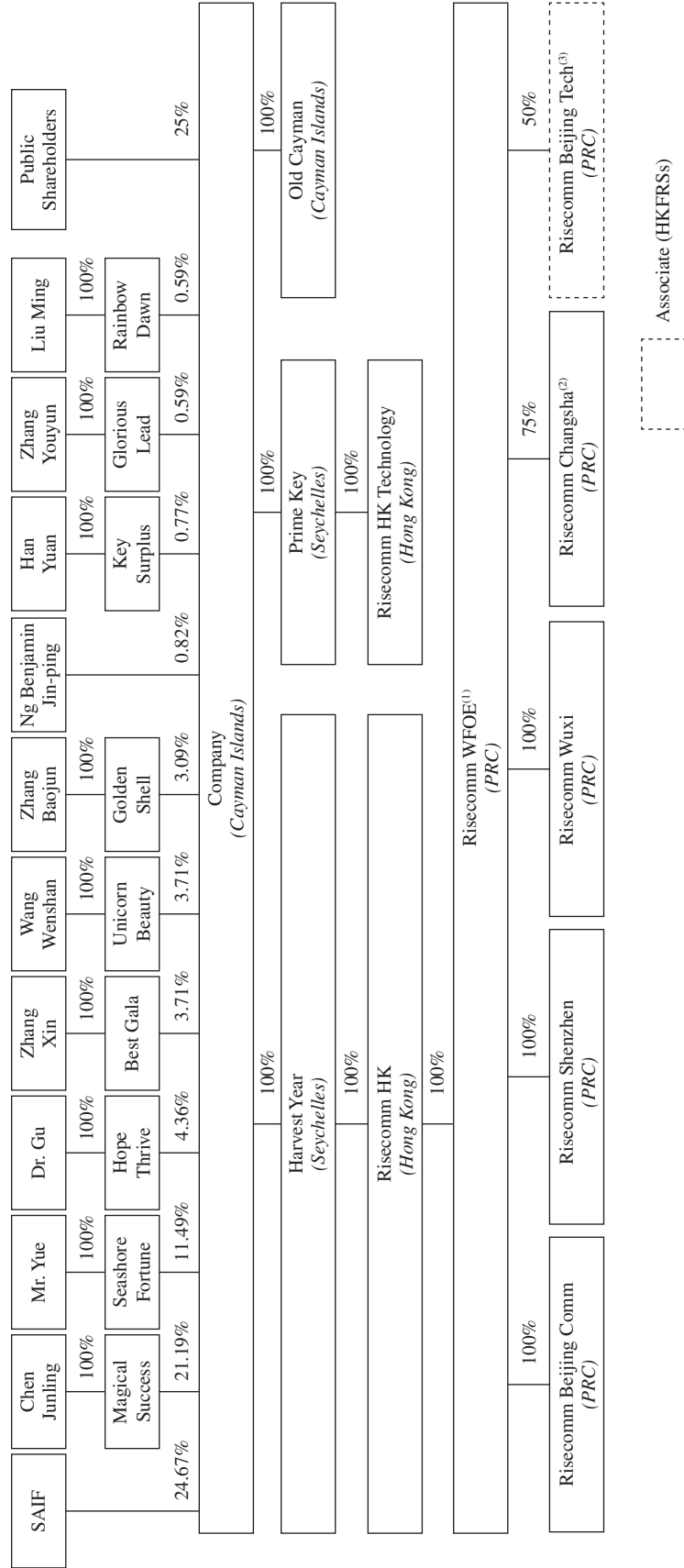
### **Global Offering and Capitalization Issue**

Conditional upon the share premium account of our Company being credited as a result of the Global Offering, our Company will capitalize all or a portion, as the case may be, of the balance of the share premium account and apply such sum in paying up in full at nominal value a total of 581,671,786 Shares, for allotment and issue to the existing shareholders of our Company.

## HISTORY, DEVELOPMENT AND REORGANIZATION

Immediately after the Global Offering and Capitalization Issue (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), the existing shareholders of our Company and the public holders of Shares will hold 75% and 25%, respectively, of the enlarged issued share capital of our Company.

The following chart sets forth the corporate and shareholding structure of our Group immediately following completion of the Global Offering and Capitalization Issue (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme):



## HISTORY, DEVELOPMENT AND REORGANIZATION

### Notes:

- (1) Risecomm WFOE has two branch offices, namely Risecomm WFOE Yantian Branch and Risecomm WFOE Hunan Branch, which were established in the PRC on October 31, 2012 and February 19, 2016, respectively.
- (2) Among the remaining 25% equity interest in Risecomm Changsha, 13% is held by Mr. Qiu Renfeng, 2% is held by Mr. Yi Mo, 2% is held by Mr. Li Dingzhang, 2% is held by Mr. Xiong Haifeng, 2% is held by Mr. Huang Zhourong, 1% is held by Mr. Lei Zhenkun, 1% is held by Mr. Yang Chao, 1% is held by Mr. Xu Liang and 1% is held by Mr. Zhang Bin, respectively. Each of the aforesaid shareholders is an employee of Risecomm Changsha.
- (3) Risecomm Beijing Tech was established under the laws of the PRC as a limited liability company on June 3, 2014 with an initial registered capital of RMB2 million. Risecomm Beijing Tech is principally engaged in research and development. Since the establishment of Risecomm Beijing Tech, it has been owned as to 50% by Risecomm WFOE, 25% by Mr. Yu Xinmin (于新民) and 25% by Mr. Fu Weiji (付偉際), respectively. Mr. Yu Xinmin and Mr. Fu Weiji are Independent Third Parties save for their respective interests and directorships in Risecomm Beijing Tech. The registered capital of Risecomm Beijing Tech has to be paid up on or before May 1, 2020. As at the Latest Practicable Date, our PRC Legal Advisors have confirmed that RMB1,000,000 of the registered capital has been paid up by Risecomm WFOE.

### PRC Regulatory Requirements

Our PRC Legal Advisors have confirmed that all the transfers of equity interests and increase in registered capital of our subsidiaries established in the PRC in relation to the Reorganization or as otherwise described in this section were legally and properly completed and settled, and all approvals and permits have been obtained and are valid as of the Latest Practicable Date and all procedures involved are in compliance with the PRC laws and regulations.

### THE RULES ON THE MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS IN CHINA

Clause 11 of the The Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the “**M&A Rules**”) regulates “affiliated mergers”. Where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》) promulgated by MOFCOM in December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or a new investor, the M&A Rules shall not apply to the transfer of an equity interest in a foreign-invested enterprise (“**FIE**”) from the domestic shareholder to the foreign investor. On the basis that Risecomm WFOE has become a FIE since its establishment, the legal nature of the transfer to Risecomm HK of 100% equity interest in Risecomm WFOE formerly held by Old Cayman was a transfer of an equity interest in a FIE rather than mergers and acquisitions of a domestic enterprise (內資企業) as defined in the M&A Rules. Therefore, the acquisition of 100% equity interest in Risecomm WFOE by Risecomm HK did not fall under the M&A Rules and instead falls under the Provisions for the Alteration of Investors’ Equities in Foreign Invested Enterprises (《外商投資企業投資者股權變更的若干規定》).

On October 27, 2015, Risecomm WFOE has obtained the approval from the competent commerce authority, namely the Economy Promotion Bureau of Nanshan District, Shenzhen Municipality (深圳市南山區經濟促進局), and registered on November 6, 2015 by the relevant competent authorities, in respect of acquisition of 100% equity interest in Risecomm WFOE by Risecomm HK.

## HISTORY, DEVELOPMENT AND REORGANIZATION

### SAFE REGISTRATION IN CHINA

Pursuant to the Foreign Exchange Administration over the Overseas Investment, and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles was promulgated (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”), PRC Residents must register with the local branch of SAFE before they contribute assets or equity interests in an overseas special purpose vehicle, which is directly established or indirectly controlled by the PRC Residents for the purpose of overseas investment or financing.

All of our applicable shareholders, namely, Chen Junling, Zhang Xin, Wang Wenshan, Zhang Baojun, Han Yuan, Zhang Youyun and Liu Ming, completed their respective registration as prescribed under the Circular 37 in November 2015.

# BUSINESS

## BUSINESS MODEL

We are a fabless research and development oriented PLC technology company specialized in the design, development and sale of PLC ICs, modules, devices and solutions. We were one of the largest PLC technology companies in China in 2016 with a market share of 11.2% in terms of sales volume of PLC products, according to Frost & Sullivan. Our PLC products have been mainly used by power grid companies in China in the deployment and upgrade of AMR systems as a key part of the smart grid infrastructure. We pioneered in developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid, according to Frost & Sullivan. We were also one of the first PLC technology companies in China offering PLC products and solutions for a number of applications related to energy saving and environmental protection, according to Frost & Sullivan. In particular, we were the largest PLC solutions provider for streetlight control in 2016 with a market share of 48.1% in China in terms of sales volume, according to Frost & Sullivan.

We are principally engaged in the following two businesses:

- **AMR business.** We design, develop and sell PLC ICs, modules and devices in connection with the deployment and upgrades of AMR systems by power grid companies in China. Our AMR products are generally sold in China to (i) meter manufacturers as components for their production of smart meters which are in turn supplied to power grid companies in China, or sold for export, (ii) power grid companies, both directly and indirectly, for the replacement or upgrade of existing AMR devices, and (iii) an ODM customer which sells to meter manufacturers or power grid companies directly. We also provide maintenance services on AMR systems on a project-by-project basis. As of December 31, 2016, our AMR products were commercially deployed by State Grid in 23 out of the 26 provinces it covers in China. In 2016, we also commenced sales of AMR products to Southern Grid in three of its five provinces in connection with its commercial deployment of AMR systems starting from March 2016.
- **Smart energy management business.** Leveraging our research and development capabilities in PLC technology, we provide smart energy management products and solutions for various strategically selected PLC applications related to energy saving and environmental protection. These include streetlight control, building energy management and photovoltaic power management, for which the PLC technology is typically applied to remotely control and monitor various kinds of energy consumption or generation systems. We provide PLC-based smart energy management products and solutions primarily to device manufacturers, system integrators, energy management companies, as well as for enterprise users, including schools, factories and hotels, in China.

We generated the vast majority of our revenue during the Track Record Period from our AMR business. The following table sets out the breakdown of our revenue by business segment for the periods indicated:

	Year ended December 31,					
	2014		2015		2016	
	Revenue <i>RMB'000</i>	% of total %	Revenue <i>RMB'000</i>	% of total %	Revenue <i>RMB'000</i>	% of total %
<b>Business segment</b>						
AMR business	219,864	94.5	333,229	97.8	376,673	96.5
Smart energy management business	12,764	5.5	7,495	2.2	13,537	3.5
Total	232,628	100.0	340,724	100.0	390,210	100.0

## BUSINESS

Since our inception in 2006, we have been committed to innovation of PLC technologies and applications tailored to China's market environment. Our research and development efforts are led by a team of professionals with extensive experience in IC design, communications technology and software development, including our co-founders, Mr. Yue Jingxing, currently our executive Director and Chief Executive Officer, and Dr. Gu Jian, currently the chief technology officer and vice president of Risecomm WFOE, both of whom received a postgraduate degree in electrical engineering in the United States in the 1990s and have over 20 years of experience in related fields. We adopt a fabless business model which allows us to better focus our resources on IC design and product development.

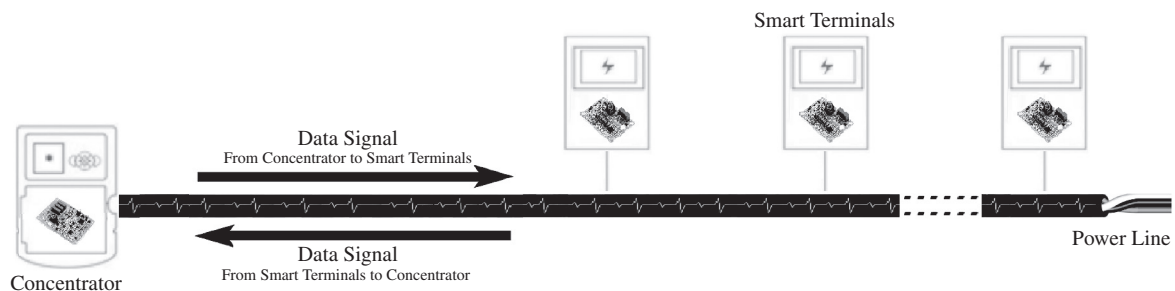
We are headquartered in Shenzhen, China, with offices in Beijing, Wuxi and Changsha, China and in Hong Kong. During the Track Record Period, we marketed our products primarily through our sales and marketing team covering more than 25 provinces in China.

We experienced continuous business growth during the Track Record Period. Our revenue for the years ended December 31, 2014, 2015 and 2016 was RMB232.6 million, RMB340.7 million and RMB390.2 million, respectively. We recorded a profit of RMB40.6 million, RMB55.2 million and RMB57.6 million for the years ended December 31, 2014, 2015 and 2016, respectively.

### OUR PLC TECHNOLOGY

#### How PLC Works

The PLC technology enables data transmission on a low-voltage power line by modulating and adding a carrier signal for data communication simultaneously with the electric current. Data is transmitted between two PLC devices, typically a concentrator on one end and a smart terminal on the other end. After the carrier signal is sent to a PLC device at the receiving end, the signal is decoupled and demodulated by the PLC ICs embedded in that PLC device to retrieve the data. In a typical PLC system in which multiple PLC devices are connected within a power line network, the PLC devices exchange data between a smart terminal and a concentrator by using a pre-established protocol, which represents a set of communication rules embedded in the PLC ICs for data transfer and interpretation.



The core component of a PLC device is the PLC IC, which is a specialty IC designed for transmitting and demodulating data signals. In a traditional “master-slave” PLC system, only the concentrator, being the “master” of the system, is able to command data signals to be transmitted to and from a smart terminal. The smart terminal, being the “slave” of the system, cannot initiate data transfer. In a “peer-to-peer” PLC system, however, data signals can be initiated and transmitted from either end to achieve communications between the concentrator and the smart terminal. A master-slave PLC system usually only allows basic data reading, while a peer-to-peer PLC system offers greater flexibility and enables additional functions such as more active remote control and real-time status reporting of smart terminals.



### **Applicability of PLC Technology**

As the PLC technology works on the existing low-voltage power line infrastructure and does not require any extra wiring, it provides a major benefit of requiring only a relatively low deployment cost as compared to other wired communications technologies, such as those using the optical-fiber cable or dedicated line for data communications. Compared to wireless technologies, PLC also has the benefits of more reliable data connectivity, higher data security and better performance in handling network congestion, especially if data is transmitted over concrete high-rise buildings and extended land areas. However, PLC may be subject to certain technical limitations when used in an open power line network where it is constantly exposed to varying signal interferences, which presents a challenging environment for data transmissions. The commercialization of PLC therefore requires significant research and development efforts to ensure reliability in data communications.

By leveraging the existing power line infrastructure, PLC technology is widely applied in the deployment of AMR systems in China. In particular, PLC meters accounted for approximately 80% of State Grid's biddings for smart meters for the period from 2014 to 2016, according to Frost & Sullivan. In addition, PLC is increasingly used and recognized as a viable, low-cost alternative technology for various applications related to energy saving and environmental protection in China as it provides cost-effective solutions for the smart management of energy consumption or generation systems.

Driven by governmental policies to promote the development of the PLC industry in recent years, we engage actively in the development of innovative PLC products with proprietary designs and advanced technologies. We aim to deliver solutions with functionalities that are tailored to China's power grid infrastructure environment and to cater for the evolving market demand for smart energy management applications.

### **Risecomm's PLC Technology**

According to Frost & Sullivan, our proprietary PLC ICs have superior performance in terms of reliability in data communications and real-time data transfer. We believe that these technical advantages are attributable to our research and development efforts and our strong capability in IC design which enable us to implement the following key communications technologies:

- mesh networking protocol, which allows peer-to-peer communications enabling more interactive data transfer initiating data signals not only from the concentrator but also from any smart terminal;
- dynamic auto-routing, which utilizes the mesh networking protocol and is capable of automatically optimizing the data routing paths, thereby allowing self-construction and self-healing of an effective PLC network system; and
- CSMA technology, which is designed to reduce collisions of data signals by detecting data congestion at the fundamental physical layer of a communication IC.

We are committed to PLC technology advancement and innovation. Building on the success of our existing PLC ICs, we have focused our research and development efforts on OFDM ICs, which are our second-generation PLC ICs with more advanced modulating schemes to ensure a higher data transfer speed than our first-generation PLC ICs. Other research and development focuses include broadband PLC ICs, which have a significantly higher data transfer speed than our narrowband PLC ICs, and "PLC +RF" dual-mode ICs, which enable RF communications as a back-up to PLC communications to ensure more stable and seamless data communications.

## **COMPETITIVE STRENGTHS**

We believe the following competitive strengths contribute to our success:

### **Core competency in PLC IC design and superior research and development capabilities in PLC technology**

As a fabless PLC technology company, we have been focusing on PLC IC design and PLC technology research and development since inception. While most of our competitors source general-purpose IC chipsets for the production of their PLC ICs, we differentiate ourselves by establishing our core competency in designing advanced application-specific ICs, or ASICs, and using these proprietary ASICs to develop all our PLC products. We believe the ability to design ASICs is pivotal to the functionality and performance of the PLC IC, because it allows the customization of IC hardware design to enable the implementation of certain key communications technologies, such as mesh networking protocol, dynamic auto-routing and CSMA technology. We pioneered in developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid, according to Frost & Sullivan. We also distinguished ourselves from many of our competitors by the development of PLC ICs with peer-to-peer communications capabilities and we were one of the first PLC technology companies in China which had developed high-speed PLC ICs using the OFDM modulation, according to Frost & Sullivan. As a leading PLC technology company in China, we have been invited by State Grid since 2012 to participate in the formulation and setting of industry standards in connection with AMR deployment, as well as the assessment and pursuit of newer technologies such as broadband PLC and “PLC+RF” dual-mode communications. In particular, we are actively involved with State Grid in the formulation of a new industry standard for broadband PLC to enable its interconnection and intercommunication (互聯互通) in AMR systems, and our PLC products have been utilized in State Grid’s broadband PLC pilot projects since the second half of 2016. We believe we are well positioned to stay at the competitive forefront in adapting to these technology innovations, proactively introducing AMR products incorporating communications protocols that are in conformity with the latest industry standards and continue to compete effectively in China’s PLC technology market as it evolves.

We consider our core value and competency lie, to a significant extent, in our continual commitment to maintaining superior research and development capabilities in the PLC technology. As of December 31, 2014, 2015 and 2016, we had a total of 80, 119 and 140 full-time research and development personnel, representing 22.9%, 36.7% and 34.5% of our total workforce, respectively. Our research and development expenses for the years ended December 31, 2014, 2015 and 2016 were RMB21.1 million, RMB26.5 million and RMB37.8 million, respectively, which accounted for 9.0%, 7.8% and 9.7% of our total revenue for the respective years. As a result of our research and development efforts, we have successfully developed a significant intellectual property portfolio, comprising 24 patents, 43 computer software copyrights, seven registered software products and seven IC layout designs registered, with 13 patents pending registration in the relevant jurisdictions as of the Latest Practicable Date, signifying our achievements in research and development of the PLC technology.

### **Strong AMR business underpinned by long-term relationship with State Grid and favorable government policies**

State Grid is the largest power grid operator in China, covering 26 of the 31 provinces of China and accounting for approximately 85% of China’s electric power users as of December 31, 2016, according to Frost & Sullivan. Over the past decade, State Grid has made significant investments in overhauling its power grid infrastructure to modern smart grids, as supported by the PRC government’s policies on promoting the development of smart grids in China. These together have driven the rapid

## BUSINESS

deployment of AMR systems by State Grid in all of the provinces it covers in China. The PLC technology, in particular narrowband PLC, has been the dominant technology adopted by State Grid for its deployment of AMR systems due to its technological maturity, lower power consumption and lower cost of installation. During the period from 2014 to 2016, PLC meters accounted for approximately 80% of State Grid's total biddings for smart meters, according to Frost & Sullivan. We have been successful in seizing the PLC market opportunities and establishing a strong AMR business by working closely and maintaining a long-term relationship with State Grid over the years:

- In 2008, we were selected by State Grid to participate in its first AMR pilot project in China undertaken in Heilongjiang Province;
- In 2010, our AMR products began to be commercially deployed in State Grid's AMR systems;
- In 2012, we were invited by State Grid to participate in the formulation and setting of PLC industry standards;
- In 2014, our OFDM ICs, being our second-generation PLC ICs, were first used in State Grid's AMR pilot project;
- In 2016, we began to take part in State Grid's pilot projects for the "Four-Meters-in-One" initiative and broadband PLC, respectively; and
- As of December 31, 2016, our AMR products were commercially deployed by State Grid in 23 out of the 26 provinces it covers in China.

We believe a well-established and stable relationship with State Grid, being the predominant power grid company in China, is crucial to our continuous success in our AMR business, particularly with respect to our China market, as we rely significantly on State Grid to continuously select and adopt the communications protocols of our products as part of the technical specifications of the smart meters they deploy. Moreover, to solidify our market position and to build on our industry reputation, we need to continuously work with State Grid in the establishment and promotion of industry standards, the implementation of trial deployment, as well as the provision of customer services and obtaining feedbacks on our product performance. For details, see the section headed "— Sales and Marketing — Relationship with Power Grid Companies and Meter Manufacturers" below.

Leveraging our well-established relationship with State Grid, we had achieved continuous business growth during the Track Record Period, generating RMB219.9 million, RMB333.2 million and RMB376.7 million in revenue for our AMR business for the years ended December 31, 2014, 2015 and 2016, respectively. We believe our relationship with State Grid as end user of AMR products enables us to better gain market insights and well positions us to further develop our AMR business.

### **One of the largest PLC IC suppliers in China well positioned to benefit from the high barriers of entry and continuing growth and upgrading of the PLC industry**

We are one of the largest PLC IC suppliers in China. According to Frost & Sullivan, we ranked third in terms of sales volume of PLC products in 2016 among PLC IC suppliers in China with an overall market share of 11.2%. We also captured 10.9% of State Grid's total bidding volume in 2016 for PLC-based AMR devices, ranking us their third largest PLC IC supplier, according to Frost & Sullivan. The PLC industry in China features the following developments:

## BUSINESS

- **High barriers of entry.** The PLC industry in China has high barriers of entry due to its technology intensive nature and the requirements for substantial practical experience resulting from the complexity of China’s power grid infrastructure and operating environment. Moreover, due to the “duopoly” control of China’s power grid systems by State Grid and Southern Grid, the sales of power grid related products are largely driven by the end demand from these two major power grid companies. New entrants, particularly in the technology-driven PLC market, typically face substantial entry barriers in not only the high technological requirements, but also the substantial amount of time and efforts required to become a qualified supplier for these two power grid companies and to ultimately cultivate a stable business relationship with them.
- **Industry growth and upgrades.** While the PLC industry in China remains dominated by the AMR application, it is expected to continue to grow, driven by government policies in support of the rollout of smart grids and upgrades of AMR systems, as well as advancement in PLC technology. According to Frost & Sullivan, total sales of PLC ICs in China are projected to grow at a CAGR of 9.2% from approximately 93.2 million units in 2017 to 132.6 million units in 2021.

With our well established market position, technological advantages and research and development capabilities, and our long-term business relationship with State Grid, we believe we are well positioned to further solidify our position in China’s PLC market, to capture the significant business opportunities arising from Southern Grid’s launch of commercial deployment of AMR systems in March 2016, as well as other new business opportunities brought about by the continuing growth and transformation of China’s PLC industry.

### **Proven capabilities in providing PLC products and solutions for smart energy management applications**

With increasing public awareness and governmental support of efficient energy consumption and environmental protection, there is an increasing demand for smart energy management solutions in China in recent years. Compared to some traditional equipment-level methods, such as installing environmentally friendly or energy saving equipment, the use of smart energy management solutions provides a further means to achieve energy saving, enhance overall energy efficiency and lower energy costs. We have been engaged in the smart energy management business since 2008 in developing and providing plug-and-play PLC products and turnkey solutions for enterprise smart energy management applications. Our products and solutions are designed to be directly installed or applied to the existing power line network without significant costs of installation.

According to Frost & Sullivan, we were one of the first PLC technology companies in China to develop and commercialize PLC products for streetlight control application, which has been validated as a major PLC application in selected European countries where the PLC technology has been widely adopted in various applications beyond AMR. Leveraging our first-mover advantage and strong capabilities in PLC technologies and product development, we have established ourselves as the largest PLC solutions provider in China for the streetlight control application, with a market share of 48.1% by sales volume in 2016, according to Frost & Sullivan. As of December 31, 2016, our PLC products and solutions were sold to streetlight control customers in 15 provinces in China. In recent years, we have further expanded our PLC products and solutions to other strategically selected areas of smart energy management. Notably, we have successfully developed PLC products and solutions for building energy management application used by enterprise users such as Shenzhen Fox-Energy Technology Co., Ltd (深圳市富能新能源科技有限公司) (“**Fox-Energy**”), a subsidiary of the Foxconn Technology Group (“**Foxconn**”), as well as certain chain hotels and tertiary institutions in China. The market potential for

## BUSINESS

various smart energy management applications is significant. According to Frost & Sullivan, China's streetlight control market is expected to grow at a CAGR of 26.6% from 2017 to 2021 by the cumulative installment volume of smart street lamps and China's building energy management market is expected to grow at a CAGR of 14.8% from 2017 to 2021 by sales revenue. PLC is increasingly recognized as a viable, low-cost alternative technology to facilitate smart energy management particularly for commercial and industrial buildings, according to Frost & Sullivan. With our proven experiences and capabilities in smart energy management, we believe we are well positioned to seize the significant market growth opportunities and further develop our smart energy management business in the future.

### **Seasoned management team with distinguished technological expertise and sales and marketing experience**

Our management team includes technology experts who bring a wealth of experience in IC design and communications technology as well as the PRC power sector. Our research and development and overall business strategies are led by Mr. Yue Jingxing, our co-founder, executive Director and Chief Executive Officer, who has more than 20 years of experience in IC design. The research and development on technology advancement and applications is led by Dr. Gu Jian, our co-founder and the chief technology officer and vice president of Risecomm WFOE, who has more than 20 years of industry experience in communications technology. Both Mr. Yue and Dr. Gu received postgraduate degrees in electrical engineering in the United States in the 1990s and have extensive work experience in prominent U.S. communications technology companies prior to founding our business. In addition, we have seasoned industry experts, including, for example, Mr. Zhang Baojun, the vice president and chief engineer of Risecomm WFOE, who has more than 25 years of experience in the electricity industry. Combining their distinguished technological expertise and experience, our management has successfully led our research and development team, consisting of 140 employees, or 34.5% of our total workforce, as of December 31, 2016, to become a leading PLC technology company in China.

In addition to technology experts, our management team also includes key members with extensive sales and marketing experience in the PRC power sector. For instance, Mr. Wang Shiguang, our Chairman and executive Director, who has more than 15 years of management and sales experience in electronics and the PRC power sector, plays a critical leadership role in the successful expansion of our sales and marketing reach for our AMR business in connection with the deployment of smart grids by State Grid. We have also set up project development teams dedicated to specific PLC applications under our smart energy management business, which are led by seasoned managers with more than ten years of experience on average in sales and marketing in energy management areas. Their leadership has been instrumental in our expansion and business growth in the past and we believe will continue to contribute to our future success.

### **BUSINESS STRATEGIES**

We aim to be a leading PLC technology company and turnkey solutions provider in China offering a full range of products and solutions across our AMR business and our strategically selected areas of smart energy management applications. We endeavor to continue to expand our market share and strengthen our market position by pursuing the following strategies:

#### **Further strengthen our capabilities in PLC technology and research and development**

To stay at the forefront of the PLC technology is key to maintaining our competitiveness. We will continue to focus on research and development and seek to further strengthen our core capabilities in PLC technologies. In particular, we plan to build on our research and development capabilities through cooperation with or acquisition of intellectual property rights from third parties to complement and

## BUSINESS

expedite our research and development in areas such as broadband OFDM ICs, integrated “single-IC” model with “PLC+RF” dual-mode technology, and unified control systems for smart energy management. We will continue to work closely with key industry participants, such as State Grid, to increase our participation in the drafting and formulation of industry standards, such as those for broadband PLC. We will also utilize our existing expertise and further explore in the research directions in support of the “Four-Meters-in-One” initiative led by State Grid.

We intend to continue to expand and strengthen our research and development team by recruiting talents and providing comprehensive training to our research and development staff. Subject to review of our research and business development progress as well as the PLC applications market and technology developments from time to time, and subject to any adjustments that we may make on our recruitment timeline in response thereto, we currently plan to recruit up to 20 research and development staff for the two years ending December 31, 2018 to support our business pursuits and our core research activities. While we did not have any specific acquisition target as of the Latest Practicable Date, we may from time to time consider and evaluate suitable acquisition opportunities to acquire selective technology and/or research companies that provide us with complementary core technologies and intellectual properties, or to acquire technologies or intellectual property rights from those companies. In selecting and evaluating potential acquisition opportunities, we will consider a number of factors, such as technology advantages, maturity and innovation of applications, as well as expertise of professional talents.

### **Expand our AMR business to new geographic markets and further enhance the functionality and competitiveness of our AMR products**

Southern Grid launched its commercial deployment of AMR systems in March 2016 with a then purchase plan of 75 million smart meters for the five years between 2016 and 2020 according to Frost & Sullivan. In this regard, we became a qualified PLC technology company for Southern Grid in 2015 and we had also engaged a sales agent in August 2016 to help promote our AMR sales in the Southern Grid market. We strive to become one of the first-movers to seize business opportunities from this significant new AMR market opening and we believe this new market opening will serve as a key driver for the further growth of our AMR business.

Aside from the new business opportunities from Southern Grid, we will continue to devote resources to expand our market share in State Grid biddings. To this end, we intend to continue to devote resources to enhance our AMR product functionality and continue to develop innovative and competitive AMR products with new PLC technologies with a view to addressing the increasing technical requirements and upgrade needs of the power grid companies. We also plan to recruit more sales and marketing staff to support our State Grid sales, including the “Four-Meters-in-One” trial deployment.

In addition, we intend to devote additional resources to enrich our AMR product offerings and expand our AMR product assembly capacity. In this respect, we had fully paid the purchase price and entered into definitive sale and purchase agreements and were in the process of applying for the real estate title certificates from the relevant PRC authorities for our new Changsha product assembly hub. As at the Latest Practicable Date, this new product assembly hub had been installed with relevant production facilities and was in trial production. We intend to utilize this new product assembly hub mainly for volume production of AMR devices, particularly concentrators. For details, see the sections headed “— Production and Procurement — Product Assembly Hubs” and “— Properties” below.

### **Enhance our capabilities in product development and sales and marketing to accelerate the growth of our smart energy management business**

We plan to further invest in our smart energy management business to achieve accelerated revenue growth from this business segment in view of the increasing government policies and industry initiatives in support of energy conservation and environmental protection, especially those under the 13th Five-Year Plan of National Economy and Social Development issued by the PRC government. We intend to enhance our product development efforts to provide an enriched pipeline of products and solutions that address the needs of each of our strategically selected areas of smart energy management applications, which include:

- ***Streetlight control.*** Streetlights in China are generally located along highways or scattered within cities, towns or villages which cover extended distances or geographic area. As such, streetlight control systems using wireless or other communications technologies other than PLC face considerable challenges in terms of both installation cost and technical difficulties. PLC technology, by utilizing the existing power line network, can provide a technologically and commercially compelling solution for streetlight control application. Leveraging our established position in China's streetlight control market, we intend to extend our business reach to selected overseas markets by collaborating with local system integrators. In this regard, we will further our work on the integration of PLC with Zigbee technology to better adapt to any potential overseas markets with existing Zigbee streetlight control systems. Moreover, we will continue to participate in major international trade exhibitions, such as in Germany, Hong Kong and Taiwan, to promote our streetlight control products and solutions to a wide range of industry participants.
- ***Building energy management.*** While wireless technology is commonly adopted by consumers for household energy management, we believe PLC-based building energy management systems have significant market potential, particularly in industrial and enterprise applications as PLC technology can offer higher stability and cost effectiveness for remote controlling and monitoring energy consumption systems distributed over an extended land site or multiple buildings. Compared to wireless technology, PLC also provides better data security and capability in dealing with transmission congestion, especially in concrete high-rise buildings. In this respect, we have already demonstrated initial success in providing building energy management solutions used by a number of established enterprise users, such as Fox-Energy, as well as certain chain hotels and tertiary institutions in China. In particular, we had entered into a two-year strategic cooperation agreement with Fox-Energy in June 2016 for the further development of our building energy management business. Aside from our commercially deployed projects, we have also launched a number of building energy management pilot projects in China. We consider these pilot projects serve to enhance our industry presence and market visibility as an effective tool to attract and expand our potential customer base. We intend to continue launching pilot projects in selected regions to demonstrate and promote our building energy management products and solutions. In the longer run, we will seek to provide more comprehensive building energy management solutions, such as integrated PLC control systems that enable unified smart control and management of an entire energy network of a building system.
- ***Photovoltaic power management.*** Driven by increasing demand and governmental support for distributed photovoltaic stations and the higher efficiency of micro-inverters, we believe the positive developments of the micro-inverter market in China present increasing needs and market opportunities for photovoltaic power management. We plan to increase our sales and

## BUSINESS

marketing efforts for promoting our PLC products in photovoltaic power management application. We also intend to develop and provide highly customized products to cater for a more diverse customer base and their respective needs in photovoltaic power management.

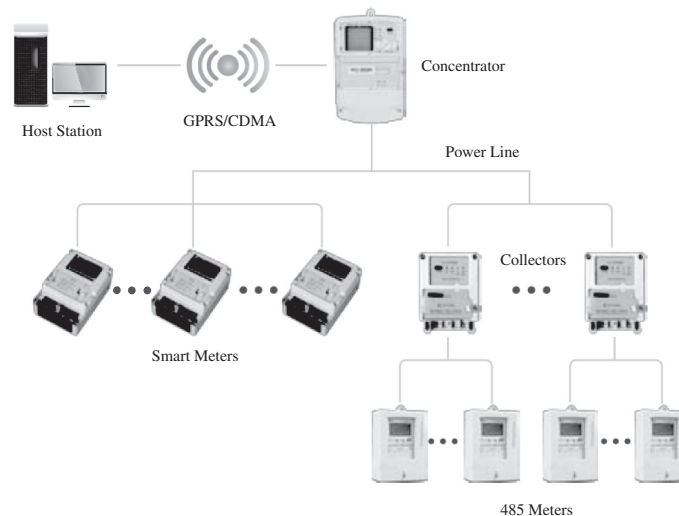
We plan to further develop a unified control platform capable of centralizing and consolidating the management and operation of our various smart energy management applications, as a means to provide more integrated and customized solution services to our smart energy management customers. In this regard, we also plan to expand the use of pilot projects as a means of demonstrating the commercial applicability and effectiveness of our integrated smart energy management solutions, as well as further promoting and increasing our market visibility. We plan to continue launching around eight relatively small-scale and stand-alone streetlight control and building energy management pilot projects in 2017 with an initial budget of around RMB500,000. Subject to review of market responses and evaluation of their general effectiveness in promoting our market visibility from time to time, we plan to further expand the use of pilot projects and allocate a budget of around RMB4.0 million for each of 2018 and 2019 to increase the volume and scale of our pilot project launches (which may involve multiple locations, adoption of our unified control platforms and integration of multiple smart energy management applications) for targeted user groups such as government organizations, sizeable construction groups, tertiary education institutes, residential districts and industrial parks.

Above all, we plan to strengthen our sales and marketing efforts in order to expand our customer base for each of these strategically selected smart energy management applications. We will seek to enhance our direct sales and also establish strong sales channels through system integrators, energy management companies and energy project contractors.

### AMR BUSINESS

We primarily design, develop and sell PLC products, including ICs, modules and devices such as collectors and concentrators, for our AMR business in connection with the deployment and upgrading of AMR systems by power grid companies in China. Our major products, PLC ICs and modules, are mainly used to produce smart meters as well as other devices installed for an AMR system. We also provide maintenance services for AMR systems on a project-by-project basis.

The following diagram illustrates the typical operation of an AMR system:





## BUSINESS

**Smart terminal level.** Our AMR products are designed to operate for two types of AMR systems predominantly deployed in the market, namely the full-PLC model or the semi-PLC model. For the full-PLC model, smart meters embedded with our PLC ICs enable direct communications with concentrators through power lines. For the semi-PLC model, also commonly known as the “RS-485 model,” data signals are transmitted from 485 meters to designated collectors incorporated with our PLC ICs, which in turn communicate with concentrators via power lines. Our AMR products are mostly used in full-PLC AMR systems.

**Concentrator level.** Concentrators embedded with our PLC ICs on one hand collect data signals from either smart meters or collectors and on the other hand connect and upload data with the host stations through wireless solutions such as GPRS/CDMA.

**Host station level.** The host station is in general operated by power grid companies for processing data from concentrators and initiating commands to concentrators where needed.

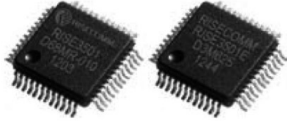



### AMR Products

We design and develop the following types of AMR products for sale primarily to meter manufacturers, power grid companies (directly or indirectly through designated entities of power grid companies and, from time to time, other technology companies) and an ODM customer, in China:


- **PLC ICs.** Our PLC ICs are system-on-chip communication ICs designed for data transfer and network control based on the PLC technology. A PLC IC is a core component that has been widely used in smart meters and other AMR devices within an AMR system. Our PLC ICs are classified into (i) first-generation PLC ICs, which are narrowband and adopt the BSPK modulation scheme, and (ii) second-generation PLC ICs, which adopt the OFDM modulation scheme and are generally narrowband while we are in the process of developing our broadband OFDM ICs.
- **PLC modules.** Our PLC ICs can be assembled with other electronic components, such as transistors and capacitors, onto a PCB to form a PLC module. Our PLC modules are designed to function as a standalone component of a smart meter or other AMR devices and can be readily plugged into compatible devices in accordance with the unified nation-wide interface standards for easy replacement and upgrades. Our PLC modules are generally used for the assembly of smart meters and concentrators.
- **Other AMR products.** Other AMR products include a variety of AMR devices, such as collectors, concentrators and AMR testing tools. Each of these devices employs the PLC technology.

# BUSINESS

The following table sets out the key products for our AMR business:

Product	Descriptions	Product Photos
<p>First-generation PLC ICs</p>	<ul style="list-style-type: none"> <li>• Major models: RISE3501/RISE3501E</li> <li>• Applicable carrier frequency: 132kHz or 300 kHz</li> <li>• Data transfer rate: 5.5kbps</li> <li>• Modulation scheme: BPSK</li> <li>• Major customer type: meter manufacturers</li> </ul>	
<b>PLC ICs</b>		
<p>Second-generation PLC ICs</p>	<ul style="list-style-type: none"> <li>• Major model: RISE3802</li> <li>• Applicable frequency range: &lt;500kHz</li> <li>• Data transfer rate: 166.4kbps</li> <li>• Modulation scheme: OFDM</li> <li>• Major customer type: meter manufacturers</li> </ul>	
<b>PLC modules</b>		
<p>PLC modules for smart meters</p>	<ul style="list-style-type: none"> <li>• PLC module features and functions primarily depend on the PLC ICs embedded</li> <li>• Single-phase or three-phase</li> <li>• Support both PLC and “PLC+RF” dual-mode communications</li> <li>• Dual-mode RF frequency bank: 470MHz to 510MHz with data transfer rate of 10kbps</li> <li>• Major customer type: meter manufacturers and power grid companies</li> </ul>	
<p>PLC modules for concentrators</p>	<ul style="list-style-type: none"> <li>• PLC module features and functions primarily depend on the PLC ICs embedded</li> <li>• Support both PLC and “PLC+RF” dual-mode communications</li> <li>• Dual-mode RF frequency band: 470MHz to 510MHz with data transfer rate of 10kbps</li> <li>• Major customer type: concentrator manufacturers and power grid companies</li> </ul>	

## BUSINESS

Product	Descriptions	Product Photos
<p>Collectors, concentrators and AMR testing tools</p> <p><b>Other AMR products</b></p>	<ul style="list-style-type: none"> <li>• Collectors: used for converting data from RS-485 to PLC communication in semi-PLC AMR systems</li> <li>• Concentrators: used for commanding data transfer and consolidating data to and from smart meters or collectors</li> <li>• AMR testing tools: include various testing equipment for monitoring the PLC communications environment and the functioning of on-site terminals within an AMR system</li> <li>• Major customer type: power grid companies</li> </ul>	

State Grid and Southern Grid, the key end users of our AMR products, are the two state-owned power grid companies predominantly controlling the power distribution sector in China with their AMR systems commercially deployed in 26 and five provinces in China, respectively. Our AMR products are generally sold in China to (i) meter manufacturers as components for their production of smart meters which are in turn supplied to power grid companies in China as end users, (ii) power grid companies both directly and indirectly, for the replacement or upgrades of existing AMR devices, and (iii) an ODM customer which sells to meter manufacturers or power grid companies directly. As of December 31, 2016, our AMR products were commercially deployed by State Grid in 23 out of the 26 provinces it covered in China. In 2016, we also commenced sales of AMR products to Southern Grid in three of its five provinces in connection with its commercial deployment of AMR systems starting from March 2016. For more information on our sales arrangements in connection with these customers and our role and relevance in the power grid companies' bidding process, see the section headed "— Sales and Marketing" below.

During the Track Record Period, some of our PLC ICs and modules were also sold to meter manufacturers in China for their production of smart meters for export sales to regions such as Southeast Asia, Africa and South America.

### **AMR Maintenance Services**

In addition to selling PLC products for our AMR business, we had since 2014 entered into service contracts on a project-by-project basis for the provision of maintenance services on AMR systems. We entered into these AMR maintenance contracts either through our participation in biddings of the relevant local power grid companies or through direct sales negotiation with the relevant local power grid companies or their designated entities. The term of these service contracts varies based on the length of the maintenance projects as designated by the power grid companies. The provision of AMR maintenance services is subject to regular evaluation by the power grid companies of the relevant grid locations for optimized data reading performance. Currently, most of these AMR maintenance services are outsourced by us to third-party power grid service providers to whom we provide, from time to time, necessary technical trainings to ensure their service standards. For more details, see the section headed "— Production and Procurement — Suppliers" below.

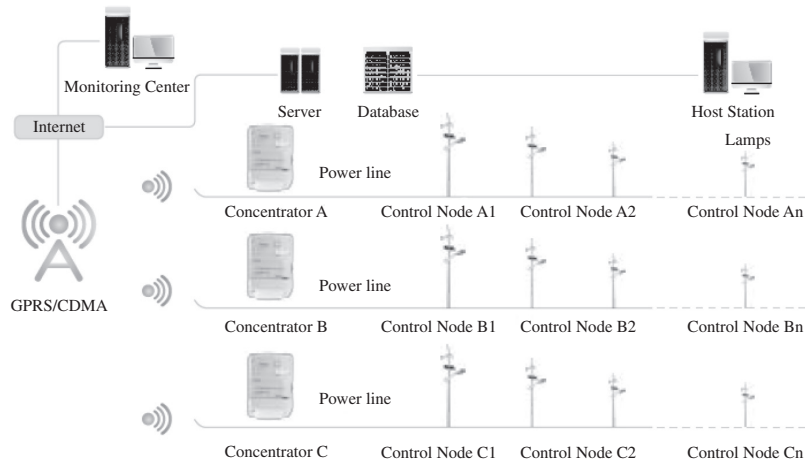
**SMART ENERGY MANAGEMENT BUSINESS**

While the PLC technology is predominantly used for the AMR application in China, we have expanded our offerings of PLC products and solutions to a number of PLC applications related to energy saving and environmental protection. We embarked on this smart energy management business in 2008 with the development and sales of PLC products for the streetlight control application. Since then, we have expanded our PLC products and applications for various strategically selected smart energy management areas, including streetlight control, building energy management and photovoltaic power management. We provide PLC-based smart energy management products and solutions primarily to device manufacturers, system integrators, energy management companies, as well as for enterprise users, including schools, factories and hotels, in China.

**Streetlight Control**

Our PLC products are used as key components in a streetlight control system that enable remote control and management of street lamps through power lines. We began selling these products in 2008 and were one of the first-movers in the market to develop and commercialize PLC products and solutions for streetlight control systems in China, according to Frost & Sullivan. Leveraging our experience and expertise in PLC IC design and product development, we have established ourselves as the leading PLC solutions provider for the streetlight control application in 2016 with a market share of 48.1% in terms of sales volume of streetlight control PLC products, according to Frost & Sullivan.

The following is a graphical illustration of a PLC-based streetlight control system in which our products and solutions are utilized:



**Smart terminal level.** Our light terminal controllers embedded with PLC modules are designed to be installed with street lamps for communication with concentrators through power lines.

**Concentrator level.** Our streetlight control concentrators embedded with PLC ICs are designed to be situated in vicinity to transformers in a streetlight control network for communication with the host station via GPRS/CDMA.

**Host station level.** The host station is usually set up consisting of servers, databases and a graphical user interface as a streetlight monitoring center.

## BUSINESS

A PLC-based streetlight control system can achieve various remote control functions through power lines, such as power switching, brightness adjustment, operating status monitoring, malfunction alerts notification, as well as detection and collection of environmental data such as temperature, humidity and the density of hazardous particles.

Our PLC products for streetlight control systems mainly include streetlight control ICs and light terminal controllers which are generally installed with street lamps. We also provide streetlight control solutions to customers by not only supplying streetlight control hardware PLC products, but also by setting up the software platform of the streetlight monitoring center for real-time monitoring and management of the entire streetlight control system. We provide our streetlight control products and solutions mainly to (i) streetlight system integrators, who develop the entire streetlight systems by incorporating, among others, our products and solutions, and (ii) streetlight products manufacturers.

As of December 31, 2016, our PLC products and solutions were sold to streetlight control customers in 15 provinces in China. The table below sets out certain of the major streetlight control projects in China in which our products and solutions are utilized:

Project	Year	Description	Current Status
Streetlight control project of Wanda City Tunnel in Nanchang, Jiangxi Province	2015	<ul style="list-style-type: none"> <li>● More than 1,500 light terminal controllers were supplied by us to a streetlight control customer who was one of the sub-contractors for the project</li> </ul>	Completed
Streetlight control project for Foxconn's production complex in Guiyang, Guizhou Province	2014	<ul style="list-style-type: none"> <li>● More than 10,000 of our light terminal controllers were installed for the project</li> </ul>	Completed
Streetlight control project in Liuzhou, Guangxi Province administered by the Guangxi Urban Streetlight Administration Division	2014	<ul style="list-style-type: none"> <li>● We were awarded the Second Prize of Liuzhou Science and Technology Advancement Award by the Liuzhou People's Government for this project</li> <li>● Approximately 1,600 light terminal controllers were supplied by us to a system integrator customer which was the winning bidder for the project</li> </ul>	Completed

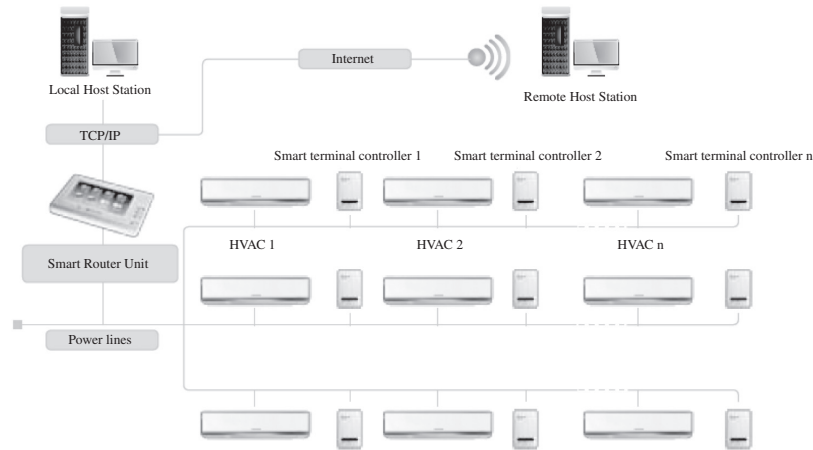
In addition, our PLC products are sold to system integrators in China which subsequently ship our products to overseas markets in Europe, North America and Asia for use in streetlight control projects in those markets. We also sell streetlight control PLC products directly to system integrators in Asia, Europe and North America.

### **Building Energy Management**

Our PLC building energy management products and solutions enable communication for the management of various energy consumption systems, such as HVAC and lighting systems, in primarily commercial and industrial building complexes, dormitories, hotels and other public indoor facilities. We launched our first building energy management pilot project in 2013 by providing and installing our PLC air-conditioning energy management products for Foxconn's staff dormitories in its production complex in Zhengzhou, Henan Province.

## BUSINESS

The diagram below is an example of our PLC-based building energy management solutions applied in a typical HVAC system:



**Smart terminal level.** Our smart terminal controllers, embedded with PLC ICs, are plug-and-play devices designed to be installed near HVACs with infrared communication and can report to a smart router unit through power lines on room temperature, the HVACs' operation status and energy consumption level. Our smart terminal controllers are also designed to take instructions from the smart router unit which may override an HVAC's temperature settings by room occupant(s), if needed.

**Local central management.** Our smart router unit embedded with PLC ICs and installed in a selected location of the building, is designed to serve as a local central management unit for that building to process and manage data of each HVAC collected from the smart terminal controllers through power lines. A smart router unit is also designed to communicate with the host station for that building via TCP/IP.

**Host station level.** A remote host station in charge of a number of buildings is typically installed with a software user interface platform for monitoring and remote control of different building energy management systems of these buildings.

During the Track Record Period, our major customers for building energy management included Fox-Energy and other energy management companies, who used our products and solutions for controlling of HVACs and lighting systems in various building energy management projects in China. As of December 31, 2016, our PLC products and solutions were utilized in building energy management projects in 16 cities in China, including Foxconn's production complexities in four cities and various chain hotels in ten cities in China.

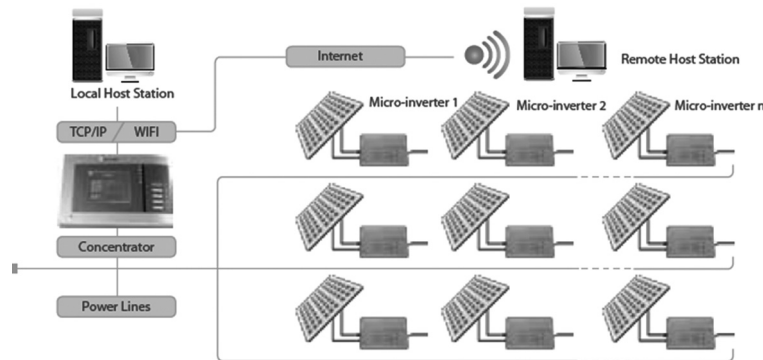
In June 2016, we entered into a legally-binding two-year strategic cooperation agreement with Fox-Energy, an energy management company of Foxconn, for the development of smart energy system projects in Foxconn's production complexities and for its external needs, including the provision of building energy management products and related technical support. We are obliged to offer favorable prices and payment terms to Fox-Energy as a strategic cooperation partner in exchange for its procurement of our PLC products and solutions. The agreement is renewable upon expiry by mutual consent and may be terminated if either party indicates that it will not perform its obligations under the agreement. Neither party is subject to any minimum supply or purchase requirement under this strategic cooperation agreement. Our revenue from sales to Fox-Energy amounted to RMB3.8 million, RMB2.1 million and RMB1.1 million for the years ended December 31, 2014, 2015 and 2016, respectively. As of

the Latest Practicable Date, we were in the process of developing smart power-cut devices for Foxconn’s staff dormitories as part of the smart energy management projects under our strategic agreement with Fox-Energy.

**Photovoltaic Power Management**

We commenced sales of PLC products in connection with photovoltaic power management for solar micro-inverters in 2011 to Zhejiang APsystems Technology Co., Ltd. (“**Zhejiang APsystems**”), a leading micro-inverter producer in China. A solar micro-inverter is a device used in photovoltaic power generation to convert direct current generated by a single solar module to alternating current. The power output from several micro-inverters is combined and often fed to the power grid. Our PLC products applied in a photovoltaic power management system are designed to enable the remote control and monitoring of solar power generation and conversion equipment.

The below diagram illustrates the general application of our PLC products in a photovoltaic power management system:



In a photovoltaic power management system, PLC-based micro-inverters connected with solar modules transmit data signals to a concentrator via power lines. Concentrators embedded with PLC modules are designed to communicate with and manage a number of micro-inverters via power lines and are also connected with the host stations via TCP/IP, Wi-Fi or other wireless solutions.

During the Track Record Period, the vast majority of our photovoltaic power management products were sold to Zhejiang APsystems. In April 2016, we entered into a legally-binding strategic cooperation agreement with Zhejiang APsystems, which is valid till August 2018, for the provision of photovoltaic PLC products and related technical support, such as testing assistance, pursuant to Zhejiang APsystems’ product and communications needs for its micro-inverters. We are obliged to offer favorable prices and payment terms to Zhejiang APsystems as a strategic cooperation partner in exchange for its procurement of our PLC products. The agreement is renewable upon expiry by mutual consent and may be terminated if either party indicates that it will not perform its obligations under the agreement. Neither party is subject to any minimum supply or purchase requirement under this strategic cooperation agreement.

**RESEARCH AND DEVELOPMENT**

We devote a considerable amount of resources to research and development. Our research and development expenses incurred for the years ended December 31, 2014, 2015 and 2016, amounted to RMB21.1 million, RMB26.5 million and RMB37.8 million, respectively, representing 9.0%, 7.8% and 9.7% of our total revenue for the respective years.

## BUSINESS

As of December 31, 2016, our research and development team consisted of 140 employees, comprising (i) 83 based in Shenzhen, Guangdong Province focusing on PLC IC design and product development generally for both the AMR and smart energy management businesses, (ii) 23 based in Wuxi, Jiangsu Province specialized in PLC IC design and product development for the streetlight control systems and applications, (iii) 32 based in Changsha, Hunan Province with a research and development focus on concentrators and host station software development for various smart energy management applications, and (iv) two based in Hong Kong mainly for the research and development of the streetlight control application for overseas markets. As of December 31, 2016, approximately 34.5% of our employees were research and development staff, who had an average of seven years of relevant industry experience. In addition, approximately 12.1% of our research and development staff as of December 31, 2016 had a master's degree or higher (including PhD degrees) in related areas such as communications technologies and electronic automation.

Our research and development efforts are focused on enhancing the functionality of our products and addressing the technical needs of our customers, as well as expanding our product portfolio for different PLC applications. As of the Latest Practicable Date, we had developed two generations of PLC ICs with seven series of models.

The following sets out certain of our major on-going research and development projects, which we expect to achieve trial deployment and initial commercial launch in 2017 and 2018:

Project	Features	Major applications	Estimated project time frame	Corresponding amounts expected to be incurred for the two years ending December 31, 2018
Development of broadband PLC ICs	<ul style="list-style-type: none"> <li>• The project is for the development of broadband PLC ICs adopting the OFDM modulation scheme. In this regard, we have engaged an IC research and development firm in China to develop the physical layer of the broadband PLC ICs, and we would be responsible for the other part of the IC design as well as the entire chipset integration and application engineering of the broadband PLC ICs.</li> </ul>	Primarily targeted for further development of AMR applications expected to be driven by the anticipated adoption of a unified industry standard by State Grid to achieve interconnection and intercommunication, and continuous AMR upgrades for higher data transmission speed and peer-to-peer communications to promote functional interactions with power users	<ul style="list-style-type: none"> <li>• Currently conducting testing of the physical layer of the broadband PLC ICs for communications functionalities and performance</li> <li>• Trial deployment expected to be carried out in the first half of 2018</li> <li>• Commercial launch expected to take place earliest by the end of 2018</li> </ul>	Approximately RMB45.0 million, the majority of which is expected to be funded by the net proceeds from the Global Offering, with the rest from internally generated funds



## BUSINESS

Project	Features	Major applications	Estimated project time frame	Corresponding amounts expected to be incurred for the two years ending December 31, 2018
<p>Development of “PLC +RF” dual mode ICs</p>	<ul style="list-style-type: none"> <li>• The project is for the enhancement of our dual-mode “PLC+RF” technology based on the development of a “Sub-1Ghz” RF ICs which, when integrated with our OFDM PLC ICs, are aimed to afford better stability and flexibility to this dual-mode communication. We have engaged a RF IC provider in China to jointly develop the “Sub-1Ghz” RF ICs while the rest of the project, including the upgrade to a “single-IC” model, is to be completed solely by us.</li> </ul>	<p>Mainly targeted for applications in building energy management in which the complementary merits of PLC and RF technologies, that is, the better noise-resistance feature of RF and the use of power-lines facilitated by PLC to overcome signal blockages arising from concrete structure, can be utilized simultaneously and interchangeably within a system to facilitate a more flexible and reliable way for data transmission</p>	<ul style="list-style-type: none"> <li>• Tape-out for RF ICs principally completed and proceeding to RF IC performance testing during the first half of 2017, to be followed by the merging and testing of “PLC +RF” ICs</li> <li>• Trial deployment expected to be carried out by the second half of 2017</li> <li>• Commercial launch expected to take place by end of 2017 or early 2018</li> </ul>	<p>Approximately RMB4.0 million, which is expected to be funded by internally generated funds as well as the net proceeds from the Global Offering</p>
<p>Development of unified control systems for smart energy management</p>	<ul style="list-style-type: none"> <li>• The project is to develop a single unified control platform to monitor and control, with optimized efficiency, all the energy devices within a building, or a compound area, such as those for the HVAC, interior lighting and streetlight control systems.</li> </ul>	<p>Primarily to facilitate provision of more comprehensive smart energy management solutions, especially for compound sites of large enterprises, schools, government and commercial areas.</p>	<ul style="list-style-type: none"> <li>• Mainframe software is currently under development</li> <li>• Trial deployment expected to be carried out in the first half of 2017</li> <li>• Commercial launch expected to take place by end of 2017</li> </ul>	<p>Approximately RMB3.0 million, which is expected to be funded by internally generated funds as well as the net proceeds from the Global Offering</p>

## BUSINESS

Project	Features	Major applications	Estimated project time frame	Corresponding amounts expected to be incurred for the two years ending December 31, 2018
Development of streetlight control systems by integration with Zigbee technology	<ul style="list-style-type: none"> <li>• The project is to research on the differences of Zigbee from PLC technology in streetlight control systems and to develop an integrated solution in which PLC is complemented by Zigbee to enhance network compatibility.</li> </ul>	Primarily for potential overseas markets with existing Zigbee streetlight control systems	<ul style="list-style-type: none"> <li>• Currently conducting preliminary evaluation on feasibility</li> <li>• Trial deployment expected to be carried out in the first half of 2017</li> <li>• Commercial launch is expected to take place by end of 2017</li> </ul>	Approximately RMB1.0 million, which is expected to be funded by internally generated funds as well as the net proceeds from the Global Offering

We expect to incur not less than RMB100 million for the two years ending December 31, 2018 for research and development, including (without limitation) the aforementioned projects, recruitment of additional research and development staff to further enhance our in-house research and development capabilities and support our expanded research and development activities, as well as general funding support for the development and commercialization of our products and technologies such as product prototyping, testing and purchase of related equipment.

Our research and development projects are mainly managed by the project management staff from our research and development team. We begin new product design by conducting market research which includes analysis of technological developments and changes in laws, protocols and industry standards pertaining to technology. We also work with our customers to determine the exact specifications for the products they require and assess product feasibility. Once we have developed the product design, we perform rigorous testing on functionality and performance before submitting the product for necessary certification and ultimately releasing the product for trial production in pilot projects. This process generally takes about six months to one year depending on the complexity of the product and the project in which it is applied. Our key research and development facilities and equipment include appliances for testing the reception accuracy, anti-interference and data collision prevention capabilities of our PLC ICs, as well as communications protocols and product safety related tests.

During the Track Record Period and up to the Latest Practicable Date, we had engaged several external research and development consultants with complementary expertise to collaborate with us in various research and development efforts, including those for the development of broadband PLC, the “PLC+RF” technology, as well as the driver implementation of our second-generation PLC ICs and software module development to complement our mainframe host station development for the smart energy management business. We entered into project agreements with these consultants with a term generally ranging between six months and one year, pursuant to which we agreed to pay fees to these consultants in consideration for the development results and related intellectual property rights arising from the engagement. The fees are payable by installments in general in accordance with the progress of the projects.

## BUSINESS

We consider that such collaboration with and/or acquisition of intellectual properties from third parties enable us to better leverage on the existing technology knowhow, research results and market insights of these third parties to effectively shorten our “learning curve” in developing and/or commercializing new technologies, products and/or applications. Combined with a managed expansion of in-house research and development talents, we believe it would also enable us to better manage and control our research costing outlays by reducing our exposure to over-expanding our in-house and permanent research team in times of market fluctuations. In addition, we consider such approach would provide us with more flexibility in tapping on selected research expertise and intellectual properties on a more focused and project specific basis. In selecting such third parties to expedite our research and development projects, we would consider factors including (i) existing research capabilities as reflected in their prior research results, functionality performance and expertise of research team, and how complementary they are with our core technologies and areas of product development, (ii) related industry and market experience, as well as commercial viability of the technologies and intellectual properties in their possession, and (iii) possible synergy with our Group in terms of corporate value, design philosophy, compatibility of adopted standards and procedures. We expect to allocate a portion of our net proceeds from the Global Offering to the collaboration with and/or acquisition of intellectual properties from third parties to further enhance our research and development capabilities. For details, see the section headed “Future Plans and Use of Proceeds” in this prospectus.

### **Intellectual Property**

We use various product designs, technologies and know-how that were developed by us or third parties through licensing arrangements. We non-exhaustively rely on the laws and regulations of trade secrets, patents, copyrights and trademarks, as well as confidentiality agreements to protect our intellectual property rights. For details of our intellectual property rights, see the paragraph headed “Statutory and General Information — Further Information about the Business of our Company — 10. Intellectual property rights of our Group” in Appendix IV of this prospectus.

As of the Latest Practicable Date, we had 24 registered patents and 12 patents pending registration in the PRC relating to our PLC technology and applications. We also have one patent pending registration in Singapore. Our patents generally have remaining durations ranging from seven to 16 years.

As of the Latest Practicable Date, we owned 43 registered computer software copyrights in the PRC. Our registered computer software copyrights generally have remaining durations of 45 to 50 years and primarily relate to the software development of PLC solutions.

As of the Latest Practicable Date, we owned seven registered software products in the PRC, which generally have remaining durations of half a year to two years.

As of the Latest Practicable Date, we owned seven registered IC layout designs in the PRC. Our registered IC layout designs generally have remaining durations of one to 10 years.

As of the Latest Practicable Date, we had one registered trademark in the PRC with a remaining duration of three years which could be renewed for another 10 years. We have one trademark registered in Hong Kong with a remaining duration of eight years which could be renewed successively for further periods of ten years. We also have three trademarks pending registration in the PRC and one trademark pending registration in Hong Kong.

## BUSINESS

We undertake a pro-active approach to protect our intellectual property interests. On one hand, we seek and maintain proper registration of our copyrights, trademarks, patents and other intellectual property rights. On the other hand, we rely on trade secrets protection and contractual restrictions to safeguard our intellectual property rights. For instance, we enter into confidentiality agreements with certain of our senior management and other employees, as well as suppliers and other counterparties to protect such trade secrets relating to our know-how. On the other hand, we closely monitor and collect information on any instances of infringement on our intellectual property rights, and we take legal action where necessary and cooperate with local authorities to enforce our intellectual property rights.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any infringement of other's intellectual property rights or infringement of our intellectual property rights by others that would have a material adverse impact on our business and we were not involved in any proceedings involving infringement of intellectual property rights.

### SALES AND MARKETING

We market our PLC products and solutions primarily through our internal sales force covering more than 25 provinces in China with a total of 128 sales and marketing staff as of December 31, 2016. Our sales and marketing team has two divisions responsible for our AMR and smart energy management businesses, respectively. We primarily sell our AMR products in China to a large number of meter manufacturers, power grid companies (directly or indirectly through designated entities of power grid companies and, from time to time, other technology companies) and an ODM customer. On the other hand, we sell PLC-based smart energy management products and solutions to various customers in China such as device manufacturers, system integrators and energy management companies.

During the Track Record Period, all of our customers were Independent Third Parties. Our customers may have different settlement terms ranging from “cash on or before delivery” to up to 180 days from the date of billing in general. Our customers generally settle their payment by wire transfer. We assess the credit terms and credit limits of customers on a case-by-case basis, taking into account the customer's creditworthiness, prior dealing history and additional information specific to the customer as well as the economic environment in which the customer operates.

#### Major Customers

Our five largest customers for the Track Record Period accounted for 32.1%, 36.0% and 28.3% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. We have two to seven years of business relationship with each of our five largest customers for the Track Record Period. Our largest customer for the Track Record Period accounted for 18.2%, 15.0% and 12.9% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. Our largest customer for 2014 was Beijing RSK Electronics and our largest customer for 2015 and 2016 was our ODM customer Topsy. For more details, see “— Sales to Topsy” and “— Historical Sales Collaboration with Beijing RSK Electronics” in this section below. Our other five largest customers during the Track Record Period were mainly meter manufacturers in China.

The following table sets out the identities and background of our five largest customers during the Track Record Period:

The year ended December 31, 2014				The year ended December 31, 2015			
Rank	Name	Business nature	Location	Rank	Name	Business nature	Location
1.	Beijing RSK Electronics	Wholesale of electronic products	Beijing	1.	Topsy	Wholesale of electronic products	Beijing

## BUSINESS

2.	Customer C	Manufacture and sales of electronic power meters and other instruments	Zhejiang Province	2.	Customer G	Sales of electronic power meters and other instruments	Sichuan Province
3.	Customer D	Manufacture and sales of electronic power meters and other instruments	Shandong Province	3.	Customer H	Manufacture and sales of electronic power meters and other instruments	Guangdong Province
4.	Customer E	Manufacture and sales of electronic power meters and other instruments	Anhui Province	4.	Customer I	Manufacture and sales of electronic power meters and other instruments	Zhejiang Province
5.	Customer F	Manufacture and sales of electronic power meters and other instruments	Henan Province	5.	Customer J	Manufacture and sales of electronic power meters and other instruments	Hunan Province

### The year ended December 31, 2016

Rank	Name	Business nature	Location
1.	Topsky	Wholesale of electronic products	Beijing
2.	Customer K	Manufacture and sales of electronic power meters and other instruments	Zhejiang Province
3.	Customer L	Manufacture and sales of electronic power meters and other instruments	Shandong Province
4.	Customer M	Manufacture and sales of electronic power meters and other instruments	Zhejiang Province
5.	Customer N	Manufacture and sales of electronic power meters and other instruments	Guangdong Province

To the best of our Directors' knowledge, as of the Latest Practicable Date, we were not aware of any information or arrangement which would lead to cessation or termination of our relationships with any of our five largest customers for the Track Record Period, except for Beijing RSK Electronics, details of which are set out in “— Historical Sales Collaboration with Beijing RSK Electronics” in this section below.

Save as otherwise disclosed in this prospectus, none of our Directors, their close associates or any Shareholder which, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company had any interest in any of our five largest customers for the Track Record Period.

## **Relationship with Power Grid Companies and Meter Manufacturers**

### *State Grid and Southern Grid*

State Grid and Southern Grid are the two state-owned power grid companies predominantly controlling the power distribution sector in China, which are responsible for the development of power grids in China, including the deployment of AMR systems and procurement of AMR devices.

State Grid is the largest power grid operator and, through its local power grid companies, operates power grids in 26 provinces in China, covering approximately 85% of electric power users in China as of December 31, 2016, according to Frost & Sullivan. State Grid commenced commercial deployment of AMR systems in 2010 and has since deployed AMR systems in all of the provinces it covers in China. A substantial amount of our AMR products are sold to (i) meter manufacturers supplying smart meters to State Grid, (ii) local power grid companies under State Grid, both directly and indirectly through their designated entities and, from time to time, other technology companies, which procure some of our products for the replacement or upgrades of existing AMR devices, and (iii) an ODM customer which sells to meter manufacturers or State Grid directly. As of December 31, 2016, our AMR products were commercially deployed by State Grid in 23 out of the 26 provinces it covers in China. During the Track Record Period, we also provided maintenance services to State Grid's AMR systems on a project-by-project basis either through our participation in biddings of the relevant local power grid companies or through direct sales negotiation with the relevant local power grid companies or their designated entities.

Southern Grid, through its local power grid companies, operates power grids in the five southern provinces of Guangdong, Guizhou, Yunnan, Hainan and Guangxi. Southern Grid has been engaged in pilot AMR projects in the past few years and our products have been deployed in such pilot projects since 2011 in two of these southern provinces. Southern Grid commenced commercial deployment of AMR systems in March 2016. In 2015, we became a qualified PLC technology company for directly participating in Southern Grid biddings for concentrators and collectors. As of the Latest Practicable Date, we had won biddings and subsequently entered into sales contracts with Southern Grid for supplying AMR products in connection with Southern Grid's commercial deployment of AMR systems in Guangdong, Guangxi and Yunnan provinces. After passing certain product accreditation, we had also started in 2016 to supply AMR products to meter manufacturers for smart meters commercially deployed by Southern Grid in these provinces.

Our revenue derived directly and indirectly from State Grid, as ultimate customer of our AMR products and services, in aggregate amounted to RMB211.8 million, RMB311.4 million and RMB326.2 million for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for 91.0%, 91.4% and 83.6% of our total revenue, respectively. Our revenue derived directly and indirectly from Southern Grid, as ultimate customer of our AMR business, in aggregate amounted to nil, RMB0.4 million and RMB16.3 million for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for nil, 0.1%, 4.2% of our total revenue, respectively.

We conduct various marketing activities of our AMR products directly with State Grid and Southern Grid. This is because power grid companies are the end users of AMR products and we rely on them to continuously adopt the communications protocols of our products as part of the technical specifications of the smart meters they deploy. In particular, when State Grid procures smart meters through centralized biddings, it usually determines the communications protocols to be adopted by setting out their technical specifications in the tendering documents. As the technical specifications of our communications protocols are distinct from our competitors, so long as our communications protocols are being selected as part of the technical specifications set out in the tendering documents, the successful meter manufacturer bidders will have to procure AMR products from us.

## BUSINESS

Our marketing activities with the power grid companies include the following:

- **Promotion activities for our products.** We maintain close communications with and make periodic visits to power grid companies, including their local subsidiaries, to understand their specific technical and product needs and explain the technical specifications of our products and how our products will suit their needs for different AMR projects. In addition, before formally rolling out an AMR project, we typically liaise with power grid companies to conduct trial deployment in designated pilot areas, usually by competing with peer PLC technology companies in achieving better meter reading results. Periodically, we seek feedbacks from power grid companies on our product performance, such as meter reading rates, data transmission accuracy, reliability and anti-interference capability, so that we can adjust our research and development and marketing strategies to optimize our products tailored to the evolving needs of power grid companies.
- **Customer services and technical support.** As a sales and marketing means to further strengthen our business relationships with power grid companies and to increase our brand recognition, we are dedicated to provide certain customer services on AMR systems to power grid companies, which include on-site system integration and modification, malfunction detection and repair, as well as other technical support. Since meter manufacturers which produce smart meters generally do not have intimate knowledge of the communications technologies adopted in AMR systems and the practical experience in tackling the related technical problems, our value-added customer services become essential to power grid companies especially at the beginning stage of AMR system deployments. In view of our expanding AMR business, we incurred an increasing amount of such customer service expenses of RMB18.6 million, RMB18.6 million and RMB23.3 million for the years ended December 31, 2014, 2015 and 2016, respectively. The majority of these customer services are currently outsourced by us to third-party power grid service providers. For more information, see the section headed “— Production and Procurement — Suppliers” below.

*AMR Biddings*

State Grid and Southern Grid generally conduct biddings to procure various AMR devices for the deployment and upgrades of AMR systems, which are classified into the following two types:

- **Centralized biddings.** State Grid and Southern Grid consolidate procurement demands of AMR devices from their respective local power grid companies typically with a bottom-up approach. Namely, local power grid companies would report to the state-level power grid company for the number of AMR devices required and the communications protocols proposed to be adopted in their respective local areas, based on their actual needs and trial deployment results. Centralized biddings will then be conducted at the state-level. Historically, State Grid typically conducted such centralized biddings three to five times a year, whereas for Southern Grid, one to two times a year. Smart meters constitute the majority of AMR devices deployed in AMR systems in China and power grid companies typically procure smart meters from meter manufacturers through centralized biddings. As such, meter manufacturers are generally the direct participants in these centralized biddings. In this regard, we, as a communications technology company, provide AMR products, such as PLC ICs and modules, to successful meter manufacturer bidders in centralized biddings for their production of smart meters. We need to pass certain product accreditation conducted by testing institutes endorsed by power grid companies before we become qualified to supply AMR products to centralized bidding winners. The product accreditation for a particular type of AMR product is usually valid for two years and is renewable upon review by the accrediting testing institutes. Such product accreditation is applicable to all centralized biddings of State Grid or Southern Grid within the two years, under which such particular type of AMR product is supplied by us to meter manufacturers.

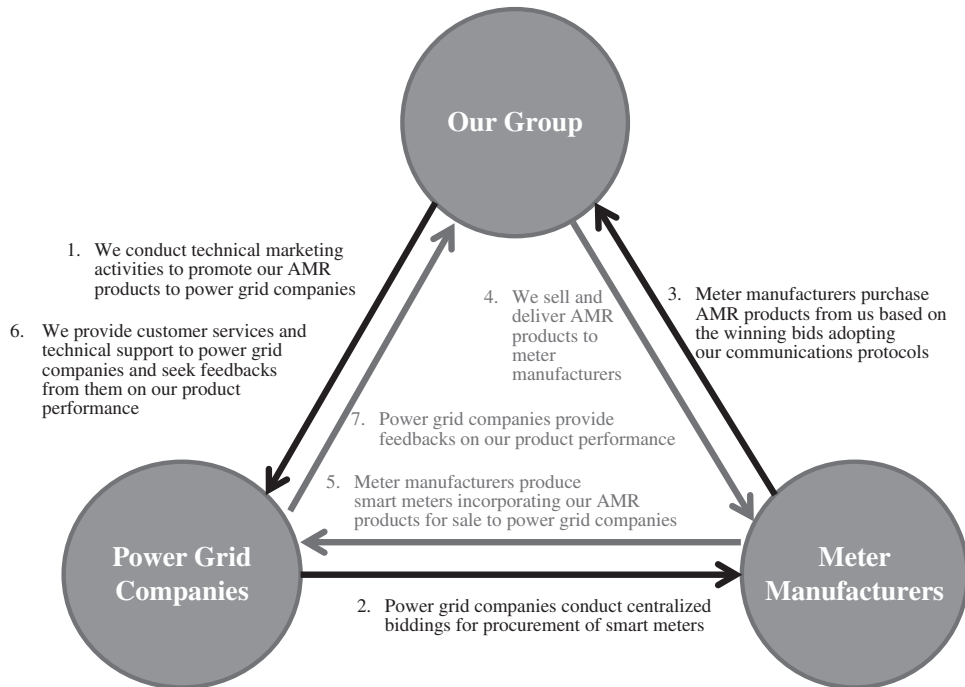
For State Grid centralized biddings, technical specifications of the communications protocols to be adopted for each bid are usually set out in the tendering documents when the bidding process starts. The technical specifications and communications protocols of our PLC products, such as the data transmission frequency range, are distinct from and not compatible with our competitors. To the extent such technical specifications are set out in the tendering documents for a specific type of smart meter, we typically can determine at the outset of a State Grid centralized bidding whether our products will be adopted for the tendered AMR project and any meter manufacturer subsequently winning that particular bid will have to procure the corresponding PLC ICs or modules from us. In such cases, it is generally up to the power grid companies, rather than the meter manufacturers, as to which communications technology company to choose based on the communications protocols selected, despite the fact that PLC technology companies only enter into sales contracts with the successful meter manufacturer bidders in centralized biddings for smart meters. Conversely, if the communications protocols of any of our competitors are selected as part of the technical specifications for an AMR bidding, our products cannot be adopted for such AMR bidding due to incompatibility of different communications protocols of current products. The bidding volume of AMR devices is largely determined in the tendering documents even though it may be subject to deployment adjustment by State Grid after the biddings.

For Southern Grid centralized biddings, the selection of a communications technology provider, such as a PLC technology company, would usually be determined at the time when the successful bidder, being the meter manufacturer, enters into the actual sales contracts with Southern Grid.



## BUSINESS

The following diagram illustrates our relationship with power grid companies and meter manufacturers in centralized biddings for smart meters:



- **Local biddings.** Local power grid companies of State Grid and Southern Grid may from time to time initiate biddings for procurement of AMR products for replacement or upgrade purposes. Sometimes, rather than direct sales negotiation (either by themselves or through their designated entities), power grid companies may also procure AMR maintenance services through local biddings. PLC technology companies, including us, need to undergo certain qualification evaluation process before directly taking part in such local biddings. Local power grid companies of State Grid and Southern Grid generally consider a PLC technology company's track record performance, investment amount, business scale, research and development and production capabilities, reputation and quality assurance when assessing its bidding qualifications. The qualification sets out the applicable AMR products and is generally valid for up to three years and renewable by reviews of a local power grid company upon expiry. During the valid period of the qualification, we are able to take part in all the local biddings by such local power grid company for the applicable AMR products.

For State Grid local biddings, we are generally required to enter into sales or service contract(s) with local power grid companies after winning the bidding and may be subject to further product accreditation before volume supply of products.

For Southern Grid local biddings, we, as the winning bidder, may be required to enter into a framework agreement with Southern Grid before entering into actual sales contracts with its local power grid companies. Such framework agreements usually set out the technical requirements for the products and our percentage of share for the supply of a certain AMR product in a designated region for a term of generally up to one-year. Actual procurement volumes and total price amount are set out in the follow-up sales contracts.

## BUSINESS

During the Track Record Period, our revenue from local biddings in which we participated directly was RMB28.2 million, RMB22.7 million and RMB47.0 million, representing 69.6%, 41.8% and 70.2% of our AMR revenue from direct sales (of products and maintenance services) to power grid companies which amounted to RMB40.5 million, RMB54.4 million and RMB67.0 million for the years ended December 31, 2014, 2015 and 2016, respectively. Our tender success rate in terms of the number of local biddings for our products and services was 55%, 15% and 38% in 2014, 2015 and 2016, respectively. Our tender success rate decreased from 2014 to 2015 as we adjusted our bidding strategy and participated in an increasing number of local biddings, especially those with broader terms on the technical specifications requirement which were opened to PLC technology companies with varying communications protocols for bidding participations, with a view of capturing more market share.

The following table sets out a comparison of our involvement in the centralized and local AMR biddings during the Track Record Period:

	<b>Centralized biddings</b>	<b>Local biddings</b>
<b>Our status</b>	Supplier of AMR products to meter manufacturers who were successful winners of centralized biddings	Direct participant
<b>Conditions</b>	We were required to obtain product accreditation generally valid for two years before supplying to successful meter manufacturer bidders	We were required to obtain bidding qualification generally valid for up to three years before taking part in local biddings
<b>Sales Arrangement</b>	We only entered into sales agreements with the successful meter manufacturer bidders	Upon winning a local bidding, we entered into framework and/or sales or service agreements with local power grid companies

AMR bidding process may differ from region to region pending on specific deployment requirements by the power grid companies. This is even more so with Southern Grid, as it is still in the process of formalizing its standard practice of AMR bidding procedures in connection with its commercial deployment of AMR systems starting from 2016, according to Frost & Sullivan.

## BUSINESS

The table below sets forth our revenue derived directly and indirectly from State Grid and Southern Grid for the periods indicated:

	Year ended December, 31					
	2014		2015		2016	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
State Grid:						
Centralized biddings	160,742	75.9	234,767	75.3	227,046	66.3
Local biddings	28,217	13.3	22,317	7.2	43,583	12.7
Others <sup>(1)</sup>	22,847	10.8	54,338	17.4	55,538	16.2
	211,806	100.0	311,422	99.9	326,167	95.2
Southern Grid:						
Centralized biddings	—	—	—	—	12,602	3.7
Local biddings	—	—	358	0.1	3,426	1.0
Others <sup>(1)</sup>	—	—	—	—	317	0.1
	—	—	358	0.1	16,345	4.8
Total	211,806	100.0	311,780	100.0	342,512	100.0

*Note:*

- (1) Others refer to our revenue derived from State Grid and Southern Grid through direct sales negotiation not in connection with AMR biddings.

### *Our Relationship with Power Grid Companies*

As China's AMR end market is predominantly controlled by State Grid and Southern Grid, major PLC technology companies, including us, generally rely on these two power grid companies for direct or indirect sales of their AMR products. Similar to other major PLC technology companies, we are exposed to the risk of reliance on power grid companies. See the risk factor headed "Risk Factors — Risks Relating to Our Business and Industry — Our sales will decrease substantially if power grid companies cease to adopt, or significantly reduce the adoption of, our communications protocols for their procurements of AMR devices". However, we believe this risk is not specific to us alone as it would be unlikely for any major PLC technology company to break off its reliance on State Grid or Southern Grid under their "duopoly" control of China's power grid system.

Conversely, State Grid and Southern Grid also rely on us, being one of the few major PLC technology companies, for continual enhancement of the performance and functionalities of PLC communications technology, as well as smooth deployment of their AMR systems, given that (i) PLC technology already accounted for 80% of the AMR systems deployed in China according to Frost & Sullivan, (ii) the PLC industry in China is highly concentrated with the five largest players accounting for more than 85% of the market share, in which we ranked third by sales volume of PLC products in 2016 according to Frost & Sullivan, and (iii) the technical specifications and communications protocols of our PLC products are distinct from those of our competitors, making it costly or practically difficult to switch to a competitor once our communications protocols are selected for a grid location. We therefore believe that the reliance between these power grid companies and us is mutual and complementary.

## BUSINESS

According to Frost & Sullivan, State Grid is expected to increase bidding volumes for smart meters at a CAGR of 15.2% from 2017 to 2021, and we intend to seize further AMR business opportunities from the new market opening arising from Southern Grid's commercial deployment of AMR systems starting from 2016. During the Track Record Period, we had also derived revenue from sales of AMR products to meter manufacturers producing smart meters for export sales, as well as from our smart energy management business. We expect our revenue from such sales will gradually increase in the near to medium term to complement our revenue originated from State Grid's and Southern Grid's AMR demand. As such, in light of our reliance on State Grid and Southern Grid, we believe we would be able to maintain our revenue in the future.

### **Sales and Pricing**

#### *Sales Contracts*

We generally enter into a sales contract with our customers each time they purchase products or solutions from us. Ordering details such as sales volume, price and delivery time are set out in the sales contracts.

We are generally responsible for delivering products to our customers in China. We allow customers to carry out sample checking of our products upon delivery to ensure the specific technical standards and quality requirements as agreed with our customers are met.

#### *Pricing*

The prices of our AMR products sold to meter manufacturers are generally determined by negotiation with the meter manufacturers, taking into account the purchase amount, historical price ranges and actual deployment volume and location. For products sold to power grid companies through our direct participation in biddings, the prices are generally determined by taking into account our product technology advantages and competitor prices.

Our pricing for smart energy management products and solutions is generally based on factors such as scale and complexity of the project and level of product customization. We negotiate prices with customers on a case-by-case basis taking into account a number of considerations, including our relationship with the customer, payment terms and the prices of competing products. We generally assess the relevant factors and review market conditions to adjust our pricing on a regular basis.

#### *Sales Agent*

In August 2016, we entered into an agreement with an independent sales agent which exclusively conducts sales activities on our behalf for a selection of AMR products in the five provinces covered by Southern Grid. The sales agent agreement is valid till December 2019 and may be terminated by both parties with mutual consent or by us if the sales agent fails to maintain certain market share or ranking in the Southern Grid market as set forth in the agreement. We have agreed to pay monthly sales commissions to the sales agent which is based on a percentage of the difference between the actual selling price successfully negotiated by the sales agent with customers and the agreed minimum selling price set by us for the relevant products. The sales agent is also subject to non-competition restriction within one year from the termination of the sales agent agreement.

*Seasonality*

Historically, we generally experienced lowest sales in the first quarter of a year, especially around Chinese Lunar New Year. Our sales for the rest of the year would usually fluctuate from time to time depending on customer demands which generally do not have a fixed pattern.

*Warranties*

We generally provide a warranty period of one to two years for our products and believe this is in line with industry practice. We do not have a return policy besides repair or replacement of defective products. We did not encounter any instances of material sales returns, product recalls, replacements, repairs or other quality problems with our products during the Track Record Period and up to the Latest Practicable Date.

**Sales to Topsy**

While most of our AMR products are produced and sold under our brand “Risecomm,” we also develop and sell a range of AMR products on an ODM basis to Topsy under its own brand “Topsy” or any other brands as specified by it. Topsy is an Independent Third Party primarily engaged in the sales and marketing of AMR and other smart grid products in China. AMR products provided by us to Topsy feature a carrier frequency which differs from the technical specifications of our own-brand AMR products.

In 2012, Topsy, through contracting with another ODM PLC IC supplier, had been selling AMR products at 300kHz of carrier frequency to meter manufacturers under State Grid’s centralized bidding system. In view of the opportunity to create a new income source by serving the additional demand for AMR products at 300kHz, we sought to develop AMR products for Topsy to achieve higher sales and increase our market share. In July 2012, we began to develop AMR products at 300kHz by utilizing and incorporating our PLC technology into the design of those products for Topsy on an ODM basis.

Prior to February 2014, we sold all our AMR products in relation to State Grid’s centralized bidding system through an exclusive sales partner, Beijing RSK Electronics, as further described below in the section headed “— Historical Sales Collaboration with Beijing RSK Electronics.” Our products for Topsy were therefore sold directly to Beijing RSK Electronics during this period for resale to Topsy. Following the termination of our sales collaboration with Beijing RSK Electronics in February 2014, we commenced direct sales to Topsy, which became our largest customer for each of the years ended December 31, 2015 and 2016. Our direct sales to Topsy for the years ended December 31, 2014, 2015 and 2016 amounted to RMB3.9 million, RMB50.9 million and RMB50.3 million, respectively, representing 1.7%, 15.0% and 12.9% of our total revenue for the respective periods. Before 2016, our direct sales to Topsy were generally settled by payment before deliveries. Starting from 2016, credit terms for all our sales to Topsy were changed to 60 days pursuant to commercial negotiation.

We entered into the existing sales cooperation agreement with Topsy in February 2017, pursuant to which we agreed to develop and sell, and Topsy agreed to purchase, certain AMR products, including PLC ICs, modules, concentrators and AMR testing tools, with technical specifications distinct from our own branded products. Pursuant to the agreement, Topsy is not allowed to purchase AMR PLC products from anyone but us for on-sell to its customers. The term of the agreement is one year and neither party has the right to terminate the agreement unilaterally. Neither party is subject to any minimum supply or purchase requirement and the purchase quantities are to be set forth in the purchase orders which Topsy is to place with us from time to time during the term of the agreement. The

agreement provides for the standard unit prices for all the products, which may be subject to renegotiation from time to time. We are responsible for delivering the products to the customers of Topsy as designated by it and generally provide one-year warranty for the products sold.

### **Historical Sales Collaboration with Beijing RSK Electronics**

#### *Background*

Prior to February 2014, we collaborated with Beijing RSK Electronics on the marketing of our AMR products in China and the sales of our AMR products to meter manufacturers that were successful bidders in centralized biddings conducted by State Grid. Our collaboration with Beijing RSK Electronics began in 2009 under a tripartite strategic alliance among Beijing RSK Electronics, Shenzhen RMS Technology and us.

As a young technology company at that time having relatively limited resources in commercializing its research and development results and bringing newly developed products to market, we entered into the strategic alliance with Beijing RSK Electronics and Shenzhen RMS Technology to collaborate on sales and marketing and certain production processes for our AMR products, respectively. Under the strategic alliance, we provided the technology backbone and were primarily responsible for developing PLC ICs and other AMR products. Beijing RSK Electronics served as our strategic sales partner and was primarily responsible for the sales and marketing of AMR products developed by us under State Grid's centralized bidding system. Shenzhen RMS Technology was primarily responsible for undertaking certain production processes for our PLC ICs and modules, mainly software burning and PCBA assembly, and it also collaborated with us in developing a certain routing solution for our PLC ICs. Shenzhen RMS Technology left the strategic alliance in January 2013 while we continued to collaborate with Beijing RSK Electronics as our strategic sales partner until February 2014. During the period of Shenzhen RMS Technology's participation in the strategic alliance, its business scope included the development and sale of computer software, appliances and electronic products, and its shareholders and directors were all Independent Third Parties, except for Mr. Zhang Baojun, currently a member of our senior management, who was a shareholder, executive director and general manager of Shenzhen RMS Technology prior to joining our Group in June 2012.

We initially established this strategic alliance with a view to seizing the considerable new market opportunity arising from the anticipated rapid commercial deployment of AMR systems by State Grid in early 2010s. We considered that the strategic alliance would enable us to optimize our resource allocation by better focusing on the research and development on the PLC technology and certain core, light-asset IC design processes. By collaborating with Beijing RSK Electronics and Shenzhen RMS Technology, we sought to limit our exposure to business risks as we would otherwise have to make substantial investments in building up and maintaining a sizeable sales and marketing team to promote the adoption of our AMR products by State Grid, or in purchasing plant and equipment for certain less PLC technology-driven production processes, particularly given the apparent uncertainties surrounding the initial stage of the commercial deployment of AMR systems by State Grid.

#### *Beijing RSK Electronics*

Beijing RSK Electronics was founded in 2009 by Mr. Wang Shiguang, currently the chairman of our Board and an executive Director, who has extensive sales experience in electronics and the power sector since 1999. For more information on Mr. Wang's industry experience, see the section headed "Directors, Senior Management and Employees — Executive Directors" in this prospectus. Beijing RSK Electronics was established by Mr. Wang primarily to provide sales and marketing services in relation to AMR products under the strategic alliance. At the time of establishment, Mr. Wang had only limited

## BUSINESS

cash resources in funding the required capital of Beijing RSK Electronics, and consequently he tapped on a number of investors, including our subsidiary Risecomm WFOE, Shenzhen RMS Technology and two individual Independent Third Parties, as passive minority investors to provide the initial funding required by Beijing RSK Electronics. Accordingly, at the time of establishment, Beijing RSK Electronics was owned as to 38.95% by Mr. Wang, 24.70% by Risecomm WFOE, 24.70% by Shenzhen RMS Technology, and the remaining 11.65% by two other passive investors.

After the establishment of Beijing RSK Electronics, as State Grid's AMR deployment gained further momentum and became larger in scale, its business grew alongside with this new market opening. In December 2010 and April 2012, each of Shenzhen RMS Technology and Risecomm WFOE divested and sold all its equity interest in Beijing RSK Electronics to Mr. Wang and two other individual passive investors. Following these sales, Beijing RSK Electronics was owned as to 58.70% by Mr. Wang and its remaining 41.30% equity interest was owned by four passive investors.

In April 2014, Mr. Wang disposed of all his 58.70% equity interest in Beijing RSK Electronics to an Independent Third Party, as further described below in the section headed “— Subsequent Developments.” During the period from its establishment up to the time Mr. Wang disposed of his entire equity interest in Beijing RSK Electronics, the business operations of Beijing RSK Electronics were principally controlled and managed by Mr. Wang, who served as its chairman and general manager, while Ms. Chen Junling, the spouse of Mr. Wang and currently a senior management of our Group, also held a key management position with Beijing RSK Electronics serving as its sales manager. In connection with this disposal by Mr. Wang, both Mr. Wang and Ms. Chen resigned in March 2014 from all positions with Beijing RSK Electronics. As far as the Directors are aware, subsequent to the disposal by Mr. Wang of his entire equity interest in Beijing RSK Electronics, the business focus of Beijing RSK Electronics had gradually changed to the sale of software products unrelated to PLC products or solutions under its new owners and management.

At the time of establishment of Beijing RSK Electronics, Mr. Yue Jingxing, our co-founder, executive Director and chief executive officer, was appointed as a director of Beijing RSK Electronics, who served in a non-executive capacity principally to safeguard Risecomm WFOE's initial investment in Beijing RSK Electronics. Risecomm WFOE was only a passive investor, and Mr. Yue neither participated in any decision-making or management of Beijing RSK Electronics nor personally held any equity interest in Beijing RSK Electronics. Mr. Yue submitted his resignation from the directorship of Beijing RSK Electronics in January 2012 prior to the divestment of its remaining equity interest in Beijing RSK Electronics by Risecomm WFOE.

### *Historical Sales Collaboration*

We collaborated with Beijing RSK Electronics as our strategic sales partner until February 2014. During this time of sales collaboration with Beijing RSK Electronics, we sold all of our AMR products for sale under State Grid's centralized bidding system directly to Beijing RSK Electronics as our exclusive sales channel. Beijing RSK Electronics marketed our AMR products and resold them generally to meter manufacturers that were successful bidders in centralized biddings conducted by State Grid. In exchange for the exclusive right to sell our AMR products to meter manufacturers, Beijing RSK Electronics undertook not to sell or market any PLC products or solutions developed by other PLC technology companies. Pursuant to the strategic alliance, we had agreed with Beijing RSK Electronics the standard unit prices for the PLC products that we sold to Beijing RSK Electronics.

Sales to Beijing RSK Electronics amounted to RMB42.3 million, RMB0.5 million and nil for the years ended December 31, 2014, 2015 and 2016, respectively, accounting for 18.2%, 0.1% and nil of our total revenue for the respective periods. During the Track Record Period, none of our sales to Beijing

## BUSINESS

RSK Electronics constituted a related party transaction as Risecomm WFOE has ceased to own any equity interest in Beijing RSK Electronics since April 2012 and none of our Shareholders, Directors or senior management executives owned any equity interest in, or exercised any decision-making power over or held any management role in, Beijing RSK Electronics, or vice versa, at the same time during the Track Record Period.

### *Cessation of Sales Collaboration*

As we experienced significant business growth over the years, we began to allocate increasing resources and invested in enhancing our internal sales and marketing capability and building up our own sales and marketing team in view of the long-term development needs for our business. As of December 31, 2013, our own sales and marketing team had grown to comprise approximately 111 full-time employees, who were primarily responsible for sales and marketing of our AMR products in relation to State Grid's local biddings and of our PLC products for the smart energy management business.

In early February 2014, our management made a strategic decision to entirely internalize the sales and marketing function and we ceased to collaborate with Beijing RSK Electronics as our strategic sales partner. In connection with the termination of our strategic alliance with Beijing RSK Electronics, we paid RMB2.0 million as compensation to Beijing RSK Electronics. Since then, Beijing RSK Electronics no longer operates as our exclusive sales channel and does not maintain any business relation with us other than completing the outstanding sales contracts that were entered into with us before termination of the strategic alliance. We, on the other hand, commenced our direct sales to meter manufacturers who were successful bidders in State Grid's centralized biddings for smart meters.

Leveraging on our industry experience and brand recognition accumulated through product penetration into State Grid's AMR systems over the years, coupled with our increasing staff pool in sales and marketing and their accumulated experience in the State Grid business environment, we did not experience any adverse impact or significant transitional hurdle following cessation of our sales collaboration with Beijing RSK Electronics, and we succeeded in achieving continued growth in our AMR business since 2014.

### *Subsequent Developments*

Neither Mr. Wang, nor Ms. Chen, was involved in our Group's own operations before the cessation of sales collaboration with Beijing RSK Electronics. Nevertheless, during the course of our historical sales collaboration with Beijing RSK Electronics, Mr. Wang came to value highly our core technological capabilities and the significant business prospects of our Group. Consequently, Mr. Wang initiated discussions with our Group to pursue an equity investment in our Group, which subsequently led to Mr. Wang, Ms. Chen and several other investors becoming the shareholders of Old Cayman, our then holding company, in March 2014. For more information on the change in shareholding of Old Cayman, see the section headed "History, Development and Reorganization — Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman" of this prospectus.

Following Mr. Wang's and Ms. Chen's becoming shareholders of Old Cayman in March 2014, Mr. Wang disposed of his entire equity interest in Beijing RSK Electronics in April 2014 to avoid any potential conflicts of interest to the extent that Beijing RSK Electronics may wish to conduct any further business with us, such as by buying AMR products from us as a non-exclusive direct customer for trading purposes. In addition, as described above, both Mr. Wang and Ms. Chen resigned from all positions with Beijing RSK Electronics in March 2014.



## BUSINESS

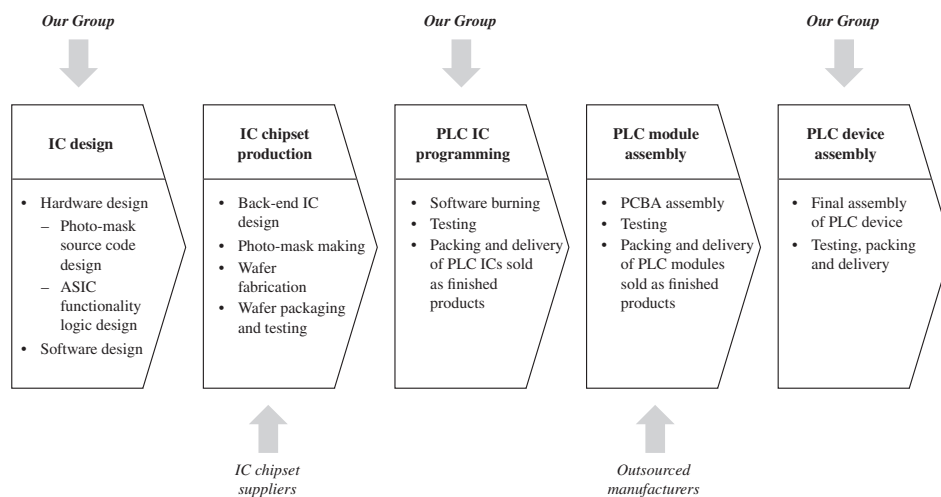
In June 2014, in pursuit of a more active participation in our business, Mr. Wang and Ms. Chen joined us to lead our own sales and marketing efforts. Mr. Wang has been the senior vice president of Risecomm WFOE and Risecomm Beijing Comm and Ms. Chen has been the general manager of Risecomm Beijing Comm since June 2014. In addition, Mr. Wang was appointed as a Director on February 22, 2016, and was designated as an executive Director and the chairman of our Board on May 16, 2017. We ceased our sales collaboration with Beijing RSK Electronics in 2014 out of our own need for business development as explained above not as a result of the investment made by or the joining of Mr. Wang and Ms. Chen in our Group.

### PRODUCTION AND PROCUREMENT

#### Production Process

We are a fabless PLC technology company focusing on PLC related proprietary ICs and software design. We adopt a fabless production model under which we do not engage in in-house production of IC chipsets, but instead procure IC chipsets as a principal raw material from IC chipset suppliers which provide application-specific ICs based on the proprietary designs we developed. By adopting the fabless production model, we reduce the required investments and cost of operating our own production facilities relating to certain production process and are able to focus our resources on improving our IC design and product development capabilities.

The following flow chart shows the general production process of our products, which typically lasts for five to seven months from confirming purchase orders of IC chipsets to delivery of our final products:



- **IC design.** We conduct in-house IC design and provide such proprietary designs to suppliers for IC chipset production.
- **IC chipset procurement.** We source IC chipsets from suppliers which conduct back-end IC design services based on the proprietary IC designs provided by us. IC chipset suppliers also engage IC foundries, packaging houses and other third parties for wafer fabrication, packaging and testing. The production of IC chipsets usually takes around five months.
- **PLC IC programming.** We program our PLC ICs by burning software onto the IC chipsets sourced from suppliers. The software burned incorporate our proprietary PLC algorithms and other intellectual property, which turns an IC chipset from an un-operational IC into a

## BUSINESS

functional PLC IC with routing capabilities for specific applications. Some of the PLC ICs produced by us are sold as end products to our customers, while the remaining PLC ICs are used for the further assembly of PLC modules.

- ***PLC module assembly.*** We engage outsourced manufacturers to conduct PCBA assembly for our PLC modules. PLC ICs, together with other electronic components, such as transistors and capacitors, are combined to form the PCBA, a circuit board assembly which constitutes a PLC module. Some of the PLC modules are sold as end products to customers and the rest is used for the assembly of our PLC devices. The PLC module assembly process usually takes one to two weeks.
- ***PLC device assembly.*** Final assembly of our PLC devices is conducted in-house by putting together the PLC modules with relevant electronic components into product casings of PLC devices. The final assembly of PLC devices usually takes one to two weeks.
- ***Testing, packing and delivery.*** Our finished products, including PLC ICs, modules and devices, need to undergo rigorous testing on their quality and functionality before they are being labeled, packed and dispatched to warehouses for delivery.

The production processes of our AMR products and smart energy management products are generally the same. One major difference lies in the proprietary PLC technologies incorporated at the software burning stage for different PLC applications.

### **Product Assembly Hubs**

During the Track Record Period, we had two product assembly hubs in operation, both of which are leased properties and are located in Shenzhen, China. Our major product assembly hub is located in Yantian District, Shenzhen, with a GFA of 2,027.0 sq.m. primarily for the programming of our PLC ICs and the final assembly of PLC devices. The other product assembly hub located in Nanshan District, Shenzhen, is primarily for the sample and pilot assembly of our smart energy management products and has a GFA of 243.9 sq.m.

As of the Latest Practicable Date, we had a total of nine automated software burning equipment for our PLC IC programming and also had two assembly lines for volume production of our PLC modules and devices assembly. Of these two assembly lines, we generally assign one assembly line solely for the production of PLC modules, with the remaining assembly line shared for the production of both PLC modules (from time to time when the other assembly line is fully occupied) and other AMR devices including concentrators, collectors and other AMR testing tools. On the other hand, the production of concentrators and collectors requires the use of high-temperature aging rooms which, due to limited floor areas of our Yantian assembly hub, it only houses one such high-temperature aging room which currently becomes the bottleneck of our concentrators and collectors production in general.

## BUSINESS

The following table sets forth the designed annual production capacity, annual production volume and the utilization rates of our production facilities in the Yantian product assembly hub during the Track Record Period:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	(Units except for the utilization rates)		
<b>PLC ICs</b>			
Designed production capacity <sup>(1)</sup>	11,644,000	11,700,000	11,700,000
Production volume	8,572,814	12,835,477	10,548,108
Utilization rates <sup>(2)</sup>	73.6%	109.7%	90.2%
<b>PLC modules</b>			
Designed production capacity <sup>(3)</sup>	4,112,000	8,224,000	8,224,000
Production volume	3,543,418	6,424,841	6,299,701
Utilization rates	86.2%	78.1%	76.7%
<b>Concentrators and collectors</b>			
Designed production capacity of the high-temperature aging room <sup>(4)</sup>			
— Concentrators only; or	12,500	12,500	12,500
— Collectors only	400,000	400,000	400,000
Production volume			
— Concentrators <sup>(5)</sup>	—	—	6,346
— Collectors	16,600	119,929	174,523
Utilization rates	4.2%	30.0%	94.4%

*Notes:*

- (1) We had three, nine and nine automated software burning equipment in 2014, 2015 and 2016, respectively, for our PLC IC programming. The designed annual production capacity of an automated software burning equipment is approximately 1,300,000 units of PLC IC. For the year ended December 31, 2014, we also employed a team of 11 workers to manually conduct the software burning procedures. In 2015, we purchased six additional automated software burning equipment to fully replace the manual operations of IC programming.
- (2) The utilization rate of PLC ICs exceeded 100% in 2015 mainly due to overtime production to meet delivery schedules for increasing customer orders.
- (3) Due to increasing demands of our PLC modules, we expanded the production capacity of the product assembly line solely designated for the production of PLC modules from originally 4,112,000 units to 8,224,000 units in 2015.
- (4) The designed production capacity of our concentrators and collectors is calculated based on the designed production capacity of our high-temperature aging room as it has become the bottleneck for production of these products. On the basis of a 250 operational days per calendar year, the annual maximum production capacity of the high-temperature aging room would be either 12,500 units of concentrators (assuming no capacity assigned for the production of collectors) or 400,000 units of collectors (assuming no capacity assigned for the production of concentrators).
- (5) We only commenced production of concentrators in 2016.

## BUSINESS

Due to limited floor areas, our two product assembly hubs are already fully occupied for production, assembly, warehousing and administrative support. To cater for our business development plans and strategies of further enriching our AMR product offerings and expanding our AMR product assembly capacity, and having considered Shenzhen's increasing labor costs and intensifying competition for technology labor and talents, we entered into definitive sale and purchase agreements in February 2017 in respect of the purchase of our new product assembly hub in Changsha, Hunan Province with an aggregate GFA of approximately 4,402.3 sq.m. to mainly engage in the volume production of concentrators and our smart energy management products and solutions. In deciding to expand our production capacity through establishment of a new product assembly hub in Changsha, we have mainly taken into consideration the following:

- ***Need for additional production capacity and floor spaces.*** It is one of our near-term strategies to ramp up our production and sales of concentrators primarily for our AMR business. In this regard, we have already obtained the relevant qualification in 2015 to participate directly in Southern Grid's biddings for concentrators and have since increased our sales of concentrators to Southern Grid. We have also obtained qualification in the second half of 2016 to participate directly in State Grid's centralized biddings on concentrators and expect to commence such sales of concentrators to State Grid in 2017. Under an AMR system, concentrators are used to link the host stations of power grid companies to their on-site AMR terminals such as smart meters and collectors. As power grid companies are more likely to adopt the same or the most compatible communications protocols for smart meters and collectors as is adopted for the concentrators in an AMR system, we believe increased production and sales efforts in concentrators will also help promote the adoption of our communications protocols to benefit sales of our PLC ICs and modules. However, given the limited floor spaces of our Shenzhen product assembly hubs which, at present, have already been fully occupied, they cannot accommodate any additional assembly or warehousing facilities to cater for increased production level of concentrators, particularly as concentrators are considerably larger in size and therefore are more demanding in terms of warehousing space and logistical arrangements.
- ***Need for further cost efficiency and talent sourcing.*** When deciding on the location to set up additional product assembly facilities, we also gave particular consideration to cost and talent factors. In recent years, labor cost in Shenzhen has been on a significant increasing trend and has surpassed many inland cities in China, while securing and retaining technology and research and development talents have become increasingly challenging with an increasing number of technology related companies in Shenzhen competing for talents. Changsha, on the other hand, is considered to have a more favorable overall labor and production cost structure compared to Shenzhen, and has in recent years been drawing increasing technology talents. Coupled with us having already established our research and development arm in Changsha, we consider Changsha to be a suitable location to establish our permanent product assembly hub to support our business growth pursuit.
- ***Plan for enhancing product offerings.*** In addition to concentrators, with the added floor areas of our Changsha product assembly hub, it is our present intention to utilize it as our principal base for volume production of collectors and "Four-Meters-In-One" adapters, as well as control systems for our smart energy management applications in the longer run.

As of the Latest Practicable Date, we had fully paid the purchase price and entered into definitive sale and purchase agreements for the Changsha product assembly hub and were in the process of applying for the real estate title certificates of this property from the relevant PRC authorities. As of the Latest Practicable Date, we had installed production facilities with a maximum annual production

## BUSINESS

capacity of 50,000 units of concentrators and 500,000 units of collectors in our Changsha product assembly hub and commenced trial production. Going forward, we intend to conduct review on the status of utilization of our currently installed production facilities in Changsha from time to time, and may further expand its production capacity depending on the market demands of our PLC products and the pace of our business growth. For more information, see the section headed “— Properties” below.

According to Frost & Sullivan, the sales volume of concentrators in China adopting the PLC technology increased at a CAGR of 7.0% from 2010 to 2016, and is expected to grow at a CAGR of 6.8% from 2017 to 2021, reaching 1.5 million units in 2021. To ensure seamless communications between concentrators and downstream AMR devices, such as collectors and smart meters, power grid companies are usually more inclined to adopt the same or the most compatible communications protocols for collectors and smart meters as is adopted for the concentrator in an AMR system. In a typical PLC AMR system, each concentrator is connected, directly or indirectly, with up to around 100 smart terminals (i.e. smart meters or collectors). Taking into account China’s growing market size for concentrators and collectors, and that our current production capacity in Changsha product assembly hub only accounts for an insignificant amount of their respective market size in China, and having regard to our accredited qualifications to participate directly in State Grid and Southern Grid’s biddings for concentrators and our new assembly hub in Changsha to support an expanded production capacity, we believe we are well positioned to capture the market potential and gain increasing market share in these product markets.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruptions, delays or lack of capacity with respect to our in-house product assembly processes. For more information on our product assembly hubs, see the section headed “— Properties” below.

### Suppliers

#### *Selection of Suppliers*

Our suppliers consist of (i) vendors of raw materials, and (ii) outsourced service providers providing certain assembly, AMR maintenance and customer services. We only work with suppliers who we deem as “preferred suppliers”. Suppliers must first pass an initial qualification assessment which usually includes sample testing of product quality and functionality, as well as on-site evaluation, before we add them to our list of preferred suppliers. After the initial assessment, each batch of raw materials or semi-products delivered by a supplier is subject to sample testing and the relevant services rendered are monitored and evaluated by us from time to time. Suppliers must continue to meet our stringent and on-going standards to remain on our preferred supplier list. We conduct annual review on our suppliers based on their product or service quality, delivery performance and supply prices to evaluate their eligibility for the preferred supplier list. To ensure sufficient back-up for suppliers in the event of shortages or delay, we generally do business with two to three vendors for each type of raw material and at least two outsourced service providers for each type of outsourced service. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material lack of capacity, supply shortages, delays or disruptions in our operations relating to our suppliers, or any material product claims attributable to our suppliers.

During the Track Record Period, all of our suppliers were Independent Third Parties, except for one of our outsourced service providers Shenzhen Tongwei Power Engineering Company Limited (深圳市通維電力工程有限公司) (“**Shenzhen Tongwei**”), as the spouse of Mr. Zhang Youyun, one of our

## BUSINESS

executive Directors, was the sole shareholder and a director of Shenzhen Tongwei prior to January 18, 2016. For details, see the section headed “Financial Information — Related Party Transactions” in this prospectus.

### *Raw Materials*

Our raw materials mainly include IC chipsets, which accounted for 51.8%, 49.4% and 44.3% of our total cost of sales for the years ended December 31, 2014, 2015 and 2016, respectively. During the Track Record Period, we purchased IC chipsets mainly from two IC chipset suppliers with whom we have more than five and ten years of business relationship, respectively. We review our list of preferred IC chipset suppliers from time to time and will continue to explore potential procurement from new IC chipset suppliers to optimize our control of product quality and cost.

IC chipset suppliers are responsible for back-end IC design and photo-mask making by incorporating the proprietary IC design provided by us. They are also responsible for engaging IC foundries and other third parties for the production and certain testing of IC chipsets. We have entered into legally-binding purchase agreements with IC chipset suppliers which set out the general terms for the purchase arrangements. These purchase agreements generally have a term of one or two years. Details such as IC chipset specifications, purchase amount, prices, delivery and payment terms are usually set out in subsequent purchase orders.

One of our two major IC chipset suppliers has been engaging a renowned and world leading IC foundry for the production of our IC chipsets. We have, back in 2012 prior to the Track Record Period, provided a guarantee in favor of the said IC foundry to facilitate this major IC chipset supplier to procure IC foundry services for our ASICs (the “**Guarantee Arrangement**”). The Guarantee Arrangement was a one-off special arrangement principally involving us providing guarantee for the payment of all outstanding amounts payable to the IC foundry by an offshore entity of the IC chipset supplier (the “**Offshore Entity**”) which undertook our IC chipset orders until around mid-2015, when its business operations were replaced by a Hong Kong entity of the IC chipset supplier (the “**Hong Kong Entity**”) for which we did not provide any guarantee. While the Guarantee Arrangement did not specify an expiry date and only referred to the outstanding amounts payable by the Offshore Entity in general term, the Offshore Entity have confirmed to us that the Guarantee Arrangement was intended only to cover the order(s) placed by the Offshore Entity to the IC foundry in relation to the production of our IC chipsets. In this connection, we had not been required to make any payment under the Guarantee Arrangement during the Track Record Period and up to the Latest Practicable Date. The Offshore Entity have also confirmed to us that (i) as of September 2016 it had no outstanding payment obligations that remained subject to the Guarantee Arrangement and had not requested us to make any payment under the Guarantee Arrangement, and (ii) it will not going forward incur any new payment obligations with the said IC foundry. In addition, each of the Offshore Entity and Mr. Yue Jingxing has undertaken to indemnify us against any losses which we may suffer from the Guarantee Arrangement. We had further obtained a written confirmation from the IC foundry in December 2016 confirming to us that the Guarantee Arrangement had ceased to be in effect. As of each of December 31, 2016 and the Latest Practicable Date, our maximum liability under the Guarantee Arrangement was nil and nil, respectively. On the basis of the foregoing, our Directors consider that our Group is no longer subject to any liability arising from the Guarantee Arrangement. Going forward, pursuant to our internal control policy, we must obtain the approval of our Board before entering into any future guarantee arrangement of similar nature.

## BUSINESS

The following is a summary of the general terms of our framework purchase agreement with the above major IC chipset supplier:

- **Duration and termination:** The framework purchase agreement is valid for two years upon signing and can be terminated prior to expiry by mutual consent.
- **Engagement:** The supplier is responsible for engaging certain IC foundry and IC packaging and testing houses mutually recognized by both parties to conduct the IC chipset production, packaging and testing for the designated models of our ASICs.
- **Ordering:** Details such as product and technical specifications, purchase volume, prices, payment terms, quality standards are to be specified in the purchase orders given by us and confirmed by the supplier.
- **Minimum purchase requirement:** There is no minimum purchase requirement under the framework purchase agreement.
- **Pricing:** Pricing is generally determined on an order-by-order basis.
- **Exclusivity:** We are entitled to the exclusive right to promote, price and sell PLC products incorporating the IC chipsets produced under the framework purchase agreement.
- **Confidentiality:** Unless with prior written consent of the other party or pursuant to applicable regulatory disclosure requirement, neither party shall leak to third parties any confidential information obtained as a result of the framework purchase agreement, or use such information for purposes other than under the framework purchase agreement. The confidentiality obligation remains effective irrespective of the term of the framework purchase agreement.

On the other hand, a summary of the general terms of our framework purchase agreement with our other major IC chipset supplier are set out below:

- **Termination and renewal:** The framework purchase agreement is effective upon signing and is to be terminated after two years of our final purchase order and can be renewed in writing by mutual agreement. The purchase agreement may be terminated if we fail to make payment for our purchases.
- **Sampling:** The supplier is required to provide sample ASICs incorporating our IC design and pursuant to our ASIC specifications.
- **Ordering:** We are required to provide specifications and functionality of sample ASICs to the supplier before placing mass production orders. Details such as ASIC specifications, purchase volume, prices, delivery and payment terms are to be specified in the purchase orders.
- **Minimum purchase requirement:** There is no minimum purchase requirement under the framework purchase agreement.
- **Pricing:** Pricing is determined on an order-by-order basis unless otherwise agreed.

## BUSINESS

- **Payment terms:** By wire transfer after receiving the IC chipsets, the relevant invoice or payment request and pursuant to such payment terms as set out in the purchase orders.
- **Delivery:** Delivery to our designated location is expected to be completed within one month after completion of the ASIC production for each purchase order. The title and associated risks are transferred to us upon our receipt of the ASICs.
- **Product warranty:** Product warranty covering up to one year after despatch of products is to be provided by the supplier.
- **Exclusivity:** The supplier is prohibited from selling ASICs produced pursuant to the framework purchase agreement to any third party unless with our prior written consent.
- **Confidentiality:** Neither party shall leak to third parties any confidential information obtained as a result of the framework purchase agreement unless with the prior written consent of the other party. The term of confidentiality is five years upon receipt of the relevant information and can be extended in writing by mutual agreement.

The working arrangement between the IC foundry and our IC chipset supplier is such that the IC foundry is mainly responsible for the wafer fabrication, which only constitutes a part of the production of IC chipsets. The IC chipset supplier, on the other hand, is responsible for (i) providing back-end IC design and photo-mask making by incorporating our proprietary IC design, and (ii) engaging and coordinating with other parties for wafer packaging and testing, which are also important steps in producing the end-product of IC chipsets and are generally not undertaken by IC foundries. As such, we entered into framework purchase agreement with the IC chipset supplier for the aforesaid services provided and also to enhance our procurement efficiency through a single point of contact.

We generally make purchase orders from each of our two major IC chipset suppliers on a monthly basis based on sales forecasts and market analysis of our product demand. The lead time between placing orders and receiving IC chipsets from our suppliers is generally around five months due to the technical complexities involved for the manufacturing of ASICs and the coordination needed by IC chipset suppliers with IC foundries and other third parties. We usually need to keep a sales forecast for the next six months to estimate well in advance any additional purchases to supplement our existing inventory. We are not subject to any initial or minimum purchase requirement from our IC chipset suppliers.

Our purchase of IC chipsets was primarily denominated in U.S. dollars and their prices had gradually decreased during the Track Record Period. Other raw materials include other electronic components for the assembly of PLC modules and devices, such as PCBs, coupled inductors and transistors, which we mostly sourced from vendors in China. We did not enter into any hedging arrangements during the Track Record Period and up to the Latest Practicable Date against exposure to raw material costs. For the sensitivity analysis on the impact of hypothetical fluctuations in our cost of IC chipsets, see the section headed “Financial Information — Factors Affecting Our Results of Operations — Cost and Supply of Raw Materials” in this prospectus. We believe that, subject to general market conditions, we will likely be able to pass on part or all of any raw material costs increases, if any, to our customers.



## BUSINESS

### *Outsourced Services*

Our outsourced service providers mainly include PCBA assembly houses for the production of PLC modules, with whom we generally enter into purchase agreements of no fixed terms which are subject to termination by written notice of either party. Purchase details, such as prices and volume, are usually specified in specific purchase orders. We are responsible for the purchase and testing of all the raw materials needed for the outsourced PCBA assembly. PCBA assembly fees are assessed with each individual order we place, which is mainly based on product type and purchase volume. We do not have any initial or minimum purchase arrangement with any of our outsourced PCBA assembly houses. We also engage outsourced power grid service providers to provide some of our AMR maintenance and customer services to power grid companies in China. We usually enter into one-year outsourcing agreements with these power grid service providers which are subject to termination by three-month prior notice of either party. The outsourcing service fees are determined by taking into account the number of smart meters deployed and the meter reading rates of the AMR system covered by the outsourcing agreements. For more information, see the sections headed “— AMR Business — AMR Maintenance Services” and “— Sales and Marketing — Relationship with Power Grid Companies and Meter Manufacturers” above.

By outsourcing certain part of the production process or the relatively ancillary services in connection with our business operations, we reduce the cost of owning and operating the relevant manufacturing facilities and/or the necessary staff costs and are able to focus our resources on our key business operations. Our outsourcing fees and expenses are reflected as (i) PCBA assembly fees and AMR maintenance services outsourcing fees included in our cost of sales, amounting to in aggregate RMB14.3 million, RMB27.1 million and RMB40.7 million for the years ended December 31, 2014, 2015 and 2016, respectively; and (ii) outsourcing fees as part of the customer service expenses included in our sales and marketing expenses amounting to RMB9.3 million, RMB13.1 million and RMB20.3 million, respectively. These outsourcing fees and expenses in aggregate accounted for 10.1%, 11.8% and 15.6% of our total revenue for the respective periods.

### *Payment Terms*

Our suppliers generally grant us credit terms of 30 days, except for one major IC chipset supplier which had extended longer settlement terms to us during the Track Record Period as described in the section headed “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade and Other Payables” in this prospectus.

We usually pay our suppliers through wire transfer, and to a lesser extent, by endorsing bank acceptance bills received from our customers. For details, see the section headed “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade and Bills Receivables” in this prospectus.

### *Major Suppliers*

Purchase from our top five vendors during the Track Record Period, which include our two major IC chipset suppliers, accounted for 60.9%, 67.6% and 43.2% of our total purchase from suppliers for the years ended December 31, 2014, 2015 and 2016, respectively, and purchase from our largest vendor accounted for 35.2%, 35.6% and 17.4%, respectively, of our total purchase from suppliers for the respective periods. Our largest vendor for 2014 and 2015, respectively, was our major IC chipset supplier in Hong Kong and our largest vendor for 2016 was our major IC chipset supplier in Taiwan. We have two to ten years of relationship with each of our top five vendors for the Track Record Period.

## BUSINESS

The following table sets out the identities and background of our top five vendors during the Track Record Period:

The year ended December 31, 2014				The year ended December 31, 2015			
Rank	Name	Business nature	Location	Rank	Name	Business nature	Location
1.	Vendor A	IC chipsets supply	Hong Kong/offshore	1.	Vendor A	IC chipsets supply	Hong Kong/offshore
2.	Vendor B	IC chipsets supply	Taiwan	2.	Vendor B	IC chipsets supply	Taiwan
3.	Vendor C	IC and electronic components supply	Guangdong Province	3.	Vendor C	IC and electronic components supply	Guangdong Province
4.	Vendor D	Electronic components manufacturing	Guangdong Province	4.	Vendor D	Electronic components manufacturing	Guangdong Province
5.	Vendor E	PCB manufacturing	Guangdong Province	5.	Vendor E	PCB manufacturing	Guangdong Province

The year ended December 31, 2016			
Rank	Name	Business nature	Location
1.	Vendor B	IC chipsets supply	Taiwan
2.	Vendor A	IC chipsets supply	Hong Kong
3.	Vendor C	IC and electronic components supply	Guangdong Province
4.	Vendor E	PCB manufacturing	Guangdong Province
5.	Vendor D	Electronic components manufacturing	Guangdong Province

Purchase from our top five outsourced service providers accounted for 19.0%, 16.9% and 34.6% of our total purchase from suppliers for the years ended December 31, 2014, 2015 and 2016, respectively, and purchase from our largest outsourced service provider accounted for 10.0%, 8.8% and 22.4%, respectively, of our total purchase from suppliers for the respective periods. Our largest outsourced service provider for 2014 and 2015, respectively, was a PCBA assembly house in China and our largest outsourced service provider for 2016 was Shenzhen Tongwei. We have one to three years of relationship with each of our top five outsourced service providers for the Track Record Period.

## BUSINESS

The following table sets out the identities and background of our top five outsourced service providers (“OSPs”) during the Track Record Period:

The year ended December 31, 2014 <sup>(1)</sup>				The year ended December 31, 2015			
Rank	Name	Business nature	Location	Rank	Name	Business nature	Location
1.	OSP A	PCBA assembly	Guangdong Province	1.	OSP A	PCBA assembly	Guangdong Province
2.	OSP B	Power grid services provision	Beijing	2.	Shenzhen Tongwei	Power grid services provision	Guangdong Province
3.	OSP C	PCBA assembly	Guangdong Province	3.	OSP D	Power grid services provision	Beijing
4.	—	—	—	4.	OSP E	Power grid services provision	Henan Province
5.	—	—	—	5.	OSP F	Power grid services provision	Beijing

The year ended December 31, 2016			
Rank	Name	Business nature	Location
1.	Shenzhen Tongwei	Power grid services provision	Guangdong Province
2.	OSP A	PCBA assembly	Guangdong Province
3.	OSP G	PCBA assembly	Guangdong Province
4.	OSP F	Power grid services provision	Beijing
5.	OSP D	Power grid services provision	Beijing

*Note:*

(1) We had in total three outsourced service providers in 2014.

As of the Latest Practicable Date, we were not aware of any information or arrangements which would lead to cessation or termination of our relationships with any of our top five vendors or outsourced service providers for the Track Record Period. None of our Directors, their close associates or any Shareholder which, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company had any interest in any of our top five vendors or outsourced service providers for the Track Record Period.

### QUALITY CONTROL

We have received ISO9001:2008 certification, which is valid till December 2018 and subject to renewal. We also have a dedicated quality control team responsible for carrying out the quality control procedures based on the ISO9001:2008 standards. As of December 31, 2016, our quality control team comprised of ten staff, with an average of eleven years of related industry experience.

We conduct quality control measures at multiple steps in the procurement and production process of our products. All of our suppliers must undergo various inspections including site visits and evaluation, as well as sample testing, before we will approve them for use. This ensures that the raw materials we purchase and the services we outsource will meet our standards for quality and product requirements by our customers. We enter into quality assurance agreements with most of our suppliers setting out specific quality standards and quality inspection passing rates that our suppliers are required to observe. We perform in-house inspections on the raw materials we receive from suppliers before they are dispatched for use in production. In particular, all of the raw materials needed for our outsourced production are purchased by us and are required to go through our internal quality inspections before

## BUSINESS

being dispatched to outsourced manufacturers to ensure raw material quality for our products. We also have quality control personnel periodically stationed at our outsourced manufacturers to conduct standard quality control procedures and to closely monitor outsourced production process. For IC chipsets, we are required to perform a series of in-house inspections when we receive them from our IC chipset suppliers. For example, our warehousing and procurement personnel would first check the quantity and model of the IC chipsets and our quality control team would examine the vacuum packaging, functionality and quality of the IC chipsets as well as the relevant quality control reports provided by the suppliers. Any sub-quality products identified during our inspections are returned to our suppliers. Our IC chipsets inventories are managed under a “first-in-first-out” policy and we conduct quality review for IC chipsets aged over six months to ensure their quality for production. We also operate in-house testing and quality control systems to ensure the consistent quality of our finished products and application of our proprietary technology. These procedures primarily include functionality and product safety tests, as well as packaging inspections.

### INVENTORY AND LOGISTICS

Our inventory includes (i) raw materials, mainly IC chipsets, (ii) work-in-progress products, such as PLC ICs for assembly of PLC modules, and (iii) finished products, such as PLC ICs, modules and devices. We maintain a safe level of inventory on commonly used raw materials to support the assembly needs of our products as well as to make prototypes for our own research and development purposes. For more information, see the section headed “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Inventories” in this prospectus.

We are supported by the enterprise resource planning, or ERP systems, to allow us to more accurately and efficiently plan our purchase and product assembly, improve inventory management, reduce logistical bottlenecks and enhance our overall operational efficiency. The entire production process of our products, from acceptance of purchase orders to procurement of raw materials and arrangement of outsourced production, as well as delivery of our final products, are all maintained and monitored through our ERP systems.

As regards to our logistics arrangements, we engage third-party logistics services providers to deliver our products. We are generally responsible for and bear the risks of delivering our products (mostly by road) to our customers in the PRC. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material loss in the delivery of our products and did not experience any material delays or adverse effects due to the actions of any logistics services providers engaged by us.

## BUSINESS

### KEY INDUSTRY AWARDS AND RECOGNITIONS

During the Track Record Period and up to the Latest Practicable Date, we received various awards and recognitions for the innovation and quality of our products and services, including:

Year of award	Award/Recognition	Awarding entity
2016	National High and New Technology Enterprise	Shenzhen Technology Innovation Commission, Shenzhen Finance Commission, Shenzhen State Taxation Bureau, Shenzhen Local Taxation Bureau
2016	Qualification Certificate for Information System Integration and Services	China Information Technology Industry Federation
2015	Certificate of Enterprise Credit Grade — AAA Grade	China Association of Small and Medium Enterprises
2014	National Key New Products for RISE3501E Smart Grid PLC IC	Ministry of Science and Technology of the PRC, Ministry of Environmental Protection of the PRC, MOFCOM, General Administration of Quality Supervision, Inspection and Quarantine of the PRC
2013	National High and New Technology Enterprise	Shenzhen Technology Innovation Commission, Shenzhen Finance Commission, Shenzhen State Taxation Bureau, Shenzhen Local Taxation Bureau
2013	Shenzhen High and New Technology Enterprise	Shenzhen Technology Innovation Commission, Shenzhen Finance Commission
2013	Key Drafting Party for Part 11 of the National Standards of Low-voltage Narrowband Power Line Communication	National Technical Committee 104 on Electrical Measuring Instruments of Standardization Administration of China
2012	Integrated Circuit Design Enterprise	Ministry of Industry and Information Technology of the PRC
2011	Key Drafting Party for the National Standards of Low-Voltage Power Line Communication	National Technical Committee 104 on Electrical Measuring Instruments of Standardization Administration of China
2011	Key Drafting Party for the National Standards of Household Smart Display End-devices	National Technical Committee 104 on Electrical Measuring Instruments of Standardization Administration of China

### COMPETITION

Due to its technology-intensive nature and high technical barriers, China's PLC market is largely concentrated with a few major PLC IC suppliers who are all domestic companies.

For the AMR application of China's PLC market, the top five players in aggregate account for the predominant market share. Our major competitors for the AMR application are generally either PLC-focused technology companies or companies engaged in broader IC design and applications in China. We compete with those competitors mainly in terms of product functionality and technology, business relationships with power grid companies and other key industry participants, as well as selling prices and customer services.

Our major competitors for the smart energy management PLC applications are generally PLC-focused technology companies in China. We compete with those competitors mainly in terms of product integration capability, cost-efficiency level and project deployment scale.

## BUSINESS

### EMPLOYEES

As of December 31, 2016, we had a total of 406 employees, of whom 261 were based in Shenzhen, 65 in Beijing, 28 in Wuxi, 46 in Changsha and six in Hong Kong. The vast majority of our employees are full-time employees.

The table below sets out the breakdown of our employees by function as of December 31, 2016:

<b>Function</b>	<b>Number of employees</b>
Research and development	140
Sales and marketing	128
Management, administrative and finance	79
Production	<u>59</u>
<b>Total</b>	<b><u><u>406</u></u></b>

We have entered into employment agreements with all of our full time employees. Our senior management, sales and marketing and research and development personnel have signed confidentiality agreements with us, agreeing to hold, both during and after the time of their employment agreement, in strict confidence and not to use, except as required in the performance of their duties in connection with their employment, any confidential information, trade secrets or know-how of our Group or the confidential information of any third party received by us.

Our success depends on our ability to attract, retain and motivate qualified personnel. We have generally been able to attract and retain qualified personnel and maintain a stable core management team. We are dedicated to the training and development of our employees. We leverage our research and development capabilities and other resources to ensure that each employee maintains a current skill-set through continuous training. We provide introductory training and orientation for all new employees, as well as on-the-job training to continually improve our employees' technical, professional and management skills.

In accordance with applicable PRC laws and regulations, we provide our employees with basic pension insurance, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing providence funds. We pay great attention to our employee welfare, and continually improve our welfare system.

We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or disputes with the labor department of the PRC government since our inception.

### Occupational Health and Work Safety

We are subject to production safety laws, PRC labor laws and other relevant laws, administrative regulations, national standards and industrial standards in the PRC which stipulate the requirements to maintain safe production conditions and to protect the occupational health of employees. Pursuant to these requirements, any entity that is not sufficiently facilitated or equipped to ensure safe production shall not engage in production and business operation activities. Entities operating in the PRC must

## **BUSINESS**

provide production safety education and training programs, as well as a safe working environment to employees. The design, manufacture, installation, use, inspection and maintenance of production facilities and equipment are required to conform to applicable national or industrial standards.

We have received OHSAS18001:2007 certification for occupational health and safety management, which is valid till December 2018 and subject to renewal. We have implemented safety measures at our product assembly hubs to ensure compliance with applicable regulatory requirements and to minimize the risk of injury of employees. We conduct periodic inspections of operating facilities to ensure that our product assembly operations are in compliance with existing laws and regulations. Furthermore, we require new employees to receive work safety training.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material or prolonged stoppages of production due to equipment failure and we did not experience any severe accidents in the course of our operations, or any personal or property damages and compensation paid to employees arising from such accidents. As of the Latest Practicable Date, our product assembly hubs had complied with all applicable laws, regulations and standards in the PRC as confirmed by our PRC Legal Advisors.

### **INSURANCE**

We maintain certain insurance coverage on personal accidents for some of our employees, certain inventories at our product assembly hubs as well as transportation insurance for delivery of our products and vehicle insurance. We also make social insurance contributions and carry basic occupational injury, medical, pension, unemployment and maternity insurance for our employees. We do not maintain any fire, liability or other property insurance covering our properties, equipment or inventories, and we do not carry any business interruption or product liability insurance or any third party liability insurance to cover claims in respect of personal injuries or any damages arising from accidents on our properties or in relation to our operations. Our Directors believe that our insurance coverage is in line with what is usual and common practice in our industries in the PRC. Please refer to the risk factor headed “Risk Factors — Risks Relating to Our Business and Industry — Our insurance may not completely cover the risks related to our business.” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we have not had any material claims or liabilities arising from any accidents relating to our operations or properties, nor did we experience any material property loss, damage, business interruptions or product liability incidents. During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to us.

### **ENVIRONMENTAL PROTECTION**

We have received ISO14001:2004 environmental management system certification, which is valid to December 2018 and subject to renewal. During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our production, nor had we been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

## **PROPERTIES**

As of the Latest Practicable Date, we occupied a total of 17 properties in connection with our operations in China and Hong Kong. These comprised: (i) seven properties used as offices and product assembly hub at our headquarters in Nanshan District in Shenzhen, Guangdong Province and one property used as product assembly hub located in Yantian District in Shenzhen, Guangdong Province; (ii) one property used as office in Beijing primarily for our sales operations; (iii) two properties used as offices and research and development center in Wuxi, Jiangsu Province; (iv) one property used as office and research and development center in Changsha, Hunan Province; (v) three properties used as dormitory for our sales staff in Yantian District in Shenzhen, Guangdong Province, Harbin, Heilongjiang Province and Zhengzhou, Henan Province; and (vi) two properties used as office in Hong Kong primarily for research and development and general and administrative purposes, respectively. In addition, we have entered into definitive sale and purchase agreements in respect of the purchase of one property in Changsha, Hunan Province as a product assembly hub.

As of December 31, 2016, no single property interest forming part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests. In addition, according to section 6(2) of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) under paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires us to include a valuation report for all of our interests in land or buildings.

### **Owned Properties**

As of the Latest Practicable Date, we owned two properties located in Wuxi, Jiangsu Province, with a GFA of approximately 203 sq.m. and 101 sq.m., respectively. As confirmed by our PRC Legal Advisors, we have obtained the real estate certificates which evidence our land use right and building ownership for these properties.

### **Leased Properties**

As of the Latest Practicable Date, we leased a total of 15 properties consisting of 13 in the PRC and two in Hong Kong. All leased properties were leased from Independent Third Parties, except for the leased property located in Beijing. The property, with a GFA of approximately 331 sq.m., was leased from our Director Mr. Wang Shiguang, a connected person of our Company, for a term of three years, which constitutes a continuing connected transaction pursuant to the Listing Rules. For details, please refer to the section headed “Continuing Connected Transaction” in this prospectus.

### **PRC**

The leased areas of our offices, assembly hub and research and development center in the PRC range from 100 sq.m. to 2,026.97 sq.m. and the leasing terms range from 16 months to five years.

Of the 13 leased properties, our PRC Legal Advisors confirmed that the landlords for 12 of our leased properties have obtained the relevant ownership certificates. For the lease of the remaining leased property which is used as a product assembly hub in Yantian, Shenzhen, we have been advised that the Construction Engineering Bureau (建築工程事務局) in Yantian is liaising with other relevant government departments to issue the building ownership certificate. This property has a total leased area of approximately 2,027 sq.m., representing approximately 32.62% of the total GFA of all properties



## BUSINESS

occupied by us as of the Latest Practicable Date. The lessor has entered into a relocation agreement with the Construction Engineering Bureau in Yantian, pursuant to which its original property was relocated to the current location due to redevelopment and demolition of the industrial area where the original property was located. Our Directors consider that the assembly facilities in this product assembly hub are not difficult to be relocated. In the event that we are required to relocate from this product assembly hub, our Directors believe we can relocate to another property in a timely manner at minimal expenses without material impact on our operation and financial position. Our Directors believe that this property is of safe condition. Compared with similar land or buildings in vicinity, we believe that there is no material difference in rental payment for the property due to the lack of valid title certificates. Accordingly, our Directors are of the view that the absence of building ownership certificate for this property would not have any material and adverse impact on our business and operations.

Of the 13 leased properties, filing and registration formalities for the lease agreements have been completed with the relevant PRC authorities for ten properties with an aggregate GFA of approximately 5,395 sq.m. For the remaining three properties, the Company failed to procure the lessor to file and register the relevant lease agreements with the relevant PRC authorities. We may be subject to an administrative penalty for each of the failure to register ranging from RMB1,000 to RMB 10,000. These three properties have an aggregate GFA of approximately 330 sq.m., representing approximately 5.58% of the aggregate leased area of all of our leased properties. As advised by our PRC Legal Advisors, despite the leases not having been registered with the relevant government authorities, they remain valid and legal under the current PRC laws and regulations. As of the Latest Practicable Date, we had not been subject to any administrative penalty for the failure to file and register the lease agreements.

### *Hong Kong*

As of the Latest Practicable Date, we leased two properties with a GFA of 185 sq.m. in Hong Kong.

### **Property to be Acquired**

In 2016, we entered into a provisional purchase agreement, followed by a supplemental agreement, to purchase one property located in Changsha, Hunan Province, with a GFA of approximately 4,402 sq.m. The total purchase price of the property is RMB15.4 million, which was fully paid to the seller. In February 2017, we entered into definitive sale and purchase agreements with the seller in relation to the property. As of the Latest Practicable Date, we were in the process of applying for the real estate title certificates of the property from the relevant PRC authorities. As confirmed by our PRC Legal Advisors, based on the public information made available on the website of Changsha City Housing and Urban-Rural Development Commission (長沙市住房和城鄉建設委員會網站公示信息), the seller has obtained the pre-sale permit and the land use right certificate of the property. Our PRC Legal Advisors advised that the provisional purchase agreement, the supplemental agreement, and the definitive sale and purchase agreements entered into between the seller and us are legally binding upon the seller and us.

## **REGULATORY COMPLIANCE**

Our PRC Legal Advisors have advised us that during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC laws and regulations in all material aspects and obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in the PRC. We renew our licenses, approvals or permits from time to time to comply with the relevant laws and regulations.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

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

In preparation for the Listing, we have, in January 2016, engaged an independent internal control advisor to perform an internal control long form report review (the “**IC Review**”) of our internal control system based on agreed scope. During the course of the IC Review, the internal control advisor identified a number of findings in relation to our internal control policies and procedures, pursuant to which we have taken the internal control enhancement measures recommended by the internal control advisor. The internal control advisor performed a follow-up review as of August 2016 on the enhancement measures taken by us in response to the findings and enhancement recommendations from the internal control advisor. After considering the enhancement measures implemented and the result of such follow-up review, our Directors are satisfied that our internal control system is adequate and effective for our current operational environment.

We utilize an integrated risk management system to minimize and protect against a range of strategic, business, financial and legal risks. Through our risk management system, we seek to manage and reduce risks, encourage effective and reliable communication, maintain legal compliance and improve the efficiency of our business and management.

Our risk management system is implemented starting with the general manager of each of our functional department who is responsible for monitoring, evaluating and managing risks relating to our day-to-day operations. We have implemented internal audit procedures and have engaged an external certified public accountants’ firm in Hong Kong to conduct internal audit on our Group every six months, who reports to our Audit Committee accordingly. The overall risk management of our Group is overseen and supervised by our Audit Committee, consisting of our independent non-executive Directors Mr. Ong King Keung (as its chairman), Mr. Chen Yong and Mr. Pan Song. For more information on the professional qualifications and industry experience of our Audit Committee members, see the section headed “Directors, Senior Management and Employees — Board Committees — Audit Committee” in this prospectus.

In order to formulate and implement effective policies, our risk management system emphasizes continuous information gathering. Our risk management system collects data on a variety of business, financial and legal risks such as market demand, technological trends and innovations, comparisons with our competitors, our financial performance and results of operation, product inventories and costs of sales, changes in intellectual property law, company laws and possible legal disputes.

The information gathered is used for risk assessment. Our risk assessment procedures take into account our overall risk philosophy and seek to accurately evaluate how a potential risk may affect our objective in the strategic, business, compliance and financial reporting areas. We seek to identify both internal risks, such as employee ethics, our financial condition or product quality, as well as external risks, such as economic and market risks. Identified risks are assessed on the basis of likelihood of occurrence and the degree of influence it may have on our business. Risks with a high probability of occurring are more closely examined in order to ensure accurate results. We then determine what counter measures should be implemented in order to avoid, absorb or reduce such risks and any negative consequences.

## **BUSINESS**

### **LEGAL AND ADMINISTRATIVE PROCEEDINGS**

We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of our business such as proceedings in respect of disputes with suppliers or customers, labor disputes or infringement of intellectual property rights. During the Track Record Period and up to the Latest Practicable Date, there were no material legal proceedings, regulatory inquiries or investigations made or pending or threatened against us.

<b>CONTINUING CONNECTED TRANSACTION</b>
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**EXEMPT CONTINUING CONNECTED TRANSACTION**

**Renting of premises from Mr. Wang Shiguang**

*Background*

Risecomm Beijing Comm entered into a tenancy agreement with Mr. Wang Shiguang on March 31, 2016 (the “**Tenancy Agreement**”), pursuant to which Mr. Wang Shiguang as landlord agreed to lease his owned premises in the PRC to Risecomm Beijing Comm as tenant, subject to the terms and conditions of the Tenancy Agreement.

Below sets out the summary of the terms of the Tenancy Agreement:

Premises	:	E-518, 4/F., No. 6 Taiping Street, Xicheng District, Beijing City, the PRC
Landlord	:	Mr. Wang Shiguang
Tenant	:	Risecomm Beijing Comm
Annual rental	:	RMB724,452, calculated at the rate of RMB60,371 per month
Term	:	3 years, commencing on April 1, 2016 to March 31, 2019
Usage	:	Office

*Historical transaction amounts*

Risecomm Beijing Comm started renting the aforesaid premises from Mr. Wang Shiguang in April 2014. For the years ended December 31, 2014, 2015 and 2016, the aggregate amount of rent paid by Risecomm Beijing Comm to Mr. Wang Shiguang were approximately RMB734,000, RMB724,000 and RMB724,000, respectively.

*Pricing Policy*

The annual rental payable under the Tenancy Agreement has been determined after arm’s length negotiations between the parties thereto with reference to the prevailing market rates in respect of the same or similar premises in the vicinity. We confirm that the annual rental payable under the Tenancy Agreement is fair and reasonable, and comparable to the prevailing market rates for the same or similar premises in the vicinity.

*Annual caps and basis*

Our Directors estimate that the aggregate amount of rent payable by Risecomm Beijing Comm to Mr. Wang Shiguang under the Tenancy Agreement is RMB724,452. Therefore, the maximum amount of rent payable by Risecomm Beijing Comm to Mr. Wang Shiguang under the Tenancy Agreement shall not exceed the caps set out below:

	<b>Proposed Annual Cap</b>		
	<b>For the year ending December 31, 2017 (RMB)</b>	<b>For the year ending December 31, 2018 (RMB)</b>	<b>For the three months ending March 31, 2019 (RMB)</b>
Tenancy Agreement	<u>750,000</u>	<u>750,000</u>	<u>187,500</u>

## CONTINUING CONNECTED TRANSACTION

The proposed annual caps set out above are determined with reference to: (i) the historical transaction amounts between Risecomm Beijing Comm and Mr. Wang Shiguang taking into account the pricing policies referred to above; and (ii) the prevailing market rates for the same or similar premises in the vicinity.

### *Implications under the Listing Rules*

As Mr. Wang Shiguang is an executive Director and will be a connected person of our Company under the Listing Rules upon Listing, the renting of the premises pursuant to the Tenancy Agreement will constitute a continuing connected transaction for our Company upon Listing.

Given that each of the applicable percentage ratios (other than the profits ratio) for the transaction contemplated under the Tenancy Agreement, where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is expected to be less than 5% and the annual consideration is less than HK\$3 million, the transaction contemplated under the Tenancy Agreement fall within the *de minimis* threshold under Rule 14A.76(1) of the Listing Rules and are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### *Confirmations of our Directors*

Our Directors (including our independent non-executive Directors) consider that the Tenancy Agreement has been entered into on arm's length basis and in the ordinary and usual course of business, and that the transaction contemplated under the Tenancy Agreement and the annual caps are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### BOARD OF DIRECTORS

Our Board comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The table below sets out certain information in respect of the members of our Board.

Name	Age	Time of joining our Group	Current position/ title in our Company	Major duties and responsibilities	Date of appointment as Director
Mr. Yue Jingxing (岳京興)	59	May 2006	Chief executive officer and executive Director	Responsible for overall strategic planning, research and development directions and business development of our Group	February 2016
Mr. Wang Shiguang (王世光) (Spouse of Ms. Chen Junling)	45	June 2014	Chairman and executive Director	Responsible for overall sales and marketing strategy and market development directions of our Group	February 2016
Mr. Zhang Youyun (張友運)	57	June 2006	Executive Director	Responsible for overall operational and administrative management of our Group	February 2016
Mr. Ng Benjamin Jin-ping (吳俊平)	55	April 2007	Non-executive Director	Responsible for advisory on capital investment direction and strategic capital structure of our Group	February 2016
Mr. Pan Song (潘嵩)	45	May 2017	Independent Non-executive Director	Responsible for providing independent judgment and scrutinizing the performance of our Group	May 2017
Mr. Chen Yong (陳永)	61	May 2017	Independent Non-executive Director	Responsible for providing independent judgment and scrutinizing the performance of our Group	May 2017
Mr. Ong King Keung (王競強)	41	May 2017	Independent Non-executive Director	Responsible for providing independent judgment and scrutinizing the performance of our Group	May 2017

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Senior Management

The members of our senior management are responsible for the day-to-day management of our business. The table below sets out certain information in respect of the senior management of our Group.

Name	Age	Time of joining our Group	Current position/ title in our Group	Major duties and responsibilities	Date of appointment for the current position
Mr. Leung Ka Lok (梁家樂)	46	January 2016	Chief financial officer and company secretary of our Company and Risecomm HK, and director of Harvest Year and Prime Key	Responsible for overall financial management and reporting and company secretarial matters of our Group	January 2016 (chief financial officer and company secretary of Risecomm HK)
					March 2016 (director of each of Harvest Year and Prime Key)
					May 2016 (company secretary of our Company)
					September 2016 (chief financial officer of our Company)
Dr. Gu Jian (顧建)	59	June 2006	Chief technology officer and vice president of Old Cayman and Risecomm WFOE, and general manager of Risecomm Wuxi and Risecomm HK Technology	Responsible for our IC product research and development and overseas market promotion of turn-key control system solutions for streetlights of our Group	July 2006 and June 2006 (chief technology officer and vice president of Old Cayman and Risecomm WFOE, respectively)
					September 2010 (general manager of Risecomm Wuxi)
					January 2016 (general manager of Risecomm HK Technology)
Ms. Chen Junling (陳俊玲) (Spouse of Mr. Wang Shiguang)	44	June 2014	General manager of Risecomm Beijing Comm	Responsible for overall supervision of sales and marketing of our AMR business	June 2014
Mr. Zhang Baojun (張保軍)	49	June 2012	Vice president and chief engineer of Risecomm WFOE	Responsible for product research and development and promotion of our AMR business	June 2012

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Time of joining our Group	Current position/ title in our Group	Major duties and responsibilities	Date of appointment for the current position
Mr. Han Yuan (韓源)	60	June 2012	Vice president of Risecomm WFOE and general manager of Yantian branch of Risecomm WFOE	Responsible for overall supervision of our Group's production, product quality assurance and raw material procurement of our Group	June 2012
Mr. Liu Ming (劉明)	46	June 2006	Vice president of Risecomm WFOE	Responsible for sales management of our smart energy management products and solutions	February 2009
Ms. Chen Shuiying (陳水英)	42	March 2013	Financial controller of Risecomm WFOE and director of Risecomm HK, Risecomm HK Technology and Risecomm Changsha	Responsible for financial system management of our Group	March 2013 (financial controller of Risecomm WFOE)  December 2015 (director of each of Risecomm HK, Risecomm HK Technology and Risecomm Changsha)

### EXECUTIVE DIRECTORS

**Mr. Yue Jingxing (岳京興)**, aged 59, is an executive Director and the chief executive officer of our Company responsible for overall strategic planning, research and development directions and business development of our Group. Mr. Yue was appointed as a Director in February 2016, and was designated as an executive Director and the chief executive officer of our Company in May 2017. Mr. Yue has been a director of Risecomm HK, Risecomm WFOE, Risecomm Beijing Comm, Risecomm Shenzhen, Risecomm Wuxi, Risecomm HK Technology and Old Cayman since December 2015, January 2007, March 2014, April 2014, October 2010, December 2015 and September 2006, respectively. He has also been the president of Risecomm WFOE since May 2006.

Mr. Yue is one of the co-founders of our Group. He has over 20 years of experience in IC design. Prior to founding our Group in May 2006, Mr. Yue worked in Hughes Network Systems (currently known as Hughes), a company in the United States engaged in delivering innovative network technologies, managed services, and solutions, as a senior technical manager responsible for hardware and ASIC design for telecommunication equipment from 1994 to 2005.

Mr. Yue obtained a bachelor's degree in Engineering from Beijing University of Technology (北京工業大學) in the PRC in July 1982. He then obtained a master's degree in Science from the Institute of Semiconductors, Chinese Academy of Science (中國科學院半導體研究所) in the PRC in August 1986. Mr. Yue further obtained a master's degree in Electrical Engineering from Bradley University in the United States in May 1991.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. Wang Shiguang (王世光)**, aged 45, is an executive Director and the chairman of our Board responsible for overall sales and marketing strategy and market development directions of our Group. He was appointed as a Director in February 2016, and was designated as an executive Director and the chairman of our Board in May 2017. He is the spouse of Ms. Chen Junling, the general manager of Risecomm Beijing Comm. Mr. Wang has been the senior vice president of Risecomm WFOE and Risecomm Beijing Comm since June 2014 and a director of Old Cayman, Risecomm HK and Risecomm HK Technology since April 2015, March 2016 and March 2016, respectively.

Mr. Wang has over 15 years of experience in electronics and power meter sales and marketing. Prior to joining our Group, Mr. Wang was the chairman of the board and general manager of Beijing RSK Electronics, our previous strategic sales partner, from September 2009 to March 2014 responsible for overall strategic planning and operational management of Beijing RSK Electronics. He acted as the chairman of the board and general manager of Beijing Dragon Electrical Industry and Technology Company Limited (北京龍電基業電氣技術有限公司), a company engaged in, among others, sales of electronics related equipment and components, from May 1999 to September 2009 responsible for overall strategic planning and operational management of the company.

Mr. Wang graduated from Henan University (河南大學) in the PRC with a major in Accounting (correspondence course) in July 1996. Mr. Wang obtained a master's degree in Business Administration (distance learning course) at the Open University of Hong Kong in Hong Kong in June 2016.

**Mr. Zhang Youyun (張友運)**, aged 57, is an executive Director responsible for overall operational and administrative management of our Group. He was appointed as a Director in February 2016 and was designated as an executive Director in May 2017. Mr. Zhang has joined our Group as an administrative controller of Risecomm WFOE since June 2006. Mr. Zhang has been the executive vice president of Risecomm WFOE since April 2015 and a director of Risecomm Changsha since December 2014. Mr. Zhang was a director of Risecomm Beijing Tech from May to August 2016.

Mr. Zhang has over 30 years of experience in the intelligent technology industry. Prior to joining our group, from 1982 to 1993, Mr. Zhang worked as an engineer in Changjiang Woolen and Textile Limited (長江毛紡織有限公司). In 1993, Mr. Zhang commenced working in Shenzhen Kaifa Technology Co., Ltd. (深圳長城開發科技股份有限公司), a company principally engaged in manufacturing electronic products and listed on the Shenzhen Stock Exchange (stock code: 000021), and worked as a program manager from 1996 to 2003. He then worked at Shenzhen Haoyuan Technology Co. Ltd. (深圳市昊元科技有限公司), a company engaged in, among others, development of communication and control IC chips and related application products, as a deputy general manager from 2003 to 2005. From April 2005 to May 2006, Mr. Zhang worked in Shenzhen Haoyuan Electronics Co., Ltd. (深圳市昊元電子有限公司), a technological development company in the PRC, as a deputy general manager.

Mr. Zhang obtained a bachelor's degree in Industrial Electrical Automation from Hua Dong Textile Institute (華東紡織工學院) (currently known as Donghua University (東華大學) in the PRC in July 1982.

### NON-EXECUTIVE DIRECTOR

**Mr. Ng Benjamin Jin-ping (吳俊平)** (formerly known as Ngo Benjamin Chanh Dao), aged 55, is a non-executive Director responsible for advisory on capital investment direction and strategic capital structure of our Group. He was appointed as a Director in February 2016 and was designated as a non-executive Director in May 2017. Mr. Ng has joined our Group since April 2007 as a director of Old

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Cayman nominated by SAIF. Mr. Ng has been a director of each of Risecomm HK, Risecomm WFOE, Risecomm HK Technology, Harvest Year, Prime Key and Old Cayman since December 2015, May 2007, December 2015, March 2016, March 2016 and April 2007, respectively.

Mr. Ng has over 15 years of experience in the fund management and investment in Asia. Prior to joining our Group, Mr. Ng was the business development manager of Cisco, Systems (思科公司), an information technology support services provider, for the Asia Pacific region from March 1998 to May 2006. Mr. Ng was a partner from June 2006 to October 2012 and the general partner from November 2012 to December 2014 of SAIF Advisors Ltd., an advisory company of SAIF, and has become the advisory partner of SAIF Advisors Ltd. since January 2015 responsible for deal sourcing, execution and management of the investment.

Mr. Ng obtained a bachelor's degree in Electrical Engineering from The University of New South Wales in Australia in April 1985. He then obtained a master's degree in Business Administration from Macquarie University Australia in April 1995.

Mr. Ng was a non-executive director of Ozner Water International Holding Limited (stock code: 2014) from January 2014 to March 2017. He has been a director of Alchip Technologies, Limited, the shares of which are listed on the Taiwan Stock Exchange (Taiwan Stock Exchange stock code: 3661), serving as SAIF's representative since April 27, 2007.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Pan Song (潘嵩)**, aged 45, was appointed as an independent non-executive Director in May 2017, responsible for providing independent judgment and scrutinizing the performance of our Group. Mr. Pan has over 15 years of working experience in the areas of engineering and research.

From 1995 to 1996, he worked as an engineer at Dalian Sanko Air Conditioning Engineering Technology Services Ltd. (大連三晃空調工程技術服務有限公司) responsible for design and construction management. From 1996 to 1998, he worked as a researcher at Sanko Air Conditioning Co., Ltd. (三晃空調株式會社) in Japan. From 1998 to 1999, Mr. Pan resumed to work as an engineer at Dalian Sanko Air Conditioning Engineering Technology Services Ltd. (大連三晃空調工程技術服務有限公司) responsible for design and construction management. From October 2001 to March 2006, he worked as a research officer at Nakahara Laboratory, Environmental Syst.-Tech. (日本環境系統技術中原研究處). From March 2006 to February 2010, Mr. Pan resumed his work as a researcher at Sanko Air Conditioning Co., Ltd. (三晃空調株式會社) in Japan. Since October 2011, Mr. Pan has been working as a research associate of the Faculty of Architecture and Civil Engineering at Beijing University of Technology (北京工業大學). Mr. Pan has become an expert of the inspection committee of the technology center of the Ministry of Housing and Urban-Rural Development of the PRC (中國住房和城鄉建設部科技中心) since May 2016.

Mr. Pan obtained a bachelor's degree in Thermal Engineering from Tsinghua University (清華大學) in the PRC in July 1995. He then obtained a master's degree in Engineering from the Tokyo Institute of Technology (東京工業大學) in Japan in September 2001 and a doctorate in Engineering from the Graduate School of Engineering at Kyoto University (京都大學) in Japan in May 2009. The article "The Diagnosis and Countermeasure Analysis of Energy Saving of Beijing Metro" 《北京地鐵節能診斷與對策分析》, co-authored by Mr. Pan and others, was awarded the third prize of the outstanding achievements (suggestions category) of Beijing Federation of Theoretical Research and Investigation Research (北京市僑聯系統理論研究和調查研究優秀成果(建言獻策類) in December 2013.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. Chen Yong (陳永)**, aged 61, was appointed as an independent non-executive Director in May 2017, responsible for providing independent judgment and scrutinizing the performance of our Group. Mr. Chen has over 35 years of working experience in the fields of education, administration and management.

Mr. Chen commenced his career as a teacher at Shandong University (山東工業大學) (currently known as Shandong University (山東大學)) in 1978. From 1978 to 1987 and 1987 to 1994, he worked as a teaching assistant, lecturer and deputy professor in the Department of Mechanics and the deputy secretary and secretary at Faculty of Chemical Engineering responsible for education management, respectively. From 1994 to 2000 and September 2000 to December 2007, Mr. Chen worked as the director of General Office of the university responsible for administration management and the director and general manager of the logistics management department responsible for administration and operation management, respectively. Since December 2007, Mr. Chen has been acting as the minister of the United Front Work department (統戰部) of Shandong University responsible for the united front work of the university.

Mr. Chen was a member of the 10th council of the Chinese People's Political Consultative Conference of Shandong Province. He holds several social titles including the 3rd and 4th chief secretary of Mechanics Society of Shandong and the 2nd and 3rd chief secretary of Logistics Management and Research Society of Shandong High School (山東高校).

Mr. Chen completed the program of Welding Technology and Equipment at Shandong University (山東工業大學) (currently known as Shandong University (山東大學)) in the PRC in July 1977. He then completed the postgraduate program in Management at Shandong University (山東大學) in the PRC in June 1999. He also obtained the qualification of the researcher (professor) and third graded researcher (professor) from Shandong University (山東大學) in the PRC in November 1999 and June 2009, respectively. Mr. Chen obtained the second prize of Shandong Science & Technology Improvement Award (山東省科學技術進步二等獎) awarded by Science and Technology Improvement Award Committee of Shandong Province (山東省科學技術進步獎評審委員會) in December 1997.

**Mr. Ong King Keung (王競強)**, aged 41, was appointed as an independent non-executive Director in May 2017, responsible for providing independent judgment and scrutinizing the performance of our Group. Mr. Ong has over 10 years of experience in auditing and accounting industry.

Mr. Ong worked as an assistant financial controller at Multifield International Holdings Limited (stock code: 898) from September 2004 to November 2005. From November 2005 to June 2006, he was a qualified accountant and company secretary of Hunan Nonferrous Metals Corporation Limited (H shares of which were delisted in June 2015). He then worked as the chief financial controller of China Properties Investment Holdings Limited (stock code: 736) from July 2006 to March 2008 and was further appointed as its company secretary, qualified accountant and authorized representative from July 2007 to March 2008. Mr. Ong then worked as the chief financial officer and the company secretary of Cheong Ming Investments Limited (stock code: 1196) (currently known as Realord Group Holdings Limited) from April 2008 to January 2011 and from September 2008 to February 2011, respectively.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Ong's current and past positions in companies listed on the Stock Exchange in the last three years are set out below:

Name of Company	Positions	Period
China Water Affairs Group Limited (stock code: 855)	Independent non-executive director	March 2007 to present
Wonderful Sky Financial Group Holdings Limited (stock code: 1260)	Company secretary	April 2011 to April 2015
China Environmental Energy Investment Limited (stock code: 986)	Independent non-executive director	March 2013 to August 2014
Unity Investments Holdings Limited (stock code: 913)	Company secretary	August 2014 to present
Deson Construction International Holdings Limited (stock code: 8268)	Non-executive director Independent non-executive director	December 2015 to present December 2014 to December 2015
China Candy Holdings Limited (stock code: 8182)	Independent non-executive director	February 2016 to present
Bingo Group Holdings Limited (stock code: 8220)	Independent non-executive director	December 2016 to present
Sunrise (China) Technology Group Limited (stock code: 8226)	Independent non-executive director	February 2017 to present
Tech Pro Technology Development Limited (stock code: 3823)	Independent non-executive director	March 2017 to present

Mr. Ong obtained a bachelor's degree in Accountancy from the Hong Kong Polytechnic University in Hong Kong in November 1998 and a master's degree in Finance from the City University of Hong Kong in Hong Kong in November 2007. Mr. Ong has been a fellow member of The Association of Chartered Certified Accountants since October 2007 and has been admitted as a fellow member of the Hong Kong Institute of Certified Public Accountants since June 2010.

### FURTHER INFORMATION OF OUR DIRECTOR

Save as disclosed above in this section, each of our Directors: (i) did not hold any other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial shareholders as at the Latest Practicable Date; (iii) did not hold any other directorships in any public companies in Hong Kong and

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

overseas in the three years immediately preceding the date of this prospectus; and (iv) is not interested in any business apart from our Company's business, which competes or is likely to compete, either directly or indirectly, with our Company's business.

As at the Latest Practicable Date, save as disclosed in the paragraph headed "Statutory and General Information — Further Information about Directors and Shareholders — 12. Directors — (d) Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations" in Appendix IV to this prospectus, each of our Directors did not have any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

### SENIOR MANAGEMENT

**Mr. Leung Ka Lok (梁家樂)**, aged 46, is the chief financial officer and company secretary of our Company responsible for overall financial management and reporting and company secretarial matters of our Group. Mr. Leung has joined our Group since January 2016 as the chief financial officer and company secretary of Risecomm HK, and has been the company secretary and chief financial officer of our Company since May 2016 and September 2016 respectively. Mr. Leung has been a director of Harvest Year and Prime Key since March 2016.

Mr. Leung has over 20 years of experience in auditing and accounting industry. Prior to joining our Group, Mr. Leung's past positions in companies listed on the Stock Exchange and private companies include the following:

Name of Company	Positions	Period
New World China Enterprises Projects Limited	Senior manager — finance	2004 to 2005
Fortune Sun (China) Holdings Limited (stock code: 352)	Chief financial officer and company secretary	October 2005 to December 2010
Shanghai Electric Group Company Limited (Stock Exchange stock code: 2727; Shanghai Stock Exchange stock code: 601727)	Deputy general manager of investor relations and company secretary	January 2011 to June 2013
Brightoil Petroleum (Holdings) Limited (stock code: 933)	Deputy director of investor relations	September 2013 to December 2013
Fulum Group Holdings Limited (stock code: 1443)	Chief financial officer and company secretary	January 2014 to October 2015

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Leung was admitted as a fellow of The Association of Chartered Certified Accountants in January 2001. He has also been an associate of The Chartered Association of Certified Accountants (currently known as The Association of Chartered Certified Accountants) since January 1996 and a member of Hong Kong Society of Accountants (currently known as Hong Kong Institute of Certified Public Accountants) since January 1996. He obtained a bachelor's degree in Accountancy from the City Polytechnic of Hong Kong (currently known as City University of Hong Kong) in Hong Kong in November 1992 and a master's degree in Business Administration (distance learning course) from The University of Manchester in the United Kingdom in June 2007.

**Dr. Gu Jian (顧建)**, aged 59, is the chief technology officer and vice president of Old Cayman and Risecomm WFOE, general manager of Risecomm Wuxi and Risecomm HK Technology responsible for our IC product research and development and overseas market promotion of turn-key control system solutions for streetlights of our Group. Dr. Gu has been the chief technology officer and vice president of Old Cayman and Risecomm WFOE since July 2006 and June 2006, respectively, and the general manager of Risecomm Wuxi and Risecomm HK Technology since September 2010 and January 2016, respectively.

Dr. Gu has over 20 years of research and application experience in the communications technology. Dr. Gu was an assistant professor in information transmission research group of Department of Information and Electronic Engineering (currently known as college of Information Science & Electronic Engineering) of Zhejiang University (浙江大學) from 1984 to 1987. From 1994 to 2000, Dr. Gu worked as a staff engineer at CommQuest Technologies, Inc. (subsequently merged with IBM), a company principally engaged in designing and marketing advanced semiconductor chipsets for wireless communications applications, responsible for designing GSM chips system. From 2000 to 2004, Dr. Gu was an owner of 4D Connect, Inc., a U.S. company principally engaged in the development of wireless communication technology, and he served as its director and chief executive officer focused on the research of OFDM technology in wireless LAN and 4G mobile communication system. Dr. Gu was one of the founders of Shenzhen Haoyuan Technology Co. Ltd. (深圳市昊元科技有限公司) and ceased to be its shareholder in July 2006.

Dr. Gu obtained a bachelor's degree in Mathematics from Hangzhou University (杭州大學) (currently known as Zhejiang University (Xixi Campus) (浙江大學(西溪校區))) in the PRC in January 1982. He then obtained a master's degree in Engineering from Zhejiang University in the PRC in December 1984 and a doctorate of Philosophy from the University of Maryland in the United States in May 1993. He is a member of IEEE-USA (Institute of Electrical and Electronics Engineers).

**Ms. Chen Junling (陳俊玲)**, aged 44, is the general manager of Risecomm Beijing Comm responsible for overall supervision of sales and marketing of our AMR business. She has joined our Group as the general manager of Risecomm Beijing Comm since June 2014. She is the spouse of Mr. Wang Shiguang, who is the chairman of our Board and an executive Director.

Ms. Chen has over 15 years of experience in electronics and power meter sales and marketing. Prior to joining our Group, from November 2000 to August 2009, Ms. Chen worked as a sales manager in Beijing Taide Jiaxun Technology Co., Ltd. (北京泰德佳訊科技有限公司), a company engaged in, among others, the sales of electrical and communication equipment. Ms. Chen was the sales manager of Beijing RSK Electronics from September 2009 to March 2014.

Ms. Chen graduated from Henan Province Zhumadian First High School (河南省駐馬店第一高級中學) in the PRC in July 1990.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. Zhang Baojun (張保軍)**, aged 49, is the vice president and chief engineer of Risecomm WFOE responsible for product research and development and promotion of our AMR business. He has joined our Group as the vice president and chief engineer of Risecomm WFOE since June 2012.

Mr. Zhang has over 25 years of experience in the electricity industry. Mr. Zhang commenced his career in Harbin Electrical Instruments Research Institute (哈爾濱電工儀表研究所), an institute engaged in, among others, development of instruments and automation measurement and control systems in 1989 as an engineer until 1995. From 1995 to 2005, he worked as a research and development manager, assistant general manager and chief engineer, respectively at Heilongjiang Longjiang Electric Co., Ltd. (黑龍江龍電電氣有限公司), a company engaged in, among others, the development of mechatronics, instruments and automatic control technology and related products. From July 2005 to May 2012, Mr. Zhang worked as the chief engineer in Shenzhen RMS Technology. He was also a shareholder, executive director and general manager of Shenzhen RMS Technology prior to joining our Group in June 2012.

Mr. Zhang obtained a bachelor's degree in Engineering from Harbin Institute of Electrical Engineering (哈爾濱電工學院) (currently known as Harbin University of Science and Technology (哈爾濱理工大學)) in the PRC in July 1989.

**Mr. Han Yuan (韓源)**, aged 60, is the vice president of Risecomm WFOE and general manager of Yantian branch of Risecomm WFOE responsible for overall supervision of our Group's production, product quality assurance and raw material procurement. Mr. Han has joined our Group as the vice president of Risecomm WFOE and has been the general manager of Yantian branch of Risecomm WFOE since June 2012.

Mr. Han has over 30 years of experience in the energy metering industry. From 1982 to 2003, he worked as the engineer and deputy officer of the energy studio, and deputy director and director of the research institute at the Mechanical Department of Harbin Electrical Instruments Research Institute (哈爾濱電工儀表研究所), respectively. From 2003 to 2007, Mr. Han worked at Shenzhen Star Instrument Co., Ltd. (深圳市思達儀表有限公司), a company engaged in, among others, the development of smart meters, automatic meter reading system and equipment and power monitor system, as a sales director, the deputy general manager, general manager and technology director of the Meter Division, respectively. From July 2007 to May 2012, Mr. Han worked as the deputy general manager responsible for production and after sales services of power line carrier modules in Shenzhen RMS Technology.

Mr. Han obtained a bachelor's degree in Engineering (Electromagnetic Measurement and Instruments) (電磁測量及儀表) from Harbin Institute of Electrical Engineering (哈爾濱電工學院) (currently known as Harbin University of Science and Technology (哈爾濱理工大學)) in the PRC in July 1982. Mr. Han was awarded by the Bureau of Mechanical Engineering of the State (國家機械工業局) as the senior engineer (professor level) in December 1998. The design of "Joint Design of Series Products of Alternating Current Electric Meter 《交流電度錶系列產品聯合設計》" by Mr. Han was awarded the second prize of National Technology Improvement award granted by the National Technology Committee (國家科技委員會) in July 1988. Mr. Han is a committee member of the National Electric Instrument Technical Committee of Standardization (全國電工儀器儀表標準化技術委員會) and a standing director of the 7th Council of the Electromagnetic Measuring and Information Processing Instruments Branch of China Instrument and Control Society (中國儀器儀表學會電磁測量信息處理儀器分會).

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. Liu Ming (劉明)**, aged 46, is the vice president of Risecomm WFOE responsible for sales management of our smart energy management products and solutions. He joined our Group in June 2006 as the sales and marketing director of Risecomm WFOE and has been the vice president of Risecomm WFOE since February 2009. Mr. Liu has also been a director of Risecomm Beijing Tech since May 2016.

Mr. Liu has over 20 years of experience in the intelligent technology industry. From 1994 to 2003, Mr. Liu worked in Shenzhen Kaifa Technology Co., Ltd. (深圳長城開發科技股份有限公司), a company principally engaged in manufacturing electronic products and listed on the Shenzhen Stock Exchange (stock code: 000021), as a marketing manager. From 2003 to 2005, Mr. Liu worked as a deputy general manager in Shenzhen Haoyuan Technology Co. Ltd. (深圳市昊元科技有限公司). From 2005 to May 2006, Mr. Liu worked in Shenzhen Haoyuan Electronics Co., Ltd. (深圳市昊元電子有限公司), as a deputy general manager.

Mr. Liu obtained a bachelor's degree in Electro-mechanical and Electronic Precision Machinery (電子機械系電子精密機械專業) from the University of Electronic Science and Technology of China (電子科技大學) in the PRC in July 1994.

**Ms. Chen Shuiying (陳水英)**, aged 42, is the financial controller of Risecomm WFOE responsible for financial system management of our Group. She has joined our Group as the financial controller of Risecomm WFOE since March 2013. Ms. Chen has been a director of each of Risecomm HK, Risecomm HK Technology and Risecomm Changsha since December 2015.

Ms. Chen has over 15 years of experience in the areas of finance and accounting. From 1997 to 2001, Ms. Chen worked as an account supervisor at Shenzhen Guanlanhu Golf Club Co., Ltd. (深圳觀瀾湖高爾夫球會有限公司), a golf and leisure resort operator in the PRC. From November 2001 to October 2008, Ms. Chen worked as a senior finance manager at Sylva Industries Limited (香港時暉實業有限公司), a Hong Kong company engaged in the manufacturing of rechargeable batteries, responsible for financial analysis. From November 2008 to October 2012, Ms. Chen worked as the finance manager at ASV Stuebbe Pumps & Valves (Shenzhen) Co., Ltd. (斯德寶泵閥(深圳)有限公司), a company principally engaged in manufacturing and development of plastic pumps, valves and instrumentation systems, responsible for overall financial management of all subsidiaries in Asia.

Ms. Chen obtained a bachelor's degree in International Finance from Nanjing Audit University (南京審計學院), (currently known as Nanjing Audit University (南京審計大學)) in the PRC in July 1997.

Unless otherwise stated above, none of the members of our senior management has been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this prospectus.

### BOARD COMMITTEES

Our Board delegates certain responsibilities to various committees. In accordance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules, our Company has formed three Board committees, named as the Audit Committee, the Nomination Committee and the Remuneration Committee, respectively.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### **Audit Committee**

We have established the Audit Committee with written terms of reference pursuant to Rule 3.22 of the Listing Rules and paragraph C3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, including Mr. Pan Song, Mr. Chen Yong and Mr. Ong King Keung. Mr. Ong King Keung currently serves as the chairman of the Audit Committee.

The duties of our Audit Committee include, without limitation, (a) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring the integrity of our financial statements, our accounts, our annual report and our interim report, and reviewing significant financial reporting judgments contained therein; and (c) reviewing our financial control, internal control and risk management systems.

### **Nomination Committee**

We have established the Nomination Committee with written terms of reference pursuant to paragraph A5 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, including Mr. Wang Shiguang, Mr. Ong King Keung and Mr. Chen Yong. Mr. Wang Shiguang currently serves as the chairman of the Nomination Committee.

The duties of our Nomination Committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment or re-appointment of our Directors and succession planning for our Directors, in particular the chairman and the chief executive officer.

### **Remuneration Committee**

We have established the Remuneration Committee with written terms of reference pursuant to Rule 3.26 of the Listing Rules and paragraph B1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, including Mr. Yue Jingxing, Mr. Chen Yong and Mr. Ong King Keung. Mr. Ong King Keung currently serves as the chairman of the Remuneration Committee.

The duties of our Remuneration Committee, under the principle that no Director should be involved in deciding his own remuneration, including, without limitation, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments; and (c) reviewing and approving our management's remuneration proposals with reference to our Board's corporate goals and objectives.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

For each of the three years ended December 31, 2014, 2015 and 2016, the aggregate amount of salaries, allowances and benefits in kind, discretionary bonuses, contributions to retirement schemes, and equity-settled share-based payments paid or payable by us to our Directors and senior management was approximately RMB6,902,000, RMB7,886,000 and RMB10,101,000, respectively.

The aggregate amount of salaries, allowances and benefits in kind, discretionary bonuses, contributions to retirement schemes, and equity-settled share-based payments paid or payable by us to the five highest paid individuals of our Group (including our Directors) for each of the three years ended December 31, 2014, 2015 and 2016, was approximately RMB4,856,000, RMB5,324,000 and RMB6,996,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or senior management or the five highest paid individuals as inducement to join or upon joining our Company, or as compensation for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors waived any emolument.

Under the arrangements currently in force, we estimate the aggregate amount of remuneration payable by us to, and allowances and benefits in kind receivable by, our Directors and senior management for the financial year ending December 31, 2017 to be approximately RMB8,999,000 (excluding discretionary bonus).

Except as disclosed above, no other payments were paid, or were payable, by us to our Directors or senior management, or the five highest paid individuals during the Track Record Period.

### NON-COMPETITION UNDERTAKINGS

Each of Mr. Yue Jingxing, Seashore Fortune, Mr. Wang Shiguang, Mr. Zhang Youyun, Glorious Lead, Ms. Chen Junling, Magical Success, Dr. Gu Jian, Hope Thrive, Mr. Han Yuan, Key Surplus, Mr. Zhang Baojun, Golden Shell, Mr. Liu Ming and Rainbow Dawn (together, the “**Covenantors**” and each a “**Covenantor**”) entered into the Deed of Non-competition with our Company pursuant to which each of the Covenantors has, among other things, irrevocably and unconditionally undertaken with our Company that at any time during the Relevant Period (as defined below), each of the Covenantors shall not and shall procure that its associates (other than members of our Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her own account or with each other or in conjunction with or on behalf of any person or company, any business in competition with or likely to be in competition with the existing business activities of our Group (the “**Restricted Businesses**”).

For the above purpose, the “**Relevant Period**” means the period commencing from the date of the Deed of Non-competition and shall cease to have any effect on a Covenantor upon the earliest of (a) the date on which such Covenantor (together with his/her/its associates), whether directly or indirectly, holds less than 5% of the shareholding in our Company and ceases to be employed by our Group; or (b) the date on which our Shares cease to be listed on the Stock Exchange.

The aforesaid undertaking does not apply with respect to the Covenantors’ holding of or being interested in, directly or indirectly, any shares in any company which conducts or is engaged in, directly or indirectly, any business in competition with or likely to be in competition with the existing business carried on by our Group, provided that:

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (i) such shares are listed on a recognized stock exchange;
- (ii) the total number of such shares held by any of the Covenantors and/or their respective associates does not amount to more than 10% of the issued shares of that class of such company in question; and
- (iii) any Restricted Businesses conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated revenue or consolidated assets (individually or collectively with their respective associates) as shown in that company's latest audited accounts.

### **New business opportunity**

Each of the Covenantors further undertakes, if any new business opportunity relating to the Restricted Business arises (the "**Business Opportunity**"):

- (i) the Covenantors shall direct to our Company any such Business Opportunity by serving to our Company a written notice;
- (ii) such written notice shall include all information and documents possessed by he/she/it or his/her/its associates in respect of the Business Opportunity to enable our Company to evaluate the merit of the Business Opportunity and all reasonable assistance as requested by our Company to enable our Group to secure the Business Opportunity; and
- (iii) the Covenantors shall not pursue the Business Opportunity unless and until our Board resolves (with the supportive votes of a majority of independent non-executive Directors) that our Group shall not pursue such Business Opportunity or our Company does not proceed with the acquisition of or taking up the Business Opportunity within one month from the date of the written notice.

Upon receipt of the written notice from the Covenantors, our Group will consider whether it is in the interest of our Company and our Shareholders as a whole to pursue the Business Opportunity. Our Board shall inform the respective Covenantors in writing whether our Group intends to take up such Business Opportunity within 30 days after receiving the written notice from the Covenantors. For the avoidance of doubt, the Covenantors and their associates (other than our Group) will not be entitled to pursue the Business Opportunity unless the Business Opportunity is declined by our Group.

In addition, it is further provided in the Deed of Non-competition that if there is any disagreement between the Covenantors and our Company as to whether any Business Opportunity shall directly or indirectly compete or lead to competition with the Restricted Businesses, the matter shall be determined by our independent non-executive Directors whose decision shall be final and binding.

### **Option and right of first refusal**

The Covenantors have granted our Company an option, as part of the Deed of Non-competition, to acquire the whole or part of their interests in any Restricted Business held directly or indirectly by the Covenantors and the business arising from the Business Opportunity above not taken up or deemed to be not taken up by our Company at any time subject to the Exercise Conditions (as defined below) (the "**Option**"). The price at which the Option will be exercised shall be negotiated and agreed at arm's

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

length between our Company and the Covenantors at the time of exercise. If the Covenantors and our Company fail to agree on the exercise price, an independent internationally recognized firm of valuers will be appointed to determine the exercise price.

The Covenantors have granted our Company a right of first refusal (the “**Right of First Refusal**”), as part of the Deed of Non-competition and subject to the Exercise Conditions (as defined below), in the event that any one of the Covenantors or any of their associates wishes to sell the whole or any part of its interest in any Restricted Businesses owned by he/she/it or the business arising from the Business Opportunity above not taken up or deemed to be not taken by our Company (the “**Opportunity for Sale**”).

Each of the Covenantors shall serve our Company a written notice which include the terms and conditions of and the information and documents necessary in respect of the Opportunity for Sale to enable our Company to evaluate the merit of the Opportunity for Sale (the “**Transfer Notice**”).

Subject to the Exercise Conditions (as defined below), our Company shall serve each of the Covenantors and where applicable any of his/her/its associates a written notice stating whether it will acquire or take up the Opportunity for Sale on the terms and conditions set out in the Transfer Notice within one month thereof.

In the event that following the Exercise Conditions, our Company serves the written notice stating that our Group shall not acquire or take up the Opportunity for Sale on the terms and conditions set out in the Transfer Notice or our Company does not proceed with the acquisition of the Opportunity for Sale within one month from the date of the Transfer Notice, each of the Covenantors or the relevant associates shall be entitled to transfer or refer the Opportunity for Sale to third parties provided that the terms and conditions of the transfer shall be the same as or no more favorable than those set out in the Transfer Notice.

Decisions as to whether to exercise the Option or the Right of First Refusal shall be subject to our independent non-executive Directors and the independent Shareholders (if required) approving the acquisition or business undertaking. In addition, our Company should appoint an independent financial advisor to review the terms of the acquisition of the interests in any Restricted Business and provide a letter of advice to the independent board committee of our Company and the independent Shareholders (in the event independent Shareholder’s approval is required) (collectively, the “**Exercise Conditions**”).

For the enforcement of the undertakings set out in the Deed of Non-competition, our Company has adopted the following measures:

- (i) our independent Non-executive Directors will review, on an annual basis, the Deed of Non-competition to ensure compliance with the non-competition undertakings by the Covenantors;
- (ii) the Covenantors undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company; and
- (iv) the Covenantors will provide confirmation on compliance pursuant to their undertakings under the Deed of Non-competition in the annual report of our Company.

**PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME**

We have adopted the Pre-IPO Share Option Scheme and conditionally adopted the Share Option Scheme. All the outstanding options to subscribe for shares in Old Cayman have been mutually terminated by the grantees and Old Cayman with the adoption of the Pre-IPO Share Option Scheme and the grant of options to subscribe for Shares under the Pre-IPO Share Option Scheme by our Company to each grantee with same terms and conditions on August 25, 2016, and options to subscribe for an aggregate of 771,680 Shares were granted by our Company under the Pre-IPO Share Option Scheme on the same date. On November 9, 2016, options to subscribe for 76,500 Shares held by SAIF were canceled by our Company with the approval of SAIF pursuant to the terms of the Pre-IPO Share Option Scheme. On January 26, 2017, Mr. Ng Benjamin Jin-ping exercised his options to subscribe for 200,000 Shares at the exercise price of US\$0.01 per Share. As at the Latest Practicable Date, options to subscribe for an aggregate of 495,180 Shares remained outstanding under the Pre-IPO Share Option Scheme. Immediately following completion of the Capitalization Issue and the Global Offering, the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme is 16,210,417 Shares. For details of the Pre-IPO Share Option Scheme and the Share Option Scheme, please see “Statutory and General Information — Other Information — 15. (I) Share Option Scheme and 15. (II) Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

**COMPLIANCE ADVISOR**

We have appointed Messis Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor shall advise us in the following circumstances, among others:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where we propose to use the proceeds from the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or other issues set out in Rule 13.10 of the Listing Rules.

The term of the appointment of our compliance advisor shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), the following persons will have an interest or short position in our Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity/ nature of interest	As at the date of this prospectus		Immediately following completion of the Capitalization Issue and the Global Offering	
		Number of Shares or securities held <sup>(1)</sup>	Approximate percentage of shareholding	Number of Shares or securities held <sup>(1)</sup>	Approximate percentage of shareholding
Mr. Yue Jingxing <sup>(2)</sup>	Interest in a controlled corporation	2,808,604 (L) <sup>(2)(i)</sup>	15.32%	91,943,624 (L)	11.49%
	Beneficial owner	26,380 (L) <sup>(2)(ii)</sup>	0.14%	863,587 (L)	0.11%
Seashore Fortune	Beneficial owner	2,808,604 (L)	15.32%	91,943,624 (L)	11.49%
Ms. Chen Junling <sup>(3)</sup>	Interest in a controlled corporation	5,178,571 (L)	28.25%	169,527,845 (L)	21.19%
Mr. Wang Shiguang <sup>(4)</sup>	Interest of spouse	5,178,571 (L)	28.25%	169,527,845 (L)	21.19%
Magical Success	Beneficial owner	5,178,571 (L)	28.25%	169,527,845 (L)	21.19%
SAIF <sup>(5)</sup>	Beneficial owner	6,028,166 (L)	32.89%	197,340,537 (L)	24.67%
SAIF II GP L.P. <sup>(5)</sup>	Interest in a controlled corporation	6,028,166 (L)	32.89%	197,340,537 (L)	24.67%
SAIF Partners II L.P. <sup>(5)</sup>	Interest in a controlled corporation	6,028,166 (L)	32.89%	197,340,537 (L)	24.67%
SAIF II GP Capital Ltd. <sup>(5)</sup>	Interest in a controlled corporation	6,028,166 (L)	32.89%	197,340,537 (L)	24.67%
Mr. Andrew Y. Yan <sup>(5)</sup>	Interest in a controlled corporation	6,028,166 (L)	32.89%	197,340,537 (L)	24.67%

*Notes:*

- (1) The letter “L” denotes a person’s long position in our Shares.
- (2) Mr. Yue Jingxing is the sole shareholder of Seashore Fortune which will hold 91,943,624 Shares upon the completion of the Global Offering. By virtue of the SFO, Mr. Yue Jingxing is deemed to be interested in the Shares in which Seashore Fortune is interested. The disclosed interest represents (i) the interest in our Company held by Seashore Fortune; and (ii) options granted to Mr. Yue Jingxing under the Pre-IPO Share Option Scheme.
- (3) Ms. Chen Junling is the sole shareholder of Magical Success which will hold 169,527,845 Shares upon the completion of the Global Offering. By virtue of the SFO, Ms. Chen Junling is deemed to be interested in the Shares in which Magical Success is interested.
- (4) Mr. Wang Shiguang, our executive Director, the chairman of our Board and the spouse of Ms. Chen Junling, is deemed to be interested in Ms. Chen Junling’s interest in our Company by virtue of the SFO.

## SUBSTANTIAL SHAREHOLDERS

- (5) SAIF is an exempted limited partnership registered under the laws of the Cayman Islands. The general partner of SAIF is SAIF II GP L.P., a limited partnership established in the Cayman Islands, whose general partner is SAIF Partners II L.P., a limited partnership established in the Cayman Islands. The general partner of SAIF Partners II L.P. is SAIF II GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands wholly owned by Mr. Andrew Y. Yan. By virtue of the SFO, SAIF II GP L.P., SAIF Partners II L.P., SAIF II GP Capital Ltd. and Mr. Andrew Y. Yan are deemed to be interested in the Shares in which SAIF is interested.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), have an interest or a short position in our Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group. Our Directors are not aware of any arrangement which may result in a change of control of our Company at a subsequent date.

## CORNERSTONE INVESTOR

### THE CORNERSTONE PLACING

We and China Galaxy International have entered into a cornerstone investment agreement with Lead Capital Fund III, L.P. (the “**Cornerstone Investor**” or “**Lead Capital**”), pursuant to which the Cornerstone Investor has agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 2,500 Shares), which may be purchased for an aggregate amount of HK\$60,000,000 at the Offer Price (the “**Cornerstone Placing**”).

The total number of Offer Shares to be subscribed for by the Cornerstone Investor based on the low-end, mid-point and high-end of the indicative Offer Price range are illustrated as follows:

	Total number of Offer Shares to be subscribed by the Cornerstone Investor (rounded down to the nearest whole board lot of 2,500 Shares)	Approximate percentages of the International Offer Shares (before reallocation and Over-allotment Option)	Approximate percentages of the Offer Shares (before Over- allotment Option)	Approximate percentages of the Shares in issue immediately following completion of the Global Offering (before Over- allotment Option)
Assuming an Offer Price of HK\$0.90 per Offer Share (being the low-end of the indicative Offer Price range set out in this prospectus)	66,665,000	37.04%	33.33%	8.33%
Assuming an Offer Price of HK\$0.95 per Offer Share (being the mid-point of the indicative Offer Price range set out in this prospectus)	63,157,500	35.09%	31.58%	7.89%
Assuming an Offer Price of HK\$1.00 per Offer Share (being the high-end of the indicative Offer Price range set out in this prospectus)	60,000,000	33.33%	30.00%	7.50%

### Our Cornerstone Investor

Lead Capital, an exempted limited partnership incorporated in the Cayman Islands on 26 April 2017, is principally engaged in the participation as a cornerstone investor in the placement of listing applicants, the investments in companies listed on the Stock Exchange, as well as investment in other securities. Lead Capital is managed by Lead Capital Management Group Limited (the general partner of Lead Capital which is ultimately controlled by Ms. Li Zhuoqiong, an Independent Third Party), and its limited partners are parties independent of the Company. Ms. Li Zhuoqiong, aged 43, was graduated from the East China Normal University with a professional diploma in accountancy. She is a founder of Lead Capital and a director of Lead Capital Management Group Limited. Ms. Li has more than eight years of experience in managing private funds in China and, apart from Lead Capital, she is also responsible for managing two other companies principally engaged in finance, financial consultancy, equity and assets investments and management. Lead Capital is a newly established fund with no material investments other than the Cornerstone Placing.

To the best knowledge of our Company, the Cornerstone Investor is an Independent Third Party. The Cornerstone Investor is independent from our Company, the connected persons of the Company and their associates. The Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering other than pursuant to the relevant cornerstone investment agreement disclosed in this section. No special rights have been granted to the Cornerstone Investor as part of the Cornerstone Placing.



## CORNERSTONE INVESTOR

The Cornerstone Placing will form part of the International Offering. The number of Offer Shares to be subscribed by the Cornerstone Investor may be adjusted, if necessary, to comply with applicable requirements of the Stock Exchange and the Listing Rules. The Offer Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respects with the other fully paid Shares then in issue upon completion of the Global Offering and to be listed on the Stock Exchange, and will be counted towards the public float of our Shares. Immediately following completion of the Global Offering, the Cornerstone Investor will not have any representation on the Board, nor will the Cornerstone Investor become a substantial shareholder of our Company.

### Conditions Precedent

The subscription by the Cornerstone Investor is subject to, among other things, the satisfaction of certain conditions precedent, including the following:

- (a) the Company, the Underwriters and other relevant parties entering into the Underwriting Agreements;
- (b) the Underwriting Agreements having become effective and unconditional by no later than the time and date as specified in the Underwriting Agreements;
- (c) none of the Underwriting Agreements having been terminated;
- (d) the Listing Committee having granted approval for the listing of, and permission to deal in, the Shares and that such approval or permission has not been revoked;
- (e) no laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (f) the representations, warranties, undertakings, acknowledgements and confirmations of the Cornerstone Investor and the Company in the cornerstone investment agreement are true and accurate in all material respects and that there is no material breach of the cornerstone investment agreement on the part of the Cornerstone Investor.

Pursuant to the cornerstone investment agreement, if any of the conditions precedent has not been fulfilled or waived by the parties to the agreement, the obligation of the Cornerstone Investor to subscribe for, and our Company's and China Galaxy International's obligations to issue, place, allocate and/or deliver, the Offer Shares shall cease and the cornerstone investment agreement will terminate.

### Restriction on Disposal by the Cornerstone Investor

The Cornerstone Investor has agreed and has undertaken to our Company and China Galaxy International that, unless it has obtained the prior written consent of each of our Company and China Galaxy International, it will not at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), directly or indirectly dispose of any of the Shares subscribed for by it under the cornerstone investment agreement and any Shares or other securities of the Company which are derived from such Shares (the "**Relevant Shares**") or any interest in any company or entity holding any of the Relevant Shares, nor will the Cornerstone Investor agree or contract to, or publicly announce any intention to, enter into any transaction with a third party for disposal of the Relevant Shares.

## **CORNERSTONE INVESTOR**

In the event the Cornerstone Investor disposes of any Relevant Shares at any time after expiration of the Lock-up Period, the Cornerstone Investor (i) will use all reasonable endeavors to ensure that any such disposal will not create a disorderly or false market in the Shares and will comply with the Listing Rules and the SFO; and (ii) unless prior written consent is obtained from our Company and China Galaxy International, the Cornerstone Investor will not enter into any transactions with any person who engages directly or indirectly in a business that competes or potentially competes with the business of our Group.

<b>SHARE CAPITAL</b>
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**SHARE CAPITAL**

The authorized and issued share capital of our Company are as follows:

	<i>HK\$</i>
<i>Authorized share capital:</i>	
10,000,000,000 Shares of <u>HK\$0.0001 each</u>	1,000,000
	<u>1,000,000</u>

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following completion of the Global Offering will be as follows:

	<i>HK\$</i>	<b>Approximate percentage of issued share capital (%)</b>	
<i>Issued and to be issued, fully paid or credited as fully paid, upon completion of the Capitalization Issue and the Global Offering:</i>			
18,328,214	Shares in issue as at the date of this prospectus	1,832.8214	2.29
581,671,786	Shares to be issued under the Capitalization Issue	58,167.1786	72.71
200,000,000	Shares to be issued under the Global Offering	20,000	25.00
<u>800,000,000</u>	Shares in total	<u>80,000</u>	<u>100.00</u>

## SHARE CAPITAL

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following completion of the Global Offering will be as follows:

		<i>HK\$</i>	<b>Approximate percentage of issued share capital (%)</b>
<i>Issued and to be issued, fully paid or credited as fully paid, upon completion of the Capitalization Issue and the Global Offering:</i>			
18,328,214	Shares in issue as at the date of this prospectus	1,832.8214	2.21
581,671,786	Shares to be issued under the Capitalization Issue	58,167.1786	70.08
230,000,000	Shares to be issued under the Global Offering and the Over-allotment Option	23,000	27.71
<u>830,000,000</u>	Shares in total	<u>83,000</u>	<u>100.00</u>

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional.

The above table takes no account of (a) Shares which may be allotted and issued upon the exercise of any option granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme; or (b) any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares as described below.

### RANKING

The Offer Shares and the Shares that may be issued pursuant to exercise of the Over-allotment Option and any option granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme will rank pari passu in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalization Issue.

### PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

We adopted the Pre-IPO Share Option Scheme and options to subscribe for an aggregate of 771,680 Shares were granted by our Company under the Pre-IPO Share Option Scheme on August 25, 2016. All the outstanding options to subscribe for shares in Old Cayman have been mutually terminated by the grantees and Old Cayman with the adoption of the Pre-IPO Share Option Scheme and the grant of options to subscribe for Shares under the Pre-IPO Share Option Scheme by our Company to each grantee with same terms and conditions on August 25, 2016. On November 9, 2016, options to subscribe for 76,500 Shares held by SAIF were canceled by our Company with the approval of SAIF pursuant to the terms of the Pre-IPO Share Option Scheme. On January 26, 2017, Mr. Ng Benjamin Jin-ping exercised

## SHARE CAPITAL

his options to subscribe for 200,000 Shares at the exercise price of US\$0.01 per Share. As at the Latest Practicable Date, options to subscribe for an aggregate of 495,180 Shares remained outstanding under the Pre-IPO Share Option Scheme. Immediately following completion of the Capitalization Issue and the Global Offering, the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme is 16,210,417 Shares. Further details of the terms of the Pre-IPO Share Option Scheme are summarized in the paragraph headed “Statutory and General Information — Other Information — 15. (II) Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

We conditionally adopted the Share Option Scheme on May 16, 2017. Under the Share Option Scheme, the eligible participants of the scheme, including, among others, directors, full-time employees of our Company or our subsidiaries, may be granted options which entitle them to subscribe for our Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of our Shares in issue on the Listing Date. Further details of the terms of the Share Option Scheme are summarized in the paragraph headed “Statutory and General Information — Other Information — 15. (I) Share Option Scheme” in Appendix IV to this prospectus.

### GENERAL MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, or under the Capitalization Issue or the Global Offering or upon the exercise of the Over-allotment Option, an aggregate number of Shares not exceeding the sum of (a) 20% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme); and (b) the aggregate number of Shares which may be repurchased by our Company under the Repurchase Mandate.

This General Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further details of the General Mandate, please see the paragraph headed “Statutory and General Information — Information about our Company — 3B. Resolutions in writing of our Shareholders passed on May 16, 2017” in Appendix IV to this prospectus.

### REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of issued Shares, as enlarged by the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme).

## SHARE CAPITAL

This Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which our Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the paragraph headed “Statutory and General Information — Information about our Company — 7. Securities repurchase mandate” in Appendix IV to this prospectus.

This Repurchase Mandate will expire:

- (i) at the conclusion of our Company’s next annual general meeting; or
- (ii) upon the expiry of the period within which our Company is required by any applicable law or the Memorandum and Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

For further information about this Repurchase Mandate, please see the paragraph headed “Statutory and General Information — Information about our Company — 3B. Resolutions in writing of our Shareholders passed on May 16, 2017” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its Shares into several classes; (iv) sub-divide its Shares into shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Companies Law, reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution. For further details, please refer to “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to our Shares or any class of our Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of our shares of that class. For further details, please refer to “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

## FINANCIAL INFORMATION

*You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes set out in the Accountants' Report included in Appendix I to this prospectus. The Accountants' Report contains our audited consolidated financial statements as of and for the years ended December 31, 2014, 2015 and 2016, respectively. Our consolidated financial statements have been prepared in accordance with HKFRSs, which may differ in material respects from generally accepted accounting principles in other jurisdictions. This discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in the section headed "Risk Factors" and elsewhere in this prospectus.*

### OVERVIEW

We are a fables research and development oriented PLC technology company specialized in the design, development and sale of PLC ICs, modules, devices and solutions. We were one of the largest PLC technology companies in China in 2016 with a market share of 11.2% in terms of sales volume of PLC products, according to Frost & Sullivan. Our PLC products have been mainly used by power grid companies in China in the deployment and upgrade of AMR systems as a key part of the smart grid infrastructure. We pioneered in developing PLC ICs with proprietary IC designs and advanced PLC technologies for the deployment of AMR systems by State Grid, according to Frost & Sullivan. We were also one of the first PLC technology companies in China offering PLC products and solutions for a number of applications related to energy saving and environmental protection, according to Frost & Sullivan. In particular, we were the largest PLC solutions provider in China for streetlight control with a market share of 48.1% in terms of sales volume in 2016, according to Frost & Sullivan.

### BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on August 19, 2015 as part of the Reorganization and in preparation for the Global Offering. Following the completion of the Reorganization in February 2016, our Company became the holding company of the entities comprising our Group and the shareholders of Old Cayman, our holding company prior to the Reorganization, became the ultimate beneficial owners of our Company in substantially the same proportion of their direct or beneficial interests in Old Cayman immediately prior to the Reorganization. For more information, see the section headed "History, Development and Reorganization — Reorganization" in this prospectus.

As our Company and other intermediate holding companies of the Group had no substantive operations prior to the Reorganization and were formed for the sole purpose of effecting the Reorganization and the Global Offering, no business combination had occurred and the Reorganization has been accounted for using a principle similar to that for a reverse acquisition as set out in HKFRS 3, *Business combinations* with Old Cayman being treated as the acquirer for accounting purpose. Accordingly, the consolidated financial statements of our Group set out in the Accountants' Report in Appendix I to this prospectus have been prepared and presented as a continuation of the consolidated financial statements of Old Cayman with its assets and liabilities recognized and measured at their historical carrying amounts prior to the Reorganization.

Intra-group balances and transactions and unrealized gains or losses arising from intra-group transactions are eliminated in full in preparing our consolidated financial statements.

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations are affected by a number of factors, including those set out below:

#### PRC Government Policies and Development Plans of Power Grid Companies

We principally engage in the design, development and sale of PLC ICs, modules and devices, as well as the provision of relevant maintenance services, in connection with the deployment and upgrades of AMR systems by power grid companies in China. For the years ended December 31, 2014, 2015 and 2016, the amount of revenue generated from the AMR business was RMB219.9 million, RMB333.2 million and RMB376.7 million, representing 94.5%, 97.8% and 96.5% of our total revenue, respectively. As such, our business and results of operations are affected, to a significant extent, by the amount and timing of procurement of AMR devices, in particular smart meters, by the power grid companies. According to Frost & Sullivan, the total bidding volume of smart meters by State Grid grew at a CAGR of 6.5% from 2010 to 2016 and is expected to grow at a CAGR of 15.2% from 2017 to 2021 with approximately 87.7 million units of forecasted bidding volume in 2021. On the other hand, bidding volume of smart meters by Southern Grid is expected to increase from 14.6 million units in 2017 to 16.9 million units in 2020 and decrease to 11.8 million units in 2021, as Southern Grid's first-round of commercial deployment of AMR systems is expected to cover all of its current 75 million users by 2020, according to Frost & Sullivan. The power grid companies' procurement plans have been, and may likely continue to be, driven by PRC government policies governing the power distribution sector, such as those in support of the rollout of smart grids, and their development plans in terms of business and fixed assets investments. Our results of operations will depend in part on our ability to seize opportunities from, or respond competitively to, potential changes in government policies or adjustments in development plans of the power grid companies as the PLC market continues to evolve.

#### Technology Innovations and Advancement

As one of the largest PLC IC suppliers in China, our success and competitiveness depend on our ability to stay at the forefront of the PLC technology and to anticipate technology innovations or adapt to such innovations in a timely manner. To maintain the relevancy of our products and solutions, we have continuously invested in the research and development for our business, which is affected by a number of factors, including:

- advancement in PLC technology and our ability to adapt to such innovations;
- changes in technological standards and requirements by customers and other industry participants and our ability to respond to such changes in a timely manner;
- our ability to translate our research and development efforts into commercially feasible and profitable products and solutions;
- competition imposed by the adoption of competing technologies and competitor products and solutions; and
- the adequacy of funding and resources for continual investments in research and development.

Our ability to remain competitive in technologies and product capability will have a significant impact on our results of operations.



## FINANCIAL INFORMATION

### Market Demand for PLC-Based Smart Energy Management Solutions

Our smart energy management business is affected by the future development of and general market demand for the various PLC applications related to energy saving and environmental protection which are still at an early stage of development in China. According to Frost & Sullivan, less than 10% of the street lamps installed in China in 2016 were PLC-based smart street lamps. The PLC technology is currently not as popular as other wired or wireless technologies for the building energy management application and PLC-based photovoltaic power management for micro-inverters has relatively limited adoption, according to Frost & Sullivan. Although PLC has in recent years increased in penetration or is increasingly recognized as a viable communications technology for certain of these smart energy management applications, there can be no assurance that demand for PLC-based smart energy management applications will continue to grow at any anticipated rates, or at all. Our success in the smart energy management business will depend on how widely our PLC technology can be adopted against competing technologies, future market demand and our ability to continue to develop commercially viable products to penetrate into these markets.

### Market Competition

We compete with major market players employing PLC or competing technologies in the market for AMR systems and various smart energy management applications. According to Frost & Sullivan, we were the third largest PLC IC supplier in China with a market share of 11.2% by sales volume of PLC products in 2016. Our market share and profitability to a large extent depend on our ability to introduce ahead of our competitors advanced and commercially viable products and solutions that are tailored to customers' evolving needs and are sold at competitive selling prices. The ability to compete effectively to maintain or expand our market share could significantly affect our results of operations and business growth.

### Change in Segment Revenue and Product Mix

We are engaged in the AMR business and the smart energy management business. During the Track Record Period, we had achieved higher overall gross profit margins for the AMR business than the smart energy management business due to different market conditions and cost factors.

The following table sets out the breakdown of our gross profit and gross profit margin for the following types of products for the periods indicated:

	Year ended December 31,					
	2014		2015		2016	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
AMR business	109,790	49.9	172,985	51.9	190,238	50.5
Smart energy management business	5,032	39.4	2,768	36.9	5,025	37.1
Total	114,822	49.4	175,753	51.6	195,263	50.0

## FINANCIAL INFORMATION

While we derived the vast majority of our revenue from the AMR business during the Track Record Period, we expect revenue generated from the smart energy management business will gradually increase in the near to medium term going forward. Accordingly, our overall profitability and financial performance may fluctuate depending on our product mix for the two businesses in terms of actual sales from time to time. Moreover, among our major types of PLC products, we generally have a lower gross profit margin for our PLC modules than our PLC ICs mainly due to the PCBA assembly cost needed for the production of PLC modules. Change in product mix of our PLC ICs and modules may also affect our overall profitability.

### Cost and Supply of Raw Materials

The cost of raw materials, in particular IC chipsets, represents a substantial part of our cost of sales. As a result, fluctuations in their supply or prices, which could depend on various market factors as well as the design requirements and product life cycle of the relevant products, may materially affect our results of operations to the extent that we cannot or do not pass on all such changes in cost of sales to our customers. For the years ended December 31, 2014, 2015 and 2016, cost of raw materials accounted for 83.6%, 78.9% and 74.7% of our cost of sales, respectively, and cost of IC chipsets accounted for 51.8%, 49.4% and 44.3% of our cost of sales, respectively.

The cost of IC chipsets, being the largest component of our cost of sales, may be affected by a number of factors including changes in the market prices of IC chipsets as well as fluctuations of the exchange rate of Renminbi against U.S. dollar. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the cost of IC chipsets on our net profit during the Track Record Period. Fluctuations are assumed to be 5%, 10% and 15% for the periods indicated, which correspond to the range of historical fluctuations in the cost of IC chipsets during the Track Record Period and we believe will commensurate with future estimated fluctuations in such cost.

	<b>Percentage change in cost of IC chipsets</b>					
	-15%	-10%	-5%	+5%	+10%	+15%
	<i>RMB'000 (except for percentages)</i>					
<b>Year ended December 31, 2014</b>						
Increase/(decrease) in cost of IC chipsets	(9,153)	(6,102)	(3,051)	3,051	6,102	9,153
Increase/(decrease) in net profit for the year	8,012	5,341	2,671	(2,671)	(5,341)	(8,012)
Percentage increase/(decrease) in net profit for the year	19.8%	13.2%	6.6%	(6.6%)	(13.2%)	(19.8%)
<b>Year ended December 31, 2015</b>						
Increase/(decrease) in cost of IC chipsets	(12,225)	(8,150)	(4,075)	4,075	8,150	12,225
Increase/(decrease) in net profit for the year	9,028	6,019	3,009	(3,009)	(6,019)	(9,028)
Percentage increase/(decrease) in net profit for the year	16.4%	10.9%	5.5%	(5.5%)	(10.9%)	(16.4%)
<b>Year ended December 31, 2016</b>						
Increase/(decrease) in cost of IC chipsets	(12,951)	(8,634)	(4,317)	4,317	8,634	12,951
Increase/(decrease) in net profit for the year	11,641	7,761	3,880	(3,880)	(7,761)	(11,641)
Percentage increase/(decrease) in net profit for the year	20.2%	13.5%	6.7%	(6.7%)	(13.5%)	(20.2%)

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Note 2 to the Accountants' Report in Appendix I to this prospectus sets out a summary of the principal accounting policies used in the preparation of our consolidated financial statements in conformity with HKFRSs.

The preparation of our consolidated financial statements requires our management to make judgments, estimates and assumptions that affect the application of our accounting policies and reported amounts of our income, expenses, assets and liabilities. These estimates and associated assumptions are based on our historical experience and various other factors that our management believes to be reasonable under the circumstances, the results of which form the basis of making our judgments about carrying values of our assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Judgments made by our management in the application of HKFRSs that have significant effect on our consolidated financial statements and major sources of estimation uncertainty are discussed in note 2 to the Accountants' Report in Appendix I to this prospectus.

The accounting policies, estimates and judgements that we believe are critical to the preparation of our consolidated financial statements are set out below:

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, provided it is probable that the economic benefits will flow to us and the revenue and costs, if applicable, can be measured reliably. Specifically, revenue from our sale of PLC products and solutions is recognized when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts. Revenue arising from services is recognized when the relevant service is rendered without further performance obligations.

#### **Trade and other receivables**

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

## FINANCIAL INFORMATION

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If such evidence exists, impairment losses for trade and other receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, being the effective interest rate computed at initial recognition of these assets, where the effect of discounting is material. We assess whether objective evidence of impairment exists for each individual financial asset. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

Impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When we are satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in our consolidated statements of profit or loss and other comprehensive income.

We estimate impairment losses of trade receivables based on the aging of the accounts receivable balance, payment terms, customer credit-worthiness and financial condition, as well as historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

### **Provision for warranties**

Provision for warranties is recognized when the underlying products are sold. Under the terms of our sales agreements with customers, we generally agree to rectify any product defects arising within the warranty period, which is typically one to two years from the date of customer acceptance. We make product warranty provision based on our best estimate of the expected settlement under the sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account our recent claim experience and historical warranty data. As we are continually upgrading our product designs and launching new models, it is possible that our recent claim experience is not indicative of future claims that we will receive in respect of past sales. Any increase or decrease in the provision would affect our results of operations in future periods.

### **Inventories**

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Our estimates of net realizable value of inventories are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. We reassess these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realizable value.

## FINANCIAL INFORMATION

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

### **Income tax**

Income tax for the year or period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Determining income tax provision involves judgment on the future tax treatment of certain transactions. We evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognized in respect of deductible temporary differences and also arise from unused tax losses and unused tax credits. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized, we are required to exercise judgment in assessing the probability of future taxable profits. Our assessment is revised as necessary and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

## FINANCIAL INFORMATION

### RESULTS OF OPERATION

The following table sets out our selected consolidated statements of profit or loss and other comprehensive income data for the periods indicated:

	Year ended December 31,					
	2014		2015		2016	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
<b>Revenue</b>	232,628	100.0	340,724	100.0	390,210	100.0
Cost of sales	(117,806)	(50.6)	(164,971)	(48.4)	(194,947)	(50.0)
<b>Gross profit</b>	114,822	49.4	175,753	51.6	195,263	50.0
Other income	6,587	2.8	9,095	2.7	13,568	3.5
Sales and marketing expenses	(33,169)	(14.3)	(48,956)	(14.4)	(60,456)	(15.5)
General and administrative expenses	(17,170)	(7.4)	(28,200)	(8.3)	(35,311)	(9.0)
Research and development expenses	(21,056)	(9.0)	(26,456)	(7.8)	(37,765)	(9.7)
<b>Profit from operations</b>	50,014	21.5	81,236	23.8	75,299	19.3
Finance costs	(317)	(0.1)	—	—	—	—
Share of loss of associate	(112)	(0)	(180)	(0)	(103)	(0)
Change in fair value of financial instruments	2,357	0.9	—	—	—	—
<b>Profit before taxation</b>	51,942	22.3	81,056	23.8	75,196	19.3
Income tax	(11,387)	(4.9)	(25,864)	(7.6)	(17,593)	(4.5)
<b>Profit for the year</b>	40,555	17.4	55,192	16.2	57,603	14.8
<b>Other comprehensive income for the year (after tax and reclassification adjustment)</b>	(529)	(0.2)	5,008	1.5	3,612	0.9
<b>Total comprehensive income for the year</b>	<u>40,026</u>	<u>17.2</u>	<u>60,200</u>	<u>17.7</u>	<u>61,215</u>	<u>15.7</u>

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS LINE ITEMS

#### Revenue

Revenue represents income from our sale of PLC products and solutions and the provision of relevant services in the ordinary course of our business, excluding any government taxes and after deduction of any trade discounts. We generate revenue from two business segments, namely our AMR business and our smart energy management business.

During the Track Record Period, we generated the vast majority of our revenue from the AMR business, accounting for 94.5%, 97.8% and 96.5% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. The following table sets out the breakdown of our revenue by business segment for the periods indicated:

Business segment	Year ended December 31,					
	2014		2015		2016	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	RMB'000	%	RMB'000	%	RMB'000	%
AMR business	219,864	94.5	333,229	97.8	376,673	96.5
Smart energy management business	12,764	5.5	7,495	2.2	13,537	3.5
<b>Total</b>	<b>232,628</b>	<b>100.0</b>	<b>340,724</b>	<b>100.0</b>	<b>390,210</b>	<b>100.0</b>

#### AMR Business

During the Track Record Period, segment revenue from the AMR business was derived predominantly from the sale of PLC ICs and modules. We derived the remaining segment revenue from the sale of other AMR products, including AMR devices such as concentrators, collectors and AMR testing tools, as well as from the provision of maintenance services on AMR systems.

#### AMR revenue and gross profit margin by product or service type

The following table sets out the breakdown of our AMR revenue and gross profit margin by product or service type for the periods indicated:

AMR product/service type	Year ended December 31,								
	2014			2015			2016		
	AMR Revenue	% of total	Gross profit margin	AMR Revenue	% of total	Gross profit margin	AMR Revenue	% of total	Gross profit margin
	RMB'000	%	%	RMB'000	%	%	RMB'000	%	%
PLC ICs	81,144	36.9	56.4	108,078	32.4	60.9	114,868	30.5	58.6
PLC modules	129,236	58.8	46.8	199,267	59.8	50.1	214,549	57.0	51.4
Other AMR products	5,857	2.7	38.0	13,376	4.0	32.9	16,199	4.3	33.1
AMR maintenance services	3,627	1.6	38.7	12,508	3.8	23.1	31,057	8.2	23.7
<b>Total</b>	<b>219,864</b>	<b>100.0</b>	<b>49.9</b>	<b>333,229</b>	<b>100.0</b>	<b>51.9</b>	<b>376,673</b>	<b>100.0</b>	<b>50.5</b>

## FINANCIAL INFORMATION

The overall gross profit margin of our AMR business remained relatively stable during the Track Record Period. The gross profit margin of PLC ICs and modules increased moderately from 2014 to 2015, respectively, mainly due to the considerably reduced revenue contribution of our sales to Beijing RSK Electronics, with which we historically had negotiated lower selling prices as compared to our direct sales to meter manufacturers. We continued to generate revenue during 2014 from sales to Beijing RSK Electronics despite our termination of sales collaboration with it early in the year as we continue to fulfill outstanding sales contracts entered into with it prior to cessation of our sales collaboration. The gross profit margin of our PLC ICs decreased from 60.9% in 2015 to 58.6% in 2016 mainly because the average selling price of AMR ICs decreased over the same period, which was in line with the general decreasing trend for the market prices of IC products in China. On the other hand, the gross profit margin of PLC modules increased from 50.1% in 2015 to 51.4% in 2016 due to an increase in average selling price of such products as we sold more AMR modules for concentrators in 2016 which generally had a higher unit selling price than our other AMR modules. The gross profit margin of AMR maintenance services was higher in 2014 as compared to 2015 and 2016 mainly because we generally carried out such maintenance services by our internal team in 2014 but had since 2015 started to outsource most of our AMR maintenance work to third-party service providers.

### *Major AMR products*

The revenue contribution by sales of PLC ICs and modules, our major AMR products, varied from period to period and was mainly driven by the demand from power grid companies as end users of different AMR devices. Our sales of any particular AMR product could also be affected by any adjustment of our product focus and sales and marketing efforts from time to time. The following table sets out the breakdown of sales volume and average selling prices of our major AMR products for the periods indicated:

	Year ended December 31,					
	2014		2015		2016	
	Sales Volume	Average Selling Price <i>RMB</i> <i>per unit</i>	Sales Volume	Average Selling Price <i>RMB</i> <i>per unit</i>	Sales Volume	Average Selling Price <i>RMB</i> <i>per unit</i>
	<i>'000 units</i>		<i>'000 units</i>		<i>'000 units</i>	
<b>Major AMR product type</b>						
PLC ICs	4,875	16.6	6,716	16.1	7,286	15.8
PLC modules	<u>3,365</u>	38.4	<u>5,608</u>	35.5	<u>5,875</u>	36.5
	<u>8,240</u>		<u>12,324</u>		<u>13,161</u>	

The average selling prices of PLC ICs and modules for our AMR business decreased generally during 2014 to 2016 which was in line with the general decreasing trend for the market prices of IC products in China during the same periods, according to Frost & Sullivan. For more information, see the section headed “Industry Overview — Price Trends in China’s PLC Market — Market Prices of PLC ICs and Smart Meters” in this prospectus.



## FINANCIAL INFORMATION

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the average selling prices of our major AMR products, namely PLC ICs and modules, on our net profit during the Track Record Period. Fluctuations are assumed to be 5% and 10% for the periods indicated, which generally correspond to the range of historical fluctuations in the average selling prices of these major AMR products and we believe will commensurate with future estimated fluctuations in such average selling prices.

	<b>Percentage change in average selling prices of major AMR products</b>			
	<b>-10%</b>	<b>-5%</b>	<b>+5%</b>	<b>+10%</b>
	<i>RMB'000 (except for percentages)</i>			
<b>Year ended December 31, 2014</b>				
Increase/(decrease) in total revenue	(21,038)	(10,519)	10,519	21,038
Increase/(decrease) in net profit for the year	(14,358)	(7,179)	7,179	14,358
Percentage increase/(decrease) in net profit for the year	(35.4%)	(17.7%)	17.7%	35.4%
<b>Year ended December 31, 2015</b>				
Increase/(decrease) in total revenue	(30,734)	(15,367)	15,367	30,734
Increase/(decrease) in net profit for the year	(20,976)	(10,488)	10,488	20,976
Percentage increase/(decrease) in net profit for the year	(38.0%)	(19.0%)	19.0%	38.0%
<b>Year ended December 31, 2016</b>				
Increase/(decrease) in total revenue	(32,942)	(16,471)	16,471	32,942
Increase/(decrease) in net profit for the year	(23,586)	(11,793)	11,793	23,586
Percentage increase/(decrease) in net profit for the year	(40.9%)	(20.5%)	20.5%	40.9%

### *AMR revenue and gross profit margin by customer type*

During the Track Record Period, our AMR products are generally sold to (i) meter manufacturers, the majority of which were successful bidders of AMR biddings for smart meters adopting our communications protocols, with the rest being meter manufacturers which incorporated our AMR products in their smart meters for export, (ii) power grid companies, both directly and indirectly, for the replacement or upgrade of existing AMR devices, (iii) Topsky, our ODM customer, and (iv) Beijing RSK Electronics. During the Track Record Period, we also provided maintenance services on AMR systems of power grid companies on a project-by-project basis. For details, see the section headed

## FINANCIAL INFORMATION

“Business — Sales and Marketing” in this prospectus. The following table sets out the breakdown of our AMR revenue and gross profit margin by customer type for the periods indicated:

Customer type	Year ended December 31,								
	2014			2015			2016		
	AMR Revenue <i>RMB'000</i>	% of total %	Gross profit margin %	AMR Revenue <i>RMB'000</i>	% of total %	Gross profit margin %	AMR Revenue <i>RMB'000</i>	% of total %	Gross profit margin %
Meter manufacturers	123,301	56.1	59.3	204,898	61.5	58.3	218,726	58.1	58.0
Power grid companies <sup>(1)</sup>	50,356	22.9	45.5	76,917	23.1	45.2	107,663	28.6	40.5
Topsky (ODM)	3,901	1.8	30.2	50,944	15.3	36.3	50,284	13.3	39.5
Beijing RSK Electronics	<u>42,306</u>	<u>19.2</u>	29.8	<u>469</u>	<u>0.1</u>	69.3	<u>—</u>	<u>—</u>	—
<b>Total</b>	<u><u>219,864</u></u>	<u><u>100.0</u></u>	49.9	<u><u>333,229</u></u>	<u><u>100.0</u></u>	51.9	<u><u>376,673</u></u>	<u><u>100.0</u></u>	50.5

*Note:*

- (1) AMR revenue from power grid companies includes product sales to and maintenance services for power grid companies, both directly and indirectly through designated entities of power grid companies and, from time to time, other technology companies.

Our AMR revenue by customer type generally increased during the Track Record Period which was in line with our business development. Our revenue from sales to Beijing RSK Electronics decreased from RMB42.3 million in 2014 to nil in 2016 because we terminated our strategic alliance with Beijing RSK Electronics as an exclusive sales channel for our AMR products under State Grid centralized biddings in February 2014 and by 2015 all outstanding sales contracts that were entered into with it before termination of the strategic alliance were completed. For details, see the section headed “Business — Sales and Marketing — Historical Sales Collaboration with Beijing RSK Electronics” in this prospectus. Gross profit margin of our sales to power grid companies (both directly and indirectly through designated entities of power grid companies and, from time to time, other technology companies) decreased from 45.5% in 2014 to 40.5% in 2016 mainly because of greater revenue contribution of our AMR maintenance services which generally had a lower gross profit margin than the rest of our AMR sales to such customers, mainly as a result of the cost of outsourced power grid service providers to conduct such AMR maintenance.

## FINANCIAL INFORMATION

### *Smart Energy Management Business*

In addition to the AMR business, we have further expanded our offerings of PLC products and solutions and have generated revenue from various strategically selected areas of smart energy management, including (i) streetlight control, (ii) building energy management, and (iii) photovoltaic power management. The following table sets out the breakdown of the segment revenue of our smart energy management business by application field for the periods indicated:

	Year ended December 31,					
	2014		2015		2016	
	<i>RMB'000</i>	<i>% of total segment revenue</i>	<i>RMB'000</i>	<i>% of total segment revenue</i>	<i>RMB'000</i>	<i>% of total segment revenue</i>
Streetlight control	6,672	52.3	2,883	38.5	7,924	58.5
Building energy management	3,875	30.3	2,214	29.5	2,697	19.9
Photovoltaic power management	2,217	17.4	2,398	32.0	2,916	21.5
<b>Total</b>	<b>12,764</b>	<b>100.0</b>	<b>7,495</b>	<b>100.0</b>	<b>13,537</b>	<b>100.0</b>

Segment revenue of our smart energy management business, in particular for streetlight control and building energy management, fluctuated during the Track Record Period as the use of PLC technology in these areas were at a relatively early stage in China with varying market demand. We intend to seize the growth opportunities in this business as the PLC applications continue to develop in the future.

### **Cost of Sales**

Cost of sales represents costs and expenses directly attributable to the manufacture of our products and solutions and the provision of services. The following table sets out the breakdown of our cost of sales for the periods indicated:

	Year ended December 31,					
	2014		2015		2016	
	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>
Cost of raw materials:						
IC chipsets	61,020	51.8	81,498	49.4	86,342	44.3
Others	37,507	31.8	48,711	29.5	59,264	30.4
	98,527	83.6	130,209	78.9	145,606	74.7
PCBA assembly fees	13,226	11.2	20,075	12.2	19,681	10.1
AMR maintenance services						
outsourcing fees	1,024	0.9	7,059	4.3	21,049	10.8
Staff costs	3,617	3.1	5,495	3.3	4,167	2.1
Others	1,412	1.2	2,133	1.3	4,444	2.3
<b>Total</b>	<b>117,806</b>	<b>100.0</b>	<b>164,971</b>	<b>100.0</b>	<b>194,947</b>	<b>100.0</b>

## FINANCIAL INFORMATION

Cost of sales mainly comprises (i) cost of raw materials, mainly IC chipsets, (ii) PCBA assembly fees for the outsourced production of our modules, (iii) outsourcing fees for the provision of AMR maintenance services, (iv) staff costs (including salaries and benefits) relating to our production and provision of AMR maintenance services, and (v) other cost of sales, including depreciation expenses, operating lease charges and other overhead costs. For the sensitivity analysis on the impact of hypothetical fluctuations in our cost of IC chipsets, see the section headed “Financial Information — Factors Affecting Our Results of Operations — Cost and Supply of Raw Materials” in this prospectus.

### Other Income

The following table sets out the breakdown of our other income for the periods indicated:

	Year ended December 31,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants			
Unconditional subsidies <sup>(1)</sup>	5,521	11,118	15,341
Conditional subsidies <sup>(2)</sup>	481	1,608	3,456
	6,002	12,726	18,797
Net exchange loss	(233)	(6,030)	(5,115)
Interest income from available-for-sale financial assets	615	1,207	110
Interest income from bank deposits and loan receivables	200	1,151	296
Others	3	41	(520)
	6,587	9,095	13,568
	6,587	9,095	13,568

*Notes:*

- (1) Unconditional subsidies are mainly value-added tax refund by the PRC tax authorities for our self-developed software embedded in our PLC products.
- (2) Conditional subsidies are from the local PRC government for our research and development projects.

Other income include mainly (i) government grants, mainly representing unconditional value-added tax (“VAT”) refund by the PRC tax authorities for our self-developed software embedded in our PLC products, as well as conditional subsidies from the local PRC government for our research and development projects, (ii) net exchange loss arising mainly from the translation loss of our U.S. dollar-denominated trade payables in respect of our procurement of IC chipsets as U.S. dollar appreciated against Renminbi for the relevant period, (iii) interest income from available-for-sale financial assets, which consist of our investments in short-term wealth management products sold by sizable and reputable banks in China, and (iv) interest income from bank deposits and loan receivables. To receive the conditional government grants for research and development projects, we generally have to meet conditions on factors such as our research and development specialties and historical expenditure, the number and professional level of our research and development staff, as well as our registered intellectual property rights. Such government grant received will have to be spent on the research and development project designated under the grant.

## FINANCIAL INFORMATION

### Sales and Marketing Expenses

The following table sets out the breakdown of our sales and marketing expenses for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer service expenses	18,606	18,553	23,282
Staff costs	5,611	10,904	14,568
Marketing expenses	2,139	5,665	6,813
Traveling expenses	823	2,590	3,240
Transportation and postage expenses	1,960	4,029	3,517
Product warranty provision	2,326	3,407	3,592
Operating lease charges	498	1,260	1,992
Depreciation and amortization	354	566	753
Others	852	1,982	2,699
	<u>33,169</u>	<u>48,956</u>	<u>60,456</u>

Sales and marketing expenses mainly include (i) expenses incurred for the provision of customer services to power grid companies as a means to increase our brand recognition and to enhance our business relationships with these power grid companies, (ii) staff costs (including salaries, benefits and any equity-settled share-based payment expenses) for our sales and marketing personnel, other than those providing customer services, (iii) marketing and traveling expenses relating to our sales and marketing activities other than for the provision of customer services, (iv) transportation and postage expenses mainly relating to the transportation and delivery of products, (v) product warranty provision, and (vi) other sales and marketing expenses mainly including sales commission, office supplies and professional fees relating to external training and technical support.

Our sales and marketing expenses accounted for 14.3%, 14.4% and 15.5% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. We have increased our sales and marketing expenses since 2014 to build a larger sales and marketing team for our business growth, particularly following our commencement of direct sales to meter manufacturers who are successful bidders in State Grid's centralized biddings in 2014. For more information, see the section headed "Business — Sales and Marketing — Historical Sales Collaboration with Beijing RSK Electronics" in this prospectus.

## FINANCIAL INFORMATION

### General and Administrative Expenses

The following table sets out the breakdown of our general and administrative expenses for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	8,281	9,894	13,468
Listing expenses	—	6,874	8,546
Other professional costs	1,858	2,569	2,685
Other taxes	2,357	2,731	2,997
Compensation fees	2,000	—	—
Operating lease charges	1,009	2,277	2,425
Impairment losses of trade receivables	72	1,355	1,787
Traveling expenses	767	1,005	866
Office supplies	404	484	995
Depreciation and amortization	138	189	351
Others	284	822	1,191
	<u>17,170</u>	<u>28,200</u>	<u>35,311</u>

General and administrative expenses include mainly (i) staff costs (including salaries, benefits and any equity-settled share-based payment expenses) for our management, administrative and finance personnel, (ii) fees and expenses incurred in relation to the Listing, (iii) other professional costs primarily relating to fees paid to corporate services consultants, legal and accounting professionals in the ordinary course of our business, (iv) other taxes, mainly including urban maintenance and construction taxes and education levies payable to the PRC tax authorities, (v) compensation fees for the termination of the sales collaboration arrangement with Beijing RSK Electronics in 2014, (vi) operating lease charges, and (vii) impairment losses of trade receivables.

Our general and administrative expenses accounted for 7.4%, 8.3% and 9.0% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. We had incurred increasing general and administrative expenses during the Track Record Period as we grew significantly in business scale and began to prepare for the Listing since 2015.

## FINANCIAL INFORMATION

### Research and Development Expenses

The following table sets out the breakdown of our research and development expenses for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	12,744	17,212	22,421
Professional costs	805	2,449	5,757
Testing fees	3,579	1,124	1,434
Depreciation and amortization	1,257	1,457	1,756
Operating lease charges	940	1,330	2,333
Raw materials consumed	633	1,564	1,920
Others	1,098	1,320	2,144
	<u>21,056</u>	<u>26,456</u>	<u>37,765</u>

Research and development expenses include mainly (i) staff costs (including salaries, benefits and any equity-settled share-based payment expenses) for our research and development personnel, (ii) professional costs incurred mainly to engage external research and development consultants for the design and development of our second-generation PLC ICs, (iii) testing fees mainly relating to our new PLC IC models, (iv) depreciation and amortization expenses, (v) operating lease charges, (vi) raw materials consumed for conducting research and development activities, and (vii) other research and development expenses mainly including traveling expenses for our research and development personnel.

Research and development expenses comprise all costs that are directly attributable to our research and development activities. Because of the nature of our research and development activities, the criteria for the recognition of such costs as an asset are generally not met until in the later development stage of a project for which the remaining development costs are immaterial. As such, our research and development costs are generally recognized as expenses in the period in which they are incurred.

Our research and development expenses accounted for 9.0%, 7.8% and 9.7% of our total revenue for the years ended December 31, 2014, 2015 and 2016, respectively. We are committed to continuing to focus on the research and development investment to fuel future growth and expansion of our businesses. We expect our research and development expenses will continue to increase for the year ending December 31, 2017 for the further development of our second-generation PLC ICs, including broadband PLC technology, to enhance our product competitiveness. For more information, see the section headed “Business — Research and Development” of this prospectus.

### Finance Costs

Finance costs consist primarily of accrued dividends on the 5,800,000 Series A Old Cayman Preferred Shares issued by Old Cayman, one of our subsidiaries, to SAIF in 2006. Pursuant to the relevant accounting policies, the Series A Old Cayman Preferred Shares constituted “convertible redeemable preference shares”. SAIF was entitled to receive preference dividends at a fixed rate of 6% per annum of the original issue price. Such preference dividends were accrued until March 5, 2014 when SAIF waived its right to dividends on those convertible redeemable preference shares. For details, see the section headed “History, Development and Reorganization — History and Development — Waiver and Lapse of Special Rights” in this prospectus.

## FINANCIAL INFORMATION

### Share of Loss of Associate

Share of loss of associate represents the loss from our investment in Risecomm Beijing Tech in which we hold an equity interest of 50%, because Risecomm Beijing Tech incurred expenses for its research and development activities since its establishment in June 2014.

### Change in Fair Value of Financial Instruments

Change in fair value of financial instruments represents net gain or loss arising from the change in fair value of the convertible redeemable preference shares and the warrant which Old Cayman issued to SAIF in 2006, respectively, which are re-measured at the end of each reporting period with their changes in fair value charged or credited to our consolidated statements of profit or loss and other comprehensive income. On March 5, 2014, save for the right to prior consent for certain corporate actions, SAIF waived all the special rights and privileges attached to the convertible redeemable preference shares and the warrant. Accordingly, these financial instruments were derecognized from liabilities and were reclassified to equity in our consolidated financial statements at the then fair values. For more details, see the sections headed “History, Development and Reorganization — History and Development”, “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Other Financial Liabilities” and note 18 to the Accountants’ Report in Appendix I to this prospectus.

### Income Tax

Income tax expenses consist of current and deferred PRC corporate income tax (the “CIT”) and Hong Kong profits tax for our PRC and Hong Kong subsidiaries. The income tax expenses in our consolidated statements of profit or loss and other comprehensive income for the Track Record Period comprises of (i) provision for current income tax for the year, and (ii) origination and reversal of temporary differences for deferred tax.

#### *PRC*

Pursuant to the CIT Law and its relevant regulations, our PRC subsidiaries are subject to CIT at a rate of 25% on their taxable income. Risecomm WFOE, our key operating subsidiary, was recognized as a “High and New Technology Enterprise” in 2013 with an effective period of three years. Therefore, a preferential tax rate of 15% was adapted to recognize Risecomm WFOE’s income tax expenses for each of 2013, 2014 and 2015, as well as to determine the carrying value of deferred tax assets and liabilities as of December 31, 2014. As of December 31, 2015, as it was uncertain at the time whether Risecomm WFOE would be able to renew this qualification which would be expired in 2016, the statutory tax rate of 25% was then applied to determine the carrying value of deferred tax assets and liabilities as of December 31, 2015. Risecomm WFOE had subsequently renewed its qualification as a “High and New Technology Enterprise” in November 2016 with an effective period of another three years starting from 2016. Accordingly, the preferential tax rate of 15% was adopted to recognize Risecomm WFOE’s income tax expenses for 2016, as well as to determine the carrying value of deferred tax assets and liabilities as of December 31, 2016. In addition, we are entitled to an additional 50% of tax deduction for certain qualified research and development costs when calculating our taxable income pursuant to the CIT Law and its relevant regulations.

The operations of Old Cayman during the years ended December 31, 2014 and 2015 and the operations of Risecomm HK Technology during the year ended December 31, 2015 were partially conducted by our Group’s personnel in the PRC, who habitually exercised the authority to conclude activities in the name of Old Cayman and Risecomm HK Technology. This may have created permanent establishments (“PEs”) for Old Cayman and Risecomm HK Technology for PRC income tax purposes



## FINANCIAL INFORMATION

through the personnel being its dependent agents. As such, Old Cayman and Risecomm HK Technology could be subject to PRC corporate income tax for their profits attributable to the PEs in the PRC and we had accordingly made provision of income tax in relation to such PE risks for each of 2014 and 2015. During 2016 and up to the Latest Practicable Date, no such operations were conducted by Old Cayman and the operations of Risecomm HK Technology were conducted by the personnel outside the PRC. Therefore, no further provision of income tax was provided in relation to PE for 2016.

According to the CIT Law and its relevant regulations, dividends receivable by a non-PRC resident enterprise from a PRC resident enterprise for earnings accumulated after January 1, 2008 are subject to withholding tax at a rate of 10% unless there are applicable treaties that reduce such rate. Accordingly, we recognized deferred tax liabilities for PRC withholding tax at the rate of 10% of the distributable profits of our PRC entities during the Track Record Period.

### *Hong Kong*

During the Track Record Period, our subsidiaries incorporated in Hong Kong were subject to Hong Kong profits tax at the rate of 16.5% on our estimated assessable profits arising in Hong Kong. Payments of dividends by Hong Kong companies are not subject to any withholding tax.

### *The Cayman Islands and Seychelles*

We were incorporated in the Cayman Islands and certain of our subsidiaries were incorporated in Seychelles. Pursuant to the rules and regulations of the Cayman Islands and Seychelles, we are not subject to any income tax in these jurisdictions. In addition, payment of dividends by us to our Shareholders is not subject to withholding tax in the Cayman Islands.

## REVIEW OF HISTORICAL RESULTS OF OPERATIONS

### Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

#### *Revenue*

Revenue increased by 14.5% to RMB390.2 million in 2016 from RMB340.7 million in 2015. This increase was mainly attributable to an increase of RMB43.4 million in segment revenue from our AMR business, coupled with an increase of RMB6.0 million in segment revenue from the smart energy management business.

#### *AMR business*

Segment revenue from our AMR business increased by 13.0% to RMB376.7 million in 2016 from RMB333.2 million in 2015. This increase was mainly attributable to (i) an increase of RMB18.5 million in the provision of AMR maintenance services as we provided more of such services to an increasing number of customers, and (ii) an increase of RMB15.3 million in our sales of PLC modules because (a) the number of PLC modules sold by us to Southern Grid increased over the same period, and (b) our average selling price of PLC modules increased from RMB35.5 per unit in 2015 to RMB36.5 per unit in 2016 as a result of more PLC modules for concentrators being sold in 2016 which generally had a higher unit selling price than our other PLC modules for our AMR business.

## FINANCIAL INFORMATION

### *Smart energy management business*

Segment revenue from our smart energy management business increased by RMB6.0 million to RMB13.5 million in 2016 from RMB7.5 million in 2015. This increase was primarily due to an increase in streetlight control revenue by RMB5.0 million primarily because of the bulk purchase orders of light terminal controllers made by one of our streetlight control customers in 2016 which had a significantly higher unit selling price than most of our streetlight control PLC ICs and modules.

### *Cost of sales*

Cost of sales increased by 18.2% to RMB194.9 million in 2016 from RMB165.0 million in 2015. This increase was mainly attributable to (i) an increase of RMB15.4 million in the cost of raw materials primarily due to an increase of cost of non-IC chipset raw materials, and (ii) an increase of RMB14.0 million in the outsourcing fees to third party service providers which was generally in line with the increase in our revenue from AMR maintenance services. The increase in 2016 of cost of other raw materials was mainly because we sold more non-IC products (such as PLC modules and devices) in 2016 which involved consumption of more non-IC chipset raw materials.

### *Gross profit and gross profit margin*

As a result of the foregoing, gross profit increased by 11.1% to RMB195.3 million in 2016 from RMB175.8 million in 2015. Gross profit margin remained relatively stable at 51.6% and 50.0% for 2015 and 2016, respectively.

### *Other income*

Other income increased by 49.2% to RMB13.6 million in 2016 from RMB9.1 million in 2015. This increase was attributable to an increase of RMB6.1 million in government grants mainly arising from (i) a one-off unconditional grant of RMB2.7 million in 2016 from the Shenzhen Technology Innovation Committee to support our general research and development efforts, and (ii) an increase in conditional subsidies for our research and development projects. The increase of other income was partially offset by a decrease of RMB1.1 million in interest income from available-for-sale financial assets as we ceased to invest in wealth management products in May 2016.

### *Sales and marketing expenses*

Sales and marketing expenses increased by 23.5% to RMB60.5 million in 2016 from RMB49.0 million in 2015. This increase was mainly attributable to (i) an increase of RMB4.7 million in customer service expenses to better improve our customer services and technical support and to further strengthen our industry reputation and customer relationships, and (ii) an increase of RMB3.7 million in our sales and marketing staff costs (other than those providing customer services) because we recruited more of such sales and marketing staff in 2016.

### *General and administrative expenses*

General and administrative expenses increased by 25.2% to RMB35.3 million in 2016 from RMB28.2 million in 2015. This increase was mainly attributable to (i) an increase of RMB3.6 million in staff costs due to an increase in the number of our management, administrative and finance staff over the same period to manage and support our business growth, and (ii) an increase of RMB1.7 million in fees and expenses incurred in relation to the Listing in 2016 as compared to 2015.

## FINANCIAL INFORMATION

### *Research and development expenses*

Research and development expenses increased by 42.7% to RMB37.8 million in 2016 from RMB26.5 million in 2015. This increase was mainly attributable to (i) an increase of RMB5.2 million in staff costs mainly because of an increase in the research and development headcounts of Risecomm Changsha over the same period mainly for the development of our concentrators, and (ii) an increase of RMB3.3 million in professional costs mainly for the engagement of external research and development consultants for the development of broadband PLC ICs.

### *Profit from operations*

As a result of the foregoing, profit from operations decreased by 7.3% to RMB75.3 million in 2016 from RMB81.2 million in 2015 mainly due to increase in our sales and marketing and research and development expenses in 2016. Operating margin decreased from 23.8% in 2015 to 19.3% in 2016.

### *Share of loss of associate*

Share of loss of associate remained stable at RMB0.1 million for each of 2015 and 2016. Risecomm Beijing Tech reported a net loss during the respective periods as it was still a company in pre-development stage.

### *Profit before taxation*

As a result of the foregoing, profit before taxation decreased by 7.2% to RMB75.2 million in 2016 from RMB81.1 million in 2015.

### *Income tax*

Income tax expense decreased by 32.0% to RMB17.6 million in 2016 from RMB25.9 million in 2015. This decrease was primarily because we incurred one-off tax expenses of RMB9.0 million in 2015 relating to the transfer by Old Cayman of the equity interest in Risecomm WFOE to Risecomm HK pursuant to the Reorganization. Our effective tax rate decreased from 31.9% in 2015 to 23.4% in 2016 due to the decrease in our income tax expenses over the same period.

### *Profit for the year*

As a result of the foregoing, profit for the year increased by 4.4% to RMB57.6 million in 2016 from RMB55.2 million in 2015. Net profit margin decreased from 16.2% in 2015 to 14.8% in 2016 as our profit for the year increased at a slower rate than our total revenue over the same period.

## **Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**

### *Revenue*

Revenue increased by 46.5% to RMB340.7 million in 2015 from RMB232.6 million in 2014. This increase was mainly attributable to an increase in segment revenue of RMB113.4 million from our AMR business, partially offset by a decrease in segment revenue of RMB5.3 million from our smart energy management business.

## FINANCIAL INFORMATION

### *AMR business*

Segment revenue from our AMR business increased by 51.6% to RMB333.2 million in 2015 from RMB219.9 million in 2014. This increase was mainly attributable to an increase of RMB70.0 million in the sales of PLC modules due to an increase in sales volume of approximately 2.2 million units, primarily resulting from our particular sales and marketing focus in promoting our PLC modules in 2015. We believe supplying PLC modules, instead of PLC ICs, to meter manufacturers could better ensure the integration with and the communications functionality of the smart meters when deployed in an AMR system, which is likely to produce more accurate meter reading results and would, to certain extent, enhance our brand reputation. The increase in the sales volume of PLC modules was partially offset by a slight decrease in their average selling price from RMB38.4 per unit in 2014 to RMB35.5 per unit in 2015 which followed the general decreasing trend for the market prices of IC products in China over the same period, according to Frost & Sullivan.

Revenue from sales of PLC ICs also increased by RMB27.0 million in 2015 mainly as a result of our increased sales to meter manufacturers, partially offset by a slightly lower average selling price for PLC ICs in 2015 which followed the general decreasing trend for the market prices of IC products in China over the same period as described above.

### *Smart energy management business*

Segment revenue from our smart energy management business decreased by 41.3% to RMB7.5 million in 2015 from RMB12.8 million in 2014. This decrease was primarily due to (i) a decrease in streetlight control revenue by RMB3.8 million, and (ii) a decrease in building energy management revenue by RMB1.7 million.

The decrease in streetlight control revenue was mainly attributable to a decrease in sales volume of light terminal controllers in 2015, resulting from a one-off bulk purchase made by a customer in 2014. The average selling price for streetlight control products and solutions also decreased as a result, from RMB30.8 per unit in 2014 to RMB21.5 per unit in 2015, as light terminal controllers generally had a significantly higher unit selling price than most of our streetlight control PLC ICs and modules.

The decrease in building energy management revenue resulted primarily from a decrease in the sales volume of building energy management products as we completed more projects in 2014 than in 2015 with Fox-Energy, our key customer for building energy management. The average selling price of building energy management products and solutions also decreased significantly from RMB141.0 per unit in 2014 to RMB82.9 per unit in 2015, primarily because we sold fewer air-conditioning concentrators in 2015, which generally had a significantly higher unit selling price than our other building energy management products.

### *Cost of sales*

Cost of sales increased by 40.0% to RMB165.0 million in 2015 from RMB117.8 million in 2014. This increase was mainly attributable to (i) an increase of RMB31.7 million in the cost of raw materials which was generally in line with the increase of our sales volume, (ii) an increase of RMB6.8 million in PCBA assembly fees which was mainly driven by the increase in our sales volume of PLC modules for our AMR business, and (iii) an increase of RMB6.0 million in the outsourcing fees for AMR maintenance services as our AMR maintenance services revenue increased from RMB3.6 million in 2014 to RMB12.5 million in 2015 primarily because we undertook more of such AMR maintenance projects in 2015.

## FINANCIAL INFORMATION

### *Gross profit and gross profit margin*

As a result of the foregoing, gross profit increased by 53.1% to RMB175.8 million in 2015 from RMB114.8 million in 2014. Gross profit margin increased to 51.6% in 2015 from 49.4% in 2014, which was due to the increased revenue contribution and improved profitability of our AMR business.

### *Other income*

Other income increased by 38.1% to RMB9.1 million in 2015 from RMB6.6 million in 2014. This increase was primarily attributable to an increase of RMB6.7 million in government grants mainly arising from more VAT refund approved in 2015 by the PRC tax authorities for our self-developed software-embedded products, partially offset by an increase in net exchange loss of RMB5.8 million mainly arising from the translation loss of our U.S. dollar-denominated trade payables as U.S. dollar appreciated significantly against Renminbi in the second half of 2015.

### *Sales and marketing expenses*

Sales and marketing expenses increased by 47.6% to RMB49.0 million in 2015 from RMB33.2 million in 2014. This increase was mainly attributable to (i) an increase of RMB5.3 million in the staff costs of our sales and marketing personnel (other than those providing customer services) as we increased the headcount of such staff, as well as their salaries and benefits, including sales performance bonuses, (ii) an increase of RMB3.5 million in marketing expenses to support our increase in sales and marketing efforts, and (iii) an increase of RMB2.1 million in transportation and postage expenses mainly arising from increased transportation and delivery of products which was in line with the increase in our sales in 2015.

### *General and administrative expenses*

General and administrative expenses increased by 64.2% to RMB28.2 million in 2015 from RMB17.2 million in 2014. This increase was mainly attributable to (i) fees and expenses of RMB6.9 million incurred in 2015 in relation to the Listing, and (ii) an increase of RMB1.6 million in staff costs due to an increase in the number of our management, administrative and finance staff in 2015 to manage and support our business growth.

### *Research and development expenses*

Research and development expenses increased by 25.6% to RMB26.5 million in 2015 from RMB21.1 million in 2014. This increase was mainly attributable to (i) an increase of RMB4.5 million in staff costs mainly because of an increase in the research and development headcounts in Risecomm Changsha and Risecomm Shenzhen in 2015 primarily for the development of concentrators and our smart energy management business, and (ii) an increase of RMB1.6 million in professional costs primarily incurred for the further development of our second-generation PLC ICs, partially offset by a decrease of RMB2.5 million in testing fees in 2015, primarily for new PLC IC models.

### *Profit from operations*

As a result of the foregoing, profit from operations increased by 62.4% to RMB81.2 million in 2015 from RMB50.0 million in 2014. Operating margin increased from 21.5% in 2014 to 23.8% in 2015.

## FINANCIAL INFORMATION

### *Finance costs*

Finance costs decreased to nil in 2015 from RMB0.3 million in 2014 mainly because SAIF waived in March 2014 the right to receive preference dividends on the convertible redeemable preference shares issued by us in 2006 and therefore no preference dividend was accrued as finance costs in 2015.

### *Share of loss of associate*

Share of loss of associate increased by 60.7% to RMB0.2 million in 2015 from RMB0.1 million in 2014 due to Risecomm Beijing Tech has reported an increase in net loss in 2015.

### *Change in fair value of financial instruments*

Change in fair value of financial instruments decreased to nil in 2015 from a gain of RMB2.4 million in 2014. This was because SAIF, save for the right to prior consent for certain corporate actions, waived in March 2014 all the special rights and privileges attached to the convertible redeemable preference shares and the warrant. As such, these financial instruments were derecognized from liabilities and were reclassified to equity and no change in fair value of these financial instruments was therefore recorded for the year ended December 31, 2015 on our consolidated statements of profit or loss and other comprehensive income.

### *Profit before taxation*

As a result of the foregoing, profit before taxation increased by 56.1% to RMB81.1 million in 2015 from RMB51.9 million in 2014.

### *Income tax*

Income tax expense increased significantly by RMB14.5 million to RMB25.9 million in 2015 from RMB11.4 million in 2014. This increase was primarily attributable to (i) PRC income tax expenses of RMB9.0 million in 2015 relating to the transfer by Old Cayman of the equity interest in Risecomm WFOE to Risecomm HK pursuant to the Reorganization, and (ii) higher profit before taxation in 2015. Our effective tax rate, excluding the impact of fair value changes, increased to 31.9% in 2015 from 23.0% in 2014.

### *Profit for the year*

As a result of the foregoing, profit for the year increased by 36.1% to RMB55.2 million in 2015 from RMB40.6 million in 2014. Net profit margin decreased to 16.2% in 2015, compared to 17.4% in 2014, primarily as a result of the increase in sales and marketing, income tax and general and administrative expenses, notwithstanding the higher overall gross profit margin in 2015.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are to pay for working capital needs and capital expenditures primarily for the purchase of machinery and equipment, intangible assets and expansion and upgrading of our offices and product assembly hubs. We meet these cash requirements by relying on net cash generated from operating activities as our principal source of funding.

## FINANCIAL INFORMATION

The following table sets out our selected consolidated cash flow data for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	80,265	8,280	17,026
Net cash generated from/(used in) investing activities	146	(3,678)	(17,541)
Net cash used in financing activities	<u>(494)</u>	<u>(9)</u>	<u>(4,224)</u>
Net increase/(decrease) in cash and cash equivalents	79,917	4,593	(4,739)
Effect of foreign exchange rate changes	(327)	393	1,452
Cash and cash equivalents at the beginning of the year	<u>63,533</u>	<u>143,123</u>	<u>148,109</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>143,123</u></u>	<u><u>148,109</u></u>	<u><u>144,822</u></u>

### Cash Generated from Operating Activities

Cash generated from operations reflects profit before tax adjusted for (i) certain non-cash or non-operating activities related items, including mainly depreciation and amortization, impairment losses of trade receivables, interest income, equity-settled share-based payment expenses, change in fair value of financial instruments and certain other items, and (ii) the effect of changes in working capital. Net cash generated from operating activities reflects cash generated from operations less income tax paid.

Net cash generated from operating activities in 2016 was RMB17.0 million, reflecting cash generated from operations of RMB25.4 million, less income tax paid of RMB8.3 million. Cash generated from operations was primarily attributable to our profit before tax of RMB75.2 million as positively adjusted by depreciation and amortization of RMB4.9 million, impairment losses of trade receivables of RMB1.8 million and certain other items, partially offset by a decrease in cash of RMB56.7 million related to changes in working capital. The changes in working capital consisted mainly of (i) a decrease in trade and other payables of RMB42.8 million mainly due to a decrease in trade payables as we made faster payments to our major IC chipset supplier in Hong Kong, and (ii) an increase in trade and other receivables of RMB37.3 million mainly due to an increase in trade receivables for reasons as further explained in the section headed “— Description of Selected Consolidated Statements of Financial Position Items — Trade and Bills Receivables” below, partially offset by a decrease in inventories of RMB26.3 million mainly due to subsequent utilization of the IC chipset inventories as of December 31, 2015 as further explained in the section headed “— Description of Selected Consolidated Statements of Financial Position Items — Inventories” below. Net cash generated from operating activities increased from 2015 to 2016 mainly because we paid less income tax in 2016 despite a lower cash generated from operations in 2016.

Net cash generated from operating activities in 2015 was RMB8.3 million, reflecting cash generated from operations of RMB27.6 million, less income tax paid of RMB19.3 million. Cash generated from operations was primarily attributable to our profit before tax of RMB81.1 million as positively adjusted by depreciation and amortization of RMB3.0 million and certain other items, and negatively adjusted by interest income of RMB2.4 million, partially offset by a decrease in cash of RMB57.6 million related to changes in working capital. The changes in working capital consisted mainly of (i) an increase in inventories of RMB46.8 million, primarily because we purchased more raw materials, in particular IC chipsets, to support our anticipated sales as further explained in the section headed “— Description of Selected Consolidated Statements of Financial Position Items — Inventories” below, and (ii) an increase in trade and other receivables of RMB37.0 million which was generally in line with the increase in our sales, partially offset by an increase in trade and other payables of RMB23.3 million, primarily due to an increase in the purchase of IC chipsets in 2015 for the higher

## FINANCIAL INFORMATION

sales during 2015 and the anticipated sales for 2016. Net cash generated from operating activities decreased significantly in 2015 as compared to 2014 mainly because of (i) a decrease in cash generated from operations, which was primarily due to the increased purchases of raw materials in 2015, and (ii) an increase in income tax paid primarily for the transfer of equity interest in Risecomm WFOE pursuant to the Reorganization as well as for the higher profit before taxation.

Net cash generated from operating activities in 2014 was RMB80.3 million, reflecting cash generated from operations of RMB85.2 million, less income tax paid of RMB4.9 million. Cash generated from operations was primarily attributable to (i) our profit before tax of RMB51.9 million as positively adjusted by equity-settled share-based payment expenses of RMB3.1 million, depreciation and amortization of RMB2.1 million and certain other items, and negatively adjusted mainly by change in fair value of financial instruments of RMB2.4 million, and (ii) an increase in cash of RMB30.7 million related to changes in working capital. The changes in working capital consisted of (i) an increase in trade and other payables of RMB45.3 million due to an increase in trade payables, other payables and accruals and receipts in advance as further explained in the section headed “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade and Other Payables” below, and (ii) an increase in deferred income of RMB5.2 million, partially offset by an increase in trade and other receivables of RMB15.7 million which was generally in line with the increase in our sales, coupled with an increase in inventories of RMB4.2 million mainly due to an increase in finished goods and work-in-progress to support our sales in the first half of 2015.

### **Cash Generated from/(Used in) Investing Activities**

Net cash used in investing activities in 2016 was RMB17.5 million. This consisted of our payment for purchase of property, plant and equipment and intangible assets of RMB17.9 million mainly for (i) the purchase and establishment of our new product assembly hub in Changsha, and (ii) the purchase of intangible assets relating to solution applications software for our smart energy management business.

Net cash used in investing activities in 2015 was RMB3.7 million. This consisted mainly of our payment of RMB10.5 million primarily for the purchase of (a) intangible assets relating to solution applications software for our smart energy management business, (b) machinery and equipment mainly for the upgrades of research and development testing equipment of Risecomm WFOE, and (c) office and other equipment for our PRC subsidiaries, partially offset by (i) an increase in cash due to the net proceeds from maturity of available-for-sale financial assets of RMB4.9 million, and (ii) interest received of RMB2.4 million.

Net cash generated from investing activities in 2014 was RMB0.1 million. This consisted mainly of an increase in cash due to the net proceeds from maturity of available-for-sale financial assets of RMB4.9 million and certain other items, partially offset by our payment of RMB5.1 million, primarily for the properties purchased by us for Risecomm Wuxi as a research and development center, as well as for leasehold improvements of our subsidiary Risecomm Beijing Comm which was established in 2014.

### **Cash Used in Financing Activities**

Net cash used in financing activities in 2016 was RMB4.2 million, mainly consisting of dividends paid to equity shareholders of RMB84.0 million in May 2016, partially offset by cash received from investors for share subscription of RMB79.5 million. For details, see the section headed “History, Development and Reorganization — History and Development — Introduction and Exit of certain Shareholders” in this prospectus.



## FINANCIAL INFORMATION

Net cash used in financing activities in 2015 was RMB9,000, representing the repayment of bank loans.

Net cash used in financing activities in 2014 was RMB0.5 million, mainly consisting of payment for repurchase of own shares of RMB0.5 million as we completed repurchase of shares in Old Cayman from certain of its individual shareholders in 2014 details of which are set out in the section headed “History, Development and Reorganization — Our Company and Major Subsidiaries — Our Subsidiary in the Cayman Islands — Old Cayman — Share Repurchase” in this prospectus.

### Net Current Assets

The following table sets out our current assets, current liabilities and net current assets as of the dates indicated:

	<b>As of December 31,</b>			<b>As of</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>March 31,</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)
<b>Current assets</b>				
Inventories	27,671	73,683	47,447	57,315
Trade and other receivables	119,960	160,262	116,307	107,830
Available-for-sale financial assets	4,900	—	—	—
Cash and cash equivalents	<u>143,123</u>	<u>148,109</u>	<u>144,822</u>	<u>89,982</u>
	<u>295,654</u>	<u>382,054</u>	<u>308,576</u>	<u>255,127</u>
<b>Current liabilities</b>				
Bank loan	9	—	—	13,000
Trade and other payables	102,950	125,701	94,247	49,185
Income tax payable	<u>11,748</u>	<u>18,316</u>	<u>21,401</u>	<u>10,576</u>
	<u>114,707</u>	<u>144,017</u>	<u>115,648</u>	<u>72,761</u>
<b>Net current assets</b>	<u><u>180,947</u></u>	<u><u>238,037</u></u>	<u><u>192,928</u></u>	<u><u>182,366</u></u>

We had net current assets as of each of December 31, 2014, 2015, 2016 and March 31, 2017, which was mainly attributable to our cash and cash equivalents, trade and other receivables and inventories, partially offset by our trade and other payables and income tax payable. Our net current assets increased from RMB180.9 million as of December 31, 2014 to RMB238.0 million as of December 31, 2015 primarily because of the increases in trade and other receivables and inventories as our sales continued to increase. Our net current assets then decreased to RMB192.9 million as of December 31, 2016, which was primarily due to (i) a decrease in trade and other receivables as we settled amounts due from related parties in 2016 as further explained in the below section headed “— Related Party Transactions,” and (ii) a decrease in inventories as further explained in the below section headed “— Inventories.” Our net current assets decreased from RMB192.9 million as of December 31, 2016 to RMB182.3 million as of March 31, 2017 mainly because of a decrease in the balances of our cash and cash equivalents primarily due to (i) settlement of trade payables to suppliers and (ii) our payment of the purchase price for the Changsha product assembly hub in January 2017.

## FINANCIAL INFORMATION

### Working Capital

We had net cash generated from operating activities for each period during the Track Record Period and net current assets as of each of December 31, 2014, 2015, 2016 and March 31, 2017. Our Directors have confirmed that we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus, taking into account our cash flows from operating activities, our net current assets, as well as the estimated net proceeds from the Global Offering.

### DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

#### Inventories

Inventories primarily comprise raw materials, work-in-progress and finished goods. The following table sets out the breakdown of our inventories as of the dates indicated which were stated at cost, as well as our inventory turnover days for the periods indicated:

	<b>As of/Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	7,570	41,689	14,258
Work-in-progress	6,919	3,800	8,686
Finished goods	<u>13,182</u>	<u>28,958</u>	<u>25,200</u>
	27,671	74,447	48,144
Less: provision for diminution in value of inventories	<u>—</u>	<u>(764)</u>	<u>(697)</u>
	<u><u>27,671</u></u>	<u><u>73,683</u></u>	<u><u>47,447</u></u>
Inventory turnover days <sup>(1)</sup>	86	163	89

*Note:*

- (1) Inventory turnover days is derived by dividing the closing balances of inventories (net of provision) by the cost of sales for the relevant period and then multiplied by the number of calendar days in that period.

#### *Inventory Management Policy*

We implement inventory management policy with the aim of maintaining appropriate inventory levels of our raw materials, work-in-progress and finished products. We place particular importance on our inventory management of IC chipsets, which constitute the majority of our raw materials. Unlike most of our competitors who source general purpose IC chipsets for the production of PLC ICs, we source ASICs from our IC chipset suppliers, which are generally more advanced and technically more complex to produce and generally require a lead time of approximately five months between placing orders with and receiving IC chipsets from our suppliers. In addition, as the production and assembly cycle for our products, mainly AMR products, is generally scheduled to take place within two months' time before delivery, we are typically required to place purchase orders for our ASICs in advance of our product sales order and/or delivery requests to ensure we have a safe level of raw materials inventories

## FINANCIAL INFORMATION

for timely delivery of products to customers. In any event, pursuant to our inventory management policy, we are required to maintain a minimum inventory level of no less than the monthly average of our product delivery volume for the preceding three months.

To fulfill our inventory management requirement, we generally review purchases of our raw materials, in particular ASICs, on a monthly basis by taking into account: (i) our existing inventory level; (ii) products scheduled to be produced and delivered to customers based on product sales orders and delivery requests; (iii) our rolling sales forecasts and market analysis of product demand; (iv) additional buffer in production lead time; (v) nature and life cycle of different IC chipsets; and (vi) other potential market risks, such as fluctuation in raw material prices.

In particular, we generally keep our rolling sales forecasts for the next six months by considering factors including: (i) sales orders and delivery requests on hand; (ii) estimated sales orders based on centralized bidding results with our communications protocols selected; (iii) historical sales trends of customers; (iv) ad hoc procurement orders from power grid companies; (v) market demands from our smart energy management business; and (vi) increase in number of new customers and projects.

### *Changes in Inventories and Inventory Turnover Days*

Inventories increased significantly from RMB27.7 million as of December 31, 2014 to RMB73.7 million as of December 31, 2015, mainly attributable to a significant increase in (i) raw materials (mainly IC chipsets), and (ii) finished goods.

Our relatively higher level of finished goods inventory as of December 31, 2015 was mainly attributable to an unexpected slow-down of delivery demands for our PLC products from meter manufacturers around the last quarter of 2015, which according to our understanding was initiated by a general slow-down of delivery demands from State Grid due to its adjusted deployment plan of AMR systems and which we noted was also encountered at the time by certain of our competitors.

In terms of the significant increase in our raw materials inventory as of December 31, 2015, as discussed in the preceding sub-section headed “Inventory Management Policy”, given the extended lead time for procurement of our ASICs, we generally plan our IC chipset inventory level and conduct raw material purchases based on rolling sales forecasts and market analysis of our product demand, taking into account both sales orders and delivery requests on hand as well as AMR bidding results and sales projections on future AMR biddings, while giving consideration on the nature and life cycle of different IC chipsets when making procurement decisions. While we purchased and maintained our IC chipsets inventory during 2015 according to such policy, the slow-down in delivery demands from meter manufacturers closer to the end of 2015 resulted in part to our high level of ending raw materials inventory, which were initially maintained based on successful centralized biddings. The high level of ending raw materials inventory was also partly attributable to our higher rolling sales forecast as a result of the significant increase in the bidding volume of State Grid’s centralized bidding for smart meters adopting our communications protocols during the first half of 2015, which affected our raw materials procurement planning in 2015. Notwithstanding the aforesaid, the higher level of raw materials inventory as of December 31, 2015, in particular the IC chipsets, are considered to have continuous applications for our PLC products and are not to be made obsolete in the near term.

As of March 31, 2017, the subsequent sales and utilization of our inventories of raw materials as of December 31, 2015 was RMB40.6 million, or 97.4%, and the subsequent sales and utilization of our inventories of finished goods as of December 31, 2015 was RMB28.5 million, or 98.4%. For more

## FINANCIAL INFORMATION

information, see the section headed “Risk Factors — Risks relating to our business and industry — We may not be able to ensure a stable and adequate supply of raw materials on commercially acceptable terms, in satisfactory quality and in a timely manner” in this prospectus.

Inventories decreased from RMB73.7 million as of December 31, 2015 to RMB47.4 million as of December 31, 2016, mainly attributable to our subsequent sales and utilization in 2016 of raw materials (mainly IC chipsets) as discussed above, partially offset by the replenishment of new IC chipsets and other non-IC raw materials in 2016. The balance of our inventories of work-in-progress and finished products in aggregate remained relatively stable at RMB32.8 million as of December 31, 2015 and RMB33.9 million as of December 31, 2016.

As of March 31, 2017, the subsequent sales and utilization of our inventories of raw materials as of December 31, 2016 was RMB6.2 million, or 43.8%, and the subsequent sales and utilization of our inventories of finished goods as of December 31, 2016 was RMB7.5 million, or 29.9%.

Inventory turnover days indicates the average time required for us to sell the inventories. The increase or decrease in inventory turnover days during the Track Record Period was generally in line with our change in inventory balances as of the relevant dates of the Track Record Period. In particular, the significant increase of inventory turnover days from 86 days in 2014 to 163 days in 2015 was attributable to the increase in inventories of raw materials and finished products from December 31, 2014 to December 31, 2015 as discussed above, despite an increase in cost of sales over the same period. Our inventory turnover days decreased to 89 days in 2016 which resumed to similar level as 2014.

### *Inventory Provision*

To minimize the risk of building up aged inventories, we conduct stock take of our inventories periodically and carry out an inventory review and an aging analysis regularly, especially on inventories aged over six months. We make provision for obsolete and slow-moving inventories that are no longer suitable for use in production or sale. A number of factors including historical and forecast consumption of our raw materials, as well as marketability of our products, are taken into account when we consider whether to make appropriate provision. We recorded no inventory provision as of December 31, 2014, respectively. We recorded a provision for diminution in value of inventories of RMB0.7 million as of each of December 31, 2015 and 2016, which was mainly for long-aging inventories of finished goods of at least over one year.

The following table sets out the aging analysis of our inventory balances as of the dates indicated:

	<b>As of December 31, 2014 (RMB'000)</b>	<b>Within 3 months (RMB'000)</b>	<b>Over 3 months but within 6 months (RMB'000)</b>	<b>Over 6 months but within 12 months (RMB'000)</b>	<b>Over 12 months (RMB'000)</b>
Raw Materials	7,570	6,020	434	140	976
Work in progress	6,919	6,526	57	324	12
Finished goods	<u>13,182</u>	<u>10,572</u>	<u>1,551</u>	<u>527</u>	<u>532</u>
<b>Total</b>	<u><u>27,671</u></u>	<u><u>23,118</u></u>	<u><u>2,042</u></u>	<u><u>991</u></u>	<u><u>1,520</u></u>

## FINANCIAL INFORMATION

	<b>As of December 31, 2015 (RMB'000)</b>	<b>Within 3 months (RMB'000)</b>	<b>Over 3 months but within 6 months (RMB'000)</b>	<b>Over 6 months but within 12 months (RMB'000)</b>	<b>Over 12 months (RMB'000)</b>
Raw Materials	41,689	19,487	21,609	243	350
Work in progress	3,800	3,466	176	72	86
Finished goods	<u>28,958</u>	<u>21,947</u>	<u>5,190</u>	<u>1,377</u>	<u>444</u>
Total	<u><u>74,447</u></u>	<u><u>44,900</u></u>	<u><u>26,975</u></u>	<u><u>1,692</u></u>	<u><u>880</u></u>

	<b>As of December 31, 2016 (RMB'000)</b>	<b>Within 3 months (RMB'000)</b>	<b>Over 3 months but within 6 months (RMB'000)</b>	<b>Over 6 months but within 12 months (RMB'000)</b>	<b>Over 12 months (RMB'000)</b>
Raw Materials	14,258	6,678	3,178	2,649	1,755
Work in progress	8,686	8,352	66	204	64
Finished goods	<u>25,200</u>	<u>21,057</u>	<u>2,608</u>	<u>810</u>	<u>725</u>
Total	<u><u>48,144</u></u>	<u><u>36,087</u></u>	<u><u>5,850</u></u>	<u><u>3,663</u></u>	<u><u>2,544</u></u>

Our raw material inventories aged within six months as of December 31, 2016 decreased significantly as compared to December 31, 2015, as we adjusted our raw materials procurement plan in response to the slow-down of demand from meter manufacturers (and State Grid) by reducing our purchase of raw materials and optimizing the utilization of existing inventories in 2016. On the other hand, our raw material inventories aged over six months as of December 31, 2016 was higher than the level as of December 31, 2015, which was mainly due to the amount of purchase orders placed back in the second half of 2015, based on our earlier higher rolling sales forecast as explained in the section headed “— Inventories — Changes in Inventories and Inventory Turnover Days” above, before we adjusted our raw materials procurement plan. Notwithstanding the aforesaid, our raw material inventories, in particular IC chipsets, aged over six months as of December 31, 2016 are considered to have continuous applications for our PLC products and are not to be made obsolete in the near term.

## FINANCIAL INFORMATION

### Trade and Bills Receivables

Trade and bills receivables represent the amounts receivable from customers and under bank acceptance bills in connection with our sales to customers, respectively. Our customers may have different settlement terms ranging from “cash on or before delivery” to up to 180 days from the date of billing in general. Certain of our customers also settled their payments by using bank acceptance bills with maturities of no more than 180 days. The following table sets out our trade and bills receivables as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	40,178	61,889	104,336
Less: provision for doubtful debts	<u>(319)</u>	<u>(1,674)</u>	<u>(3,442)</u>
Trade receivables, net	39,859	60,215	100,894
Bills receivables	<u>600</u>	<u>5,500</u>	<u>2,500</u>
	<u><u>40,459</u></u>	<u><u>65,715</u></u>	<u><u>103,394</u></u>

#### *Trade Receivables*

Our trade receivables increased during the Track Record Period and amounted to RMB40.2 million, RMB61.9 million and RMB104.3 million as of December 31, 2014, 2015 and 2016, respectively. Our trade receivables increased from RMB40.2 million as of December 31, 2014 to RMB61.9 million as of December 31, 2015, which was generally in line with our increased sales over the same period. Our trade receivables increased from RMB61.9 million as of December 31, 2015 to RMB104.3 million as of December 31, 2016. While such increase was partly attributable to our increase in sales over the same period, it was also a result of a notable increase in our sales to local power grid companies, which are generally granted a longer credit period given their background and creditworthiness.

## FINANCIAL INFORMATION

We seek to maintain strict control over our outstanding receivables. Overdue balances are reviewed regularly by senior management. The following table sets out an aging analysis of our trade receivables, based on the invoice date, as of the dates indicated, as well as our trade receivables turnover days for the periods indicated:

	<b>As of/Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within six months	38,151	53,945	77,040
After six months but within one year	577	3,327	12,845
After one year	<u>1,450</u>	<u>4,617</u>	<u>14,451</u>
Trade receivables	40,178	61,889	104,336
Less: provision for doubtful debts	<u>(319)</u>	<u>(1,674)</u>	<u>(3,442)</u>
Trade receivables, net	<u><u>39,859</u></u>	<u><u>60,215</u></u>	<u><u>100,894</u></u>
Trade receivables turnover days <sup>(1)</sup>	63	65	94

*Note:*

- (1) Trade receivables turnover days is derived by dividing the closing balances (net of provision) of trade receivables by the revenue for the relevant period and then multiplied by the number of calendar days in that period.

Trade receivables turnover days indicates the average time required for us to collect cash payments from sales. Our trade receivables turnover days remained relatively stable from 2014 to 2015 and increased from 65 days in 2015 to 94 days in 2016 mainly because of the increase of our trade receivables from as of December 31, 2015 to as of December 31, 2016 as we increased our sales over the same period to local power grid companies, which are generally granted a longer credit term given their background and creditworthiness. Our trade receivables turnover days for each period during the Track Record Period were all within our typical customer credit terms.

The following table sets out the movements in provision for impairment of trade receivables as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as of beginning of the year	247	319	1,674
Impairment losses recognized	<u>72</u>	<u>1,355</u>	<u>1,768</u>
Balance as of end of the year	<u><u>319</u></u>	<u><u>1,674</u></u>	<u><u>3,442</u></u>

We made impairment provision of trade receivables during the Track Record Period and our management make periodic judgement on impairment of overdue receivables based on the likelihood of collectability. For the years ended December 31, 2014, 2015 and 2016, we made impairment provisions in respect of trade receivables of RMB0.1 million, RMB1.4 million and RMB1.8 million, respectively.

## FINANCIAL INFORMATION

These amounts consisted of provisions made on a collective assessment basis during the Track record Period and certain provisions made on an individually-determined basis. As of December 31, 2014, 2015 and 2016, our trade receivables of nil, RMB0.7 million and RMB0.5 million were individually determined to be impaired which mainly consisted of individually impaired trade receivables of one streetlight control customer that our management assessed were irrecoverable. In addition to the individually impaired trade receivables, our impairment provision made in respect of trade receivables increased over the Track Record Period was mainly due to impairment provisions collectively made in 2015 and 2016, respectively, for trade receivables aged over one year. We believe our allowance for impairment loss of trade receivables is sufficient based on our management's assessment.

The following table sets out the aging analysis of trade receivables that are neither individually nor collectively considered to be impaired, as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	24,055	34,995	43,445
Less than 6 months past due	14,263	21,615	42,752
6 to 12 months past due	1,091	1,140	11,715
Over 12 months	450	2,465	2,982
 Total amounts past due but not impaired	 <u>15,804</u>	 <u>25,220</u>	 <u>57,449</u>
	<u>39,859</u>	<u>60,215</u>	<u>100,894</u>

Our trade receivables that were neither past due nor impaired related to a wide range of customers with whom we did not encounter any recent history of default. Our past due but not impaired trade receivables amounted to RMB15.8 million, RMB25.2 million and RMB57.4 million as of December 31, 2014, 2015 and 2016, respectively, which were mainly attributable to sales to power grid companies (and their designated entities). The balance of our past due but not impaired trade receivables from these customers increased over the Track Record Period mainly due to their delays in payment. Given the background of these customers and their settlement history with us in general, more particularly that they are not under financial difficulties and our trade receivables with them had not been subject to any historical write-offs, they are generally considered creditworthy. Our sales personnel followed up closely with these customers on the collection of the trade receivables and based on our past experience with these customers and evaluation of their current creditability, we believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Our trade receivables as of December 31, 2016 amounted to RMB104.3 million, of which RMB28.5 million, or 27.4%, had been settled as of March 31, 2017.



## FINANCIAL INFORMATION

### *Bills Receivables*

Bills receivables represent short-term bank acceptance notes receivable that entitle us to receive the full face amount from banks at maturity, which generally ranges from three to six months from the date of issuance. Our bills receivables amounted to RMB0.6 million, RMB5.5 million and RMB2.5 million as of December 31, 2014, 2015 and 2016, respectively. During the Track Record Period and up to the Latest Practicable Date, we had experienced no credit losses on bills receivables.

During the Track Record Period, as part of our treasury management, we endorsed certain bank acceptance bills received from our customers to our suppliers for settlement of trade payables of the same amount on a fully recourse basis. We had derecognized these bills receivable and the trade payables to suppliers in their entirety. These derecognized bank acceptance bills generally had a maturity date of less than six months from the end of each reporting period. Our Directors believe that we had transferred substantially all the risks and rewards of ownership of these bills and had discharged our obligation of the trade payables to our suppliers. As confirmed by our PRC legal advisors, we have limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. We considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As of December 31, 2014, 2015 and 2016, our maximum exposure to loss and undiscounted cash outflow, which is the same as the amount payable by us to our suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB2.3 million, RMB2.1 million and RMB2.0 million, respectively.

### **Trade and Other Payables**

Trade payables represent the amounts due primarily to our suppliers. Our suppliers generally grant us credit terms of 30 days, except for one major IC chipset supplier which had extended longer settlement terms to us during the Track Record Period as described below. Other payables due to third parties consist of (i) receipts in advance from customers before deliveries, mainly from our meter manufacturer customers, (ii) product warranty provision, and (iii) other payables and accruals. The following table sets out our trade payables and other payables due to third parties as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	73,739	95,467	49,806
Receipts in advance	10,213	1,869	6,457
Product warranty provision	3,066	4,570	5,295
Other payables and accruals	<u>15,432</u>	<u>22,850</u>	<u>32,689</u>
Amounts due to third parties	<u><u>102,450</u></u>	<u><u>124,756</u></u>	<u><u>94,247</u></u>

## FINANCIAL INFORMATION

### *Trade payables*

Trade payables increased from RMB73.7 million as of December 31, 2014 to RMB95.5 million as of December 31, 2015 primarily because of an increase in the purchase of IC chipsets in 2015 as driven by the higher sales during 2015 and the anticipated sales for 2016. Trade payables decreased to RMB49.8 million as of December 31, 2016 primarily because we made faster payments to the aforesaid IC chipset supplier.

The following table sets out an aging analysis of our trade payables, based on the invoice date, as of the dates indicated, as well as our trade payables turnover days for the periods indicated:

	<b>As of/Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within three months	51,279	34,425	40,413
After three months but within six months	3,072	32,121	3,954
After six months but within one year	12,312	24,624	5,190
Over one year but within two years	7,076	4,297	249
 Trade payables	 73,739	 95,467	 49,806
 Trade payables turnover days <sup>(1)</sup>	 228	 211	 93

*Note:*

- (1) Trade payables turnover days is derived by dividing the closing balances of trade payables by the cost of sales for the relevant period and then multiplied by the number of calendar days in that period.

Trade payables turnover days indicates the average time we take to make cash payments to suppliers. Our trade payables turnover days during the Track Record Period were significantly longer than the typical credit terms of 30 days granted by our suppliers. This was mainly because our major IC chipset supplier in Hong Kong had over time extended our actual payment terms, the actual duration of which varied depending on the repayment date as requested by this supplier from time to time. We have maintained a good and stable business relationship of more than five years with this IC chipset supplier. In light of the growing PLC market in China, it had extended our actual payment terms with a view to offering us more attractive terms of sales and enhancing our supplier preference without granting us a specific credit term. Our trade payables due to this supplier accounted for 69.9%, 78.6% and 31.9% of our trade payables as of December 31, 2014, 2015 and 2016, respectively. Our trade payables turnover days decreased from 228 days in 2014 to 93 days in 2016 mainly because we made faster payments to this IC chipset supplier over the same period.

Our trade payables as of December 31, 2016 amounted to RMB49.8 million, of which RMB37.5 million, or 75.3%, had been settled as of March 31, 2017.

### *Receipts in advance*

Receipts in advance mainly represent advance payments that we may receive from meter manufacturers before our delivery of products. The decrease in receipts in advance from RMB10.2 million as of December 31, 2014 to RMB1.9 million as of December 31, 2015 was primarily due to

## FINANCIAL INFORMATION

settlement of most of the sales involving receipts in advance before the end of 2015. Receipts in advance increased to RMB6.5 million as of December 31, 2016 mainly because of an increase in sales involving receipts in advance which were yet to be settled before the end of 2016.

### *Product warranty provision*

The following table sets out the movements of our product warranty provision as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as of the beginning of the year	1,912	3,066	4,570
Provision for the year	2,326	3,407	3,592
Utilization during the year	<u>(1,172)</u>	<u>(1,903)</u>	<u>(2,867)</u>
Balance as of the end of the year	<u><u>3,066</u></u>	<u><u>4,570</u></u>	<u><u>5,295</u></u>

Pursuant to our sales agreements with customers, we will rectify any product defects arising within the warranty period, which is generally between one to two years from the date of customer acceptance. Provision is therefore made for the best estimate of the expected settlement under these sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account our recent claim experience and historical warranty data. Our product warranty provision balance increased between December 31, 2014 to December 31, 2016, which was generally in line with the increase in our sales during the Track Record Period.

### *Other payables and accruals*

Other payables and accruals mainly represent listing expenses payables, payables in respect of purchase of property, plant and equipment, and payables relating to employee payroll and VAT. The increase in other payables and accruals from RMB15.4 million as of December 31, 2014 to RMB22.9 million as of December 31, 2015 was mainly due to listing expenses payables as of December 31, 2015 and an increase in salary payables to employees. Other payables and accruals increased from RMB22.9 million as of December 31, 2015 to RMB32.7 million as of December 31, 2016 mainly due to payables in respect of our purchase of the Changsha product assembly hub.

### **Available-for-Sale Financial Assets**

During the Track Record Period, we purchased available-for-sale financial assets from sizable and reputable banks in the PRC in the form of short-term wealth management products which were generally described as having low risks in the product description manuals published by the issuing banks and had generally higher yields than fixed deposits that we would otherwise make with banks in China. Our payment for investment in these available-for-sale financial assets amounted to RMB54.5 million, RMB280.2 million and RMB106.5 million for the years ended December 31, 2014, 2015 and 2016, respectively. Our available-for-sale financial assets amounted to RMB4.9 million, nil and nil as of December 31, 2014, 2015 and 2016, respectively. Our Directors consider that the carrying amounts of the investments in wealth management products carried at cost are not materially different from their fair values as of December 31, 2014, due to short-term maturity of these instruments. Our last wealth

## FINANCIAL INFORMATION

management products were settled in May 2016. We have not since and have no plans to continue to invest in these wealth management products. Going forward, we plan to only invest in financial products that are principal-guaranteed according to our cash management policies.

### Other Financial Liabilities

For more information on our other financial liabilities as set out below, see the section headed “History, Development and Reorganization — History and Development” and note 18 to the Accountants’ Report in Appendix I to this prospectus.

#### *Convertible redeemable preference shares*

Our subsidiary Old Cayman issued a total of 5,800,000 Series A Old Cayman Preferred Shares to SAIF in 2006, for which SAIF was entitled to receive preference dividends at a fixed rate of 6% per annum of the original issue price. Such preference dividends were accrued until March 5, 2014 when SAIF waived its right to dividends on those convertible redeemable preference shares. Pursuant to our accounting policy, the Series A Old Cayman Preferred Shares constituted “convertible redeemable preference shares” and were initially classified as a financial liability at fair value, which was estimated primarily based on our estimated enterprise value using the Black-Scholes model.

On March 5, 2014, save for the right to prior consent for certain corporate actions, SAIF waived all the special rights and privileges attached to these Series A Old Cayman Preferred Shares, including the conversion right, redemption right and right to receive preference dividends, and SAIF also waived the outstanding preference dividends payable to it. Accordingly, the Series A Old Cayman Preferred Shares and the preference dividend payable were derecognized from liabilities and were reclassified to equity at the then fair value of US\$12,772,000 (equivalent to RMB78,240,000) and US\$2,324,000 (equivalent to RMB14,239,000), respectively.

#### *Warrant*

In conjunction with SAIF’s subscription of the Series A Old Cayman Preferred Shares, Old Cayman also issued a warrant to SAIF in 2006 entitling SAIF to purchase from Old Cayman up to 2,320,000 Series A Old Cayman Preferred Shares. Based on its terms, the warrant constituted a stand-alone financial derivative and was classified as a financial liability and initially measured at fair value determined based on the Black-Scholes model.

On March 5, 2014, SAIF waived all its rights to subscribe for Series A Old Cayman Preferred Shares under the warrant. Accordingly, the warrant was derecognized from liabilities and was reclassified to equity at the then fair value of US\$2,109,000 (equivalent to RMB12,920,000).

#### *Historical impact on equity balance*

We recorded an opening balance of accumulated losses of RMB55.7 million as of January 1, 2014 at the beginning of the Track Record Period, which resulted principally from (i) aggregate losses of RMB64.3 million arising from changes in fair value of the convertible redeemable preference shares and the warrant issued by Old Cayman to SAIF in 2006 and (ii) accrued dividends of RMB14.3 million associated with such convertible redeemable preference shares. If such non-cash items were to be excluded, we would have had a positive retained earnings position as of January 1, 2014. We have since 2010 recorded significant growth in revenue, amounting to RMB17.2 million, RMB60.4 million, RMB86.3 million and RMB148.0 million for the years ended December 31, 2010, 2011, 2012 and 2013, respectively, based on our unaudited consolidated management accounts for the respective years.

## FINANCIAL INFORMATION

Moreover, according to our unaudited consolidated management accounts, excluding the effect of fair value changes of financial instruments and finance costs for accrued dividends of the convertible redeemable preference shares, we would have recorded net profit since 2010 in the amount of RMB0.1 million, RMB16.3 million, RMB15.6 million and RMB17.0 million for the years ended December 31, 2010, 2011, 2012 and 2013, respectively. We believe the continuous increasing trend of our revenue since 2010 was in line with the timing of the commercial deployment of AMR systems by State Grid since 2010. For details, see the sections headed “Industry Overview” and “Business” in this prospectus.

### CAPITAL EXPENDITURES

We incur capital expenditures mainly for the expansion and upgrade of our product assembly hubs and offices, the purchase of machinery and equipment and intangible assets (mainly relating to solution application softwares for our smart energy management business). As of December 31, 2014, 2015 and 2016, the carrying amount of our property, plant and equipment was RMB7.6 million, RMB10.0 million and RMB34.2 million, respectively. The carrying amount of our intangible assets amounted to RMB0.8 million, RMB5.9 million and RMB8.2 million for the respective periods of the Track Record Period. The following table sets out our capital expenditures for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions of property, plant and equipment	5,073	5,338	27,510
Additions of intangible assets	—	5,182	3,896
Less: payment unpaid	—	—	(13,459)
	<u>5,073</u>	<u>10,520</u>	<u>17,947</u>

For more information on the uses of our capital expenditures during the Track Record Period, see the section headed “Financial Information — Liquidity and Capital Resources — Cash Generated from/ (Used in) Investing Activities” in this prospectus.

We currently expect our capital expenditures for the year ending December 31, 2017 to be RMB25.6 million, which will be used mainly for the settlement of the purchase of our new product assembly hub and related leasehold improvements and the intangible assets primarily relating to the development of broadband PLC.

The total and outstanding capital expenditures (including set up costs) of our Changsha product assembly hub were RMB23.6 million and RMB15.4 million, respectively, as of December 31, 2016. It is currently expected that additional depreciation expenses to be incurred as a result of establishing this product assembly hub will amount to RMB2.5 million and RMB3.0 million for the year ending December 31, 2017 and 2018, respectively.

## FINANCIAL INFORMATION

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

We lease from landlords, including third parties and a connected person, certain of our product assembly hubs, office premises and staff quarters under non-cancellable operating leases. The following table sets out the total future minimum lease payments under these non-cancellable operating leases as of December 31, 2016:

	<b>Within one year RMB'000</b>	<b>After one year but within five years RMB'000</b>	<b>Total RMB'000</b>
Minimum lease payments under non-cancellable operating leases	<u>4,151</u>	<u>1,514</u>	<u>5,665</u>

Leases for properties are negotiated for terms generally ranging from one to five years. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments. The total future minimum lease payments under non-cancellable operating leases as of December 31, 2016 were RMB5.7 million. For more information, see the sections headed “Business — Properties” and “Continuing Connected Transaction” in this prospectus.

Our capital commitments outstanding in respect of property, plant and equipment amounted to RMB4.0 million as of December 31, 2016, which was mainly relating to our purchase of equipment for the establishment of the new product assembly hub in Changsha, Hunan Province. For details, see the section headed “Business — Properties” in this prospectus.

### INDEBTEDNESS

Apart from a bank loan of RMB9,000 recorded as current liabilities on our consolidated statements of financial position as of December 31, 2014, we did not have any other outstanding indebtedness as of each of December 31, 2014, 2015, 2016.

In January 2017, we entered into an entrusted bank loan agreement in the principal amount of RMB13.0 million to supplement our operating cash flow mainly in connection with the payment of purchase price of the Changsha product assembly hub. The decision of utilizing external interim financing to support payment for our Changsha assembly hub was made after duly considering, among other things, that (i) such payment was subject to a pre-agreed payment schedule which fell relatively close to the Chinese Lunar New Year in 2017, but which also coincided with a period of typically high operating cash outlays for settlements of trade payables and operating expenses (such as staff bonuses); (ii) our free cash at the relevant time had been largely budgeted according to our various business and operational plans; (iii) we have been adopting a relatively conservative liquidity management whereby we generally conserve a free cash buffer of no less than three months of operating needs to guard against any unexpected business and market fluctuations; (iv) we generally experience slower sales and trade receivables settlements in the beginning months of a calendar year (again given the Chinese Lunar New Year festive season) which, from time to time, may result in an interim net operating cash outflow position, which our management generally consider necessary to conserve sufficient level of free cash buffer to enable us to weather such interim period safely and smoothly; and (v) our expanded marketing and research and development efforts and on-going research and development projects have generally increased our regular operating funding needs. The entrusted bank loan was provided to us at an interest

## FINANCIAL INFORMATION

rate of 4.2% per annum by a commercial bank in the PRC on behalf of a financial leasing company in the PRC. We made drawdown on the entrusted bank loan in February 2017 and recorded a bank loan of RMB13.0 million as current liabilities on our unaudited consolidated statements of financial position as of March 31, 2017. We plan to allocate part of our net proceeds from the Global Offering for the repayment of the loan which is expected to be repaid in full by August 2017.

As of the Latest Practicable Date, save as the entrusted bank loan we made drawdown in February 2017, we did not have any banking facilities or any outstanding or authorized but unissued debt securities, term loans, other borrowings or indebtedness in the nature of borrowing, acceptance credits, hire purchase commitments, mortgages and charges. We evaluate our cash requirements and sources of funding from time to time and, subject to our financial condition, the cost of financing and other factors, we may in the future consider to seek credit facilities from commercial banks to be used primarily for trade finance purposes.

Our Directors have confirmed that we had no material defaults in payment of trade and non-trade payables and bank borrowings, nor any breaches of finance covenants during the Track Record Period and up to the Latest Practicable Date.

Save as disclosed above, our Directors have confirmed that there is no material change in our indebtedness position since December 31, 2016 and up to the date of this prospectus.

### CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties. We had historically during the Track Record Period provided a guarantee to an IC chipset supplier which was an Independent Third Party, details of which are set out in the section headed “Business — Production and Procurement — Suppliers — Raw Materials” in this prospectus. During the Track Record Period and up to the Latest Practicable Date, we had not been required to make any payment under this guarantee. Our Directors do not consider it probable that a claim will be made against our Group under this guarantee and our maximum liability thereunder as of each of December 31, 2016 and the Latest Practicable Date was nil and nil, respectively, as the relevant guarantee arrangement had already expired.

### RELATED PARTY TRANSACTIONS

During the Track Record Period and up to the Latest Practicable Date, we leased certain premises from Mr. Wang Shiguang, our Chairman and executive Director, as offices for our subsidiary Risecomm Beijing Comm. Our rental expenses paid to Mr. Wang Shiguang for the lease of such premises was RMB0.7 million, RMB0.7 million and RMB0.7 million for the years ended December 31, 2014, 2015 and 2016, respectively. We had also entered into the Tenancy Agreement with Mr. Wang Shiguang on March 31, 2016 for the lease of such premises from April 1, 2016 to March 31, 2019. For more details, see the section headed “Continuing Connected Transaction” in this prospectus.

During the Track Record Period, we outsourced some of our AMR maintenance and customer services to Shenzhen Tongwei, a power grid service provider in the PRC. During the period from March 2015 to January 2016, the spouse of Zhang Youyun, our executive Director, was the sole shareholder and a director of Shenzhen Tongwei, who subsequently disposed of her entire equity interest to Independent Third Parties and resigned from her directorship in Shenzhen Tongwei in January 2016. Accordingly, Shenzhen Tongwei was a related party of ours during the Track Record Period from March 2015 to January 2016. Customer service fees and AMR maintenance service fees paid to Shenzhen Tongwei as our related party amounted to RMB14.1 million for the year ended December 31, 2015.

## FINANCIAL INFORMATION

The above related party transactions were conducted in accordance with terms as agreed between us and the respective related parties. Our Directors have confirmed that all our related party transactions during the Track Record Period were conducted on normal commercial terms that are reasonable and in the interest of our Group as a whole. Our Directors have further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

Amounts due from related parties represented amounts due from certain shareholders for subscribing for the equity interest in our Group, and amounted to RMB74.9 million, RMB79.5 million and nil as of December 31, 2014, 2015 and 2016, respectively. These amounts due from related parties were unsecured, non-interest bearing and repayable on demand. Our Directors have confirmed that as of the Latest Practicable Date, our related parties have settled all amounts due to us. For details, see the section headed “History, Development and Reorganization — History and Development — Introduction and Exit of certain Shareholders” in this prospectus.

Amounts due to related parties during the Track Record Period represent (i) amounts due to Risecomm Beijing Tech for the unpaid registered capital amounting to RMB0.5 million as of December 31, 2014, which was fully paid up by us in 2015, and (ii) trade payables due to Shenzhen Tongwei amounting to RMB0.9 million as of December 31, 2015. The amounts due to related parties were unsecured, non-interest bearing and repayable on demand. Our Directors have confirmed that as of the Latest Practicable Date, we have settled all amounts due to related parties.

### OFF BALANCE SHEET TRANSACTIONS

As of December 31, 2016 and the Latest Practicable Date, we did not have any off-balance sheet arrangements or any variable interest in any other entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

### FINANCIAL RATIOS

The following table sets out certain financial ratios relating to our Group as of the dates or for the periods indicated:

	As of/ Year ended December 31,		
	2014	2015	2016
Current ratio <sup>(1)</sup>	2.58	2.65	2.67
Quick ratio <sup>(2)</sup>	2.34	2.14	2.26
Gearing ratio <sup>(3)</sup>	0.005%	N/A	N/A
Return on assets <sup>(4)</sup>	18.3%	15.4%	15.1%
Return on equity <sup>(5)</sup>	57.0%	26.0%	24.9%

*Notes:*

- (1) Current ratio is calculated by dividing total current assets by total current liabilities.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities.
- (3) Gearing ratio is calculated by dividing total loans and borrowings by total equity as of the end of the relevant period.



## FINANCIAL INFORMATION

- (4) Return on assets is calculated by dividing the net profit for the period by the arithmetic mean of the opening and closing balances of total assets in the relevant period.
- (5) Return on equity is calculated by dividing the net profit for the period by the arithmetic mean of the opening and closing balances of total equity in the relevant period.

### **Current Ratio**

Our current ratio was 2.58, 2.65 and 2.67 as of December 31, 2014, 2015 and 2016, respectively. The increase in current ratio from 2.58 as of December 31, 2014 to 2.65 as of December 31, 2015 was primarily due to a relatively higher increase in our current assets (mainly inventories and trade and other receivables) as of December 31, 2015. Our current ratio remained relatively stable at 2.65 and 2.67 as of December 31, 2015 and 2016, respectively. For more information on our current assets and current liabilities, see the section headed “Financial Information — Liquidity and Capital Resources — Net Current Assets” in this prospectus.

### **Quick Ratio**

Our quick ratio was 2.34, 2.14 and 2.26 as of December 31, 2014, 2015 and 2016, respectively. The decrease in quick ratio from 2.34 as of December 31, 2014 to 2.14 as of December 31, 2015 was primarily due to a significant increase in our inventories over the same period. Our quick ratio improved as of December 31, 2016 as compare to that as of December 31, 2015. This was because of a significant decrease in inventories which was partially offset by a decrease in trade and other payables over the same period. For more information on our current assets and current liabilities, see the section headed “Financial Information — Liquidity and Capital Resources — Net Current Assets” in this prospectus.

### **Gearing Ratio**

Our gearing ratio was 0.005% as of December 31, 2014 as we only had minimal loans and borrowings as of the date thereof. As we did not have any loans and borrowings as of each of December 31, 2015 and 2016, the disclosure of gearing ratio as of the relevant dates would not be meaningful and comparable. For more information, see the section headed “Financial Information — Indebtedness” in this prospectus.

### **Return on Assets**

Our return on assets decreased from 18.3% in 2014 to 15.4% in 2015 due to an increase in total assets as of December 31, 2015. The decrease of return on assets from 15.4% in 2015 to 15.1% in 2016 was mainly due to a decrease in net profit margin for the period. For more information, see the Accountants’ Reports in Appendix I to this prospectus.

### **Return on Equity**

Our return on equity decreased from 57.0% in 2014 to 26.0% in 2015 due to an increase in total equity as of December 31, 2015. The decrease of return on equity from 26.0% in 2015 to 24.9% in 2016 was mainly due to a decrease in net profit margin for the period. For more information, see the Accountants’ Reports in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including credit risk, liquidity risk and foreign currency risk. Our Directors review and agree policies for managing each of these risks.

#### Credit Risk

Our credit risk is primarily attributable to bank deposits, available-for-sale financial assets and trade and other receivables. Our management has a credit policy in place and the exposure to the credit risk is monitored on an on-going basis.

Bank deposits and available-for-sale financial assets are placed with financial institutions that have high credit ratings. Given their credit ratings, our management does not expect any counterparty to fail to meet its obligations.

In respect of trade and other receivables, as part of our on-going credit control procedures, we monitor the creditworthiness of customers to whom we grant credit in the normal course of our business. Before our acceptance of orders from customers, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on these customers' background, financial strengths, historical repayment records, current repayment ability, as well as the economic environment in which the customer operates. Trade receivables under credit sales arrangement are due in accordance with specific payment terms agreed with individual customer on a case by case basis subject to the fulfillment of conditions as stipulated in the respective sales contracts. Normally, we do not obtain collateral from our customers.

Our sales personnel are responsible for following up with collection of trade receivables on a regular basis. Our management reviews overdue balances to make appropriate assessment and determine on a case-by-case basis whether or not provision for impairment of trade receivables should be made. Our management team works closely with sales personnel to conduct regular reviews of repayment status of customers with overdue trade receivable balances. Our management will from time to time review, and if appropriate, revise and update our credit policy and internal control procedures for trade receivables collection.

We had certain concentrations of credit risk during the Track Record Period. As of December 31, 2014, 2015 and 2016, approximately 16.4%, 33.8% and 13.6% of our trade and bills receivables was due from our largest customer for the Track Record Period and approximately 52.1%, 58.5% and 42.1% of our trade and bills receivables was due from our five largest customers for the Track Record Period, respectively.

Our maximum exposure to credit risk is represented by the carrying amount of each financial asset on our consolidated statements of financial position after deducting any impairment allowance, and endorsed bills with full recourse which were derecognized by us. For details, see note 14 in the Accountants' Report included in Appendix I to this prospectus.

Except for the guarantee given by us as set out in the section headed "Business — Production and Procurement — Suppliers — Raw Materials" in this prospectus, we did not provide any other guarantees which would expose us to credit risk. The maximum exposure to credit risk in respect of this guarantee as of December 31, 2016 was nil. For more information, see note 26 in the Accountants' Report included in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Liquidity Risk

Our approach to manage liquidity is to ensure, as far as possible, that we will have sufficient cash to meet our financial obligations when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation. For more information on the contractual maturity profile of our non-derivative financial liabilities, see note 24(b) in the Accountants' Report included in Appendix I to this prospectus.

### Foreign Currency Risk

We are exposed to currency risk primarily through purchases which give rise to payables and bank balances that are denominated in a foreign currency, which is a currency other than the functional currency of the operations to which the transactions relate. For us, the currency giving rise to the foreign currency risk is primarily the U.S. dollar. For more information, see note 24(c) in the Accountants' Report included in Appendix I to this prospectus.

The following table indicates the changes in our profit after taxation (and retained earnings) and other components of equity that would arise if foreign exchange rates to which our financial assets and liabilities have significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant:

	2014		As of December 31, 2015		2016	
	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings <i>RMB'000</i>	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings <i>RMB'000</i>	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings <i>RMB'000</i>
U.S. dollar	5%	(3,515)	5%	(5,855)	5%	(3,253)
	-5%	3,515	-5%	5,855	-5%	3,253

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translating into Renminbi at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose the Group to foreign currency risk at the end of each reporting period.

### DIVIDENDS AND DIVIDEND POLICY

We declared cash dividends of US\$13.0 million (equivalent to RMB84.0 million) in March 2016, which was fully settled by us in May 2016. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

## **FINANCIAL INFORMATION**

Subject to the provisions of the Articles and the Companies Law and the discretion of our Directors, we currently target to distribute to our Shareholders not less than 30% of our profit for the year attributable to equity shareholders of the Company. Declaration of dividends is subject to the discretion of our Directors depending on our results of operations, working capital and cash position, future business and earnings, capital requirements, contractual restrictions, if any, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles, which provide that dividends may be declared by us at a general meeting, but no dividend shall be declared in excess of the amount recommended by the Board, and (ii) the applicable laws of the Cayman Islands, which provide that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account and that no dividend may be paid out of the share premium account unless, immediately following the date on which the dividend is paid, our Company is able to pay its debts as they fall due in the ordinary course of business. Under applicable PRC law, each of our subsidiaries in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations to the statutory reserves.

### **DISTRIBUTABLE RESERVES**

As of December 31, 2016, our Company had no reserves available for distribution to our Shareholders.

### **LISTING EXPENSES**

We expect to incur total listing expenses (including professional fees, underwriting commissions and other fees) of approximately HK\$45.9 million (based on the mid-point of the indicative Offer Price range), of which approximately HK\$27.8 million has been or is expected to be recognized in our consolidated statements of profit or loss and other comprehensive income and approximately HK\$18.1 million is expected to be capitalized upon Listing. Listing expenses of approximately HK\$17.4 million were reflected in our consolidated statements of profit or loss and other comprehensive income for the Track Record Period and an additional amount of approximately HK\$10.4 million is expected to be recognized in our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period and for the year ending December 31, 2017. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from the estimate. Our Directors expect that our financial results for the year ending December 31, 2017 will be impacted by the non-recurring listing expenses to be charged to our consolidated statements of profit or loss and other comprehensive income.

### **UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the equity shareholders of our Company as of December 31, 2016, as if the Global Offering had taken place on December 31, 2016.

## FINANCIAL INFORMATION

The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of December 31, 2016 or at any future date.

	<b>Consolidated net tangible assets of our Group attributable to equity shareholders of our Company as of December 31, 2016 RMB'000<sup>(1)</sup></b>	<b>Estimated net proceeds from the Global Offering RMB'000<sup>(2)(5)</sup></b>	<b>Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company RMB'000<sup>(3)(4)</sup></b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company RMB<sup>(4)</sup></b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company HK\$<sup>(5)</sup></b>
Based on an Offer Price of HK\$0.90 per Offer Share	212,510	119,251	331,761	0.41	0.46
Based on an Offer Price of HK\$1.00 per Offer Share	212,510	136,087	348,597	0.44	0.50

*Notes:*

- (1) The consolidated net tangible assets of our Group attributable to equity shareholders of the Company as of December 31, 2016 have been calculated based on the audited consolidated total equity attributable to equity shareholders of our Company as of December 31, 2016 of RMB220,707,000 less intangible assets of RMB8,197,000, extracted from the financial information section of the Accountants' Report set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the issuance of 200,000,000 Shares and the indicative Offer Prices of HK\$0.90 and HK\$1.00 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, after deduction of total listing expenses of approximately RMB40.3 million and RMB41.1 million, respectively, and does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme, or any options which may be granted under the Share Option Scheme.
- (3) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to December 31, 2016.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) and on the basis of 800,000,000 Shares in issue (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Capitalization Issue and the Global Offering) assuming that the Capitalization Issue and the Global Offering had been completed on December 31, 2016 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in "Appendix IV — Statutory and General Information" in this prospectus.
- (5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of HK\$1.00 to RMB0.8861. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

## FINANCIAL INFORMATION

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our revenue and gross profit remained relatively stable for the three months ended March 31, 2017 as compared to the same period in 2016. Our net profit and loss position was negatively impacted for the three months ended March 31, 2017 as compared to the same period in 2016, mainly because (i) we incurred more research and development expenses in part due to our increased focus on the development of broadband PLC since the second half of 2016, and (ii) we incurred more staff costs as we recruited more general and administrative personnel in the first quarter of 2017 to support our overall business development.

We have also fully paid the purchase price of our new Changsha product assembly hub, and taken out an entrusted loan to supplement our operating cashflow to facilitate the said purchase payment. We plan to allocate part of our net proceeds from the Global Offering for the repayment of the entrusted bank loan which is expected to be repaid in full by August 2017. As of the Latest Practicable Date, we were in the process of applying for the real estate title certificates from the relevant PRC authorities, and had commenced trial production in our Changsha product assembly hub. For more details, see the sections headed “Business — Production and Procurement — Product Assembly Hubs,” “Business — Properties” and “Financial Information — Indebtedness” in this prospectus.

Our Directors have confirmed that, since December 31, 2016 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountants’ Report included in Appendix I to this prospectus.

### NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to Rule 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

See the section headed “Business — Business Strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, are estimated to be approximately HK\$144.1 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$0.95 per Share, being the mid-point of the indicative Offer Price range of HK\$0.90 to HK\$1.00 per Share. We intend to use such net proceeds for the following purposes:

We intend to use the net proceeds we will receive from the Global Offering for the following purposes:

- approximately HK\$86.5 million (approximately 60.0% of our total estimated net proceeds) for the research and development of the PLC technology and related products and solutions, which is further allocated as below:
  - approximately 30.0% of estimated net proceeds for investing in the development of intellectual properties through cooperation with or acquisition of intellectual property rights from third parties to complement and expedite our research and development in areas such as broadband OFDM ICs, integrated “single-IC” model with “PLC+RF” dual-mode technology, and unified control systems for smart energy management. For more information, see the section headed “Business — Research and Development” in this prospectus;
  - approximately 15.0% of estimated net proceeds for possible mergers and acquisitions of technology and/or research companies with complementary core technologies and intellectual properties, or to acquire technologies or intellectual property rights from those companies. As of the Latest Practicable Date, we were not in negotiation with any specific merger or acquisition targets and had not identified any such targets; and
  - approximately 15.0% of estimated net proceeds for the recruitment of research and development staff to support our business, our core research activities, as well as day-to-day research and development functions, such as product prototyping, testing and purchase of related equipment.
- approximately HK\$28.8 million (approximately 20.0% of our total estimated net proceeds) for sales and marketing expenditure, which is further allocated as below:
  - approximately 10.0% of estimated net proceeds for (i) cultivating relationships with any possible sales channels and conducting training for any external sales and marketing force, (ii) participating in trade exhibitions and industry forums both at home and abroad, and (iii) conducting marketing and promotion activities to enhance brand recognition;
  - approximately 5.0% of estimated net proceeds for undertaking an increasing number of pilot projects for smart energy management business; and

## FUTURE PLANS AND USE OF PROCEEDS

- approximately 5.0% of estimated net proceeds for recruitment of sales and marketing staff mainly to support our sales of concentrators for the AMR business, the “Four-Meters-in-One” trial deployment by State Grid and the marketing of our smart energy management business. Subject to our review of the pace of business and market developments and our marketing progress from time to time, we currently plan to recruit up to 20 sales and marketing staff for the two years ending December 31, 2018 to support these business needs.
- approximately HK\$14.4 million (approximately 10.0% of our total estimated net proceeds) for the repayment of an entrusted bank loan obtained for the purpose of supplementing our operating cash flow to facilitate payment for the purchase of our new product assembly hub in Changsha, Hunan Province mainly for the volume production of AMR devices, particularly concentrators. For more information, see the sections headed “Business — Production and Procurement — Product Assembly Hubs” and “Financial Information — Indebtedness” in this prospectus.
- approximately HK\$14.4 million (approximately 10.0% of our total estimated net proceeds) for working capital and general corporate purposes.

We plan to use the majority of the net proceeds from the Global Offering in 2017 and 2018 for the above purposes with the remaining amount to be used by no later than 2019.

If the Offer Price is set at the low end of the indicative Offer Price range, the estimated net proceeds from the Global Offering, assuming that the Over-allotment Option is not exercised, will decrease to approximately HK\$134.6 million. In such event, we will adjust the intended use of the net proceeds for the above purposes on a pro-rata basis.

If the Offer Price is set at the high end of the indicative Offer Price range, the estimated net proceeds from the Global Offering, assuming that the Over-allotment Option is not exercised, will increase to approximately HK\$153.6 million. If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$0.90, HK\$0.95 and HK\$1.00 per Share, being the low end, mid-point and high end of the indicative Offer Price range, the estimated net proceeds from the Global Offering, including the net proceeds from the exercise of the Over-allotment Option, will increase to approximately HK\$160.2 million, HK\$171.1 million or HK\$182.1 million, respectively. In each of these events, 10% (rounded up) of the net proceeds will remain to be allocated for working capital and general corporate purposes, and the remaining 90% of the net proceeds will be applied first on full repayment of the principal of the entrusted loan (in the amount of approximately RMB13.0 million, equivalent to approximately HK\$14.7 million), with the remaining balance to be allocated to the remaining purposes (ie., research and development of the PLC technology and related products and solutions, and sales and marketing expenditure) in the proportion calculated based on their respective initial allocation amounts.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks or financial institutions.



## UNDERWRITING

### HONG KONG UNDERWRITERS

China Galaxy International Securities (Hong Kong) Co., Limited

Long Asia Securities Limited

Pacific Foundation Securities Limited

Gransing Securities Co., Limited

Sinolink Securities (Hong Kong) Company Limited

Wellington Financial Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, China Galaxy International, for itself and on behalf of the Underwriters, and our Company agreeing to the final Offer Price), the Hong Kong Underwriters have agreed to subscribe or procure subscribers for the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among others, the International Underwriting Agreement having been signed and becoming unconditional.

##### *Grounds for termination*

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination with immediate effect by China Galaxy International, in its sole and absolute discretion (for itself and on behalf of the Hong Kong Underwriters) by notice orally or in writing to our Company prior to 8:00 a.m. on the Listing Date if:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any event, or series of events (either national or international), in the nature of force majeure (including, without limitation, epidemics, pandemics, outbreaks of diseases (including, without limitation, Severe Acute Respiratory Syndrome (**SARS**), Influenza A (**H5N1**) or swine or avian influenza (**H7N9**) or such related/mutated forms), fire, explosion, flooding, tsunami, earthquake, volcano eruption, ice-storm, calamity, crisis, civil commotion, strikes, lock-outs, riot, public disorder, economic sanction, acts of government, declaration of a national or international emergency or war, outbreak or escalation of hostilities (whether or not war is declared), acts of war, acts of terrorism (whether or not responsibility has been claimed) or acts of God), severe or extended

## UNDERWRITING

interruption in transportation, in or directly or indirectly affecting Hong Kong, Singapore, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan or any other jurisdiction in which any member of our Group conducts business (each a **Relevant Jurisdiction**); or

- (ii) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (iii) any change or development involving a prospective change, or any event or series of events likely to result or representing in any change, or development, or a prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency credit or market conditions (including, without limitation, any conditions affecting stock and bond markets, money and foreign exchange markets, investment markets and credit markets) in or affecting any Relevant Jurisdiction; or
- (iv) any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ National Markets, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or a devaluation of the HK\$ or the RMB against any foreign currencies; or
- (v) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of our Company or of any other members of our Group listed or quoted on a stock exchange or an over-the-counter market; or
- (vi) any general moratorium on commercial banking activities in any Relevant Jurisdiction imposed by any competent governmental authority or any disruption in commercial banking, foreign exchange trading or securities settlement or clearance services in those places; or
- (vii) any new law or any change or development involving a prospective change in existing laws, or any event or circumstance likely to result in a change or development involving a prospective change in the existing laws, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (viii) (A) a change or development involving a prospective change in taxes or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the HK\$ or the RMB against any foreign currencies, a change in the system under which the value of the HK\$ is linked to that of the US\$ or RMB is linked to any foreign currency or currencies), or (B) the implementation of any exchange control or taxation in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (ix) the issue or requirement to issue by our Company of a supplemental or amendment to, this prospectus, the Application Forms or other documents in connection with the offer and sale of the Shares pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any

## UNDERWRITING

requirement or request of the Stock Exchange or the SFC, in circumstances where the matter to be disclosed could, in the opinion of China Galaxy International, adversely affect the marketing for or implementation of the Global Offering; or

- (x) any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xi) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, general affairs, business, management, prospects, shareholders’ equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, or performance of any member of our Group (including any litigation or claim of any third party being threatened or instigated against any member of our Group); or
- (xii) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or
- (xiii) a Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xiv) the chairman or chief executive officer of our Company vacating his office; or
- (xv) a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xvi) a prohibition on our Company for whatever reason from allotting, issuing or selling, as the case may be, any of the Offer Shares (including the Over-Allotment Option) pursuant to the terms of the Global Offering; or
- (xvii) a non-compliance of, among other documents, this prospectus, the Application Forms or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xviii) any demand by creditors for repayment of indebtedness or an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xix) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or on, any Relevant Jurisdiction,

which, individually or in the aggregate, in the sole and absolute opinion of China Galaxy International (1) is or will or is likely to be materially adverse to, or materially and prejudicially affects, the assets, liabilities, general affairs, business, management, prospects,

## UNDERWRITING

shareholders' equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, or performance of our Company or our Group as a whole or to any present or prospective shareholders of our Company in its capacity as such, or (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering, or (3) makes it or will make it or is likely to make it inadvisable or inexpedient or incapable or impracticable for the Global Offering to proceed or to market the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by, among other documents, this prospectus and the Application Forms, or (4) has or will have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable, inadvisable or impracticable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of China Galaxy International after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in this prospectus and/or the Application Forms and/or any announcement or advertisement issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, in the sole and absolute opinion of China Galaxy International, when it was issued, or has become, untrue, incorrect, incomplete or misleading, or that any forecast, expression of opinion, intention or expectation expressed in, among other documents, this prospectus and/or the Application Forms and/or any announcements or advertisements, communications or other documents issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was made, not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, in any material respect; or
  - (ii) any contravention by any member of our Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Company Law of the PRC or the Listing Rules; or
  - (iii) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
  - (iv) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material misstatement in any of this prospectus and/or the Application Forms or constitute a material omission therefrom; or
  - (v) any breach of any of the obligations of our Company, the executive Directors, Ms. Chen Junling, Seashore Fortune or Magical Success, or any of them under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
  - (vi) any event, act or omission which gives or is likely to give rise to any liability of our Company, the executive Directors, Ms. Chen Junling, Seashore Fortune or Magical Success, or any of them pursuant to the Hong Kong Underwriting Agreement; or

## UNDERWRITING

- (vii) any material adverse change or prospective material adverse change or development involving a prospective adverse change in the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, results of operations, positions or condition, financial, operational or otherwise, or performance of our Group as a whole; or
- (viii) any breach or alleged breach of any of the warranties or undertakings of the Hong Kong Underwriting Agreement, or any of (or any event rendering any of) the warranties or undertakings of the Hong Kong Underwriting Agreement is (or would when repeated be) untrue, incorrect, incomplete or misleading; or
- (ix) any litigation or dispute or potential litigation or dispute, which would materially affect the operation, financial condition, reputation or composition of the board of our Company and our Group; or
- (x) that a significant portion of the orders in the bookbuilding process at the time when the International Underwriting Agreement is entered into have been withdrawn, terminated, canceled or otherwise not fulfilled; or
- (xi) that the investment commitments by any cornerstone investors (if any) after signing of agreements with such cornerstone investors have been withdrawn, terminated, canceled or otherwise not fulfilled; or
- (xii) that the grant or agreement to grant by the Listing Committee of the Listing on the Main Board of, and permission to deal on the Main Board in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-Allotment Option and Shares issuable upon exercise of options which has been granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date and options which may be granted under the Share Option Scheme) (the "**Admission**") is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the Admission is subsequently withdrawn, canceled, qualified (other than by customary conditions), revoked or withheld; or
- (xiii) that our Company withdraws this prospectus (or any other documents used in connection with the contemplated offer of the Shares) or the Global Offering; or
- (xiv) that any expert whose consent is required for the issue of this prospectus with inclusion of its reports and/or letters (as the case may be) and references to its name in the form and context in which they appear has withdrawn its consent to the issue of this prospectus.

### **Undertakings to the Stock Exchange under the Listing Rules**

#### ***By us***

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, except pursuant to the Capitalization Issue, the Global Offering, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme as described and contained in this prospectus, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six

## UNDERWRITING

months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 10.08(1) to (5) of the Listing Rules.

***By SAIF***

Pursuant to Rule 10.07(1)(a) of the Listing Rules, SAIF (as a shareholder of our Company holding 32.89% shareholding interest prior to Listing) has undertaken to the Stock Exchange that it shall not and shall procure that the registered holders controlled by SAIF shall not in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it is shown by this prospectus to be the beneficial owner.

SAIF has also undertaken to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Our Company shall also inform the Stock Exchange in writing as soon as it has been informed of the above matters (if any) by SAIF and disclose such matters by way of a public announcement to be published in accordance with the Listing Rules as soon as possible.

## UNDERWRITING

### Undertakings pursuant to the Hong Kong Underwriting Agreement

#### *By us*

Our Company has undertaken that, except pursuant to the Global Offering during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure that our subsidiaries will not, without the prior written consent of China Galaxy International (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable) or deposit any share capital or other securities of our Company, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) and (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not such issue of the Shares or securities will be completed within such period),

provided that the foregoing restrictions shall not apply to (i) the issue of Shares by our Company pursuant to the Capitalization Issue, the Global Offering, the Over-allotment Option or the exercise of any options granted under the Pre-IPO Share Option Scheme; or (ii) the grant by our Company of any options, and the issue by our Company of Shares pursuant to the exercise of the options to be granted under the Share Option Scheme.

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

## UNDERWRITING

### ***By SAIF***

SAIF has undertaken that, without the prior written consent of China Galaxy International (on behalf of the Hong Kong Underwriters) and our Company and unless in compliance with the requirements of the Listing Rules, it will not and, will procure that none of its affiliates will, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date (the “**First 12-Month Period**”):

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above, in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of the Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

### ***By the substantial shareholders of the Company***

Each of Mr. Yue Jingxing and his wholly-owned company Seashore Fortune, and Ms. Chen Junling and her wholly-owned company Magical Success, has undertaken that, save as pursuant to the Stock Borrowing Agreement, without the prior written consent of China Galaxy International (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, he/she/it will not and, will procure that none of his/her affiliates will, during the First 12-Month Period:

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares (including any Shares held or to be held by him/her/it as at the date of the Hong Kong Underwriting Agreement or on the Listing Date, or any Shares which may be allotted and issued to him/her pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme) or any other securities of the Company or any interest therein (including,



## UNDERWRITING

without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above, in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of the Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

### ***By other Shareholders***

Each of the Shareholders (other than SAIF and the substantial shareholders of the Company which have given their undertakings separately) has undertaken to China Galaxy International that, without the prior written consent of China Galaxy International and unless in compliance with the requirements of the Listing Rules, he/she/it will not and, will procure that none of his/her affiliates will, during the First Six-Month Period:

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares (including any Shares held or to be held by him/her/it as at the date of the Hong Kong Underwriting Agreement or on the Listing Date, or any Shares which may be allotted and issued to him/her/it pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme) or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or

## UNDERWRITING

- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above, in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of the Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

### ***By grantees under the Pre-IPO Share Option Scheme***

Each grantee holding outstanding options granted under the Pre-IPO Share Option Scheme has undertaken to China Galaxy International that, without the prior written consent of China Galaxy International and unless in compliance with the requirements of the Listing Rules, he/she will not and, will procure that none of his/her affiliates will, during the First Six-Month Period:

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares which may be allotted and issued to him/her pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above, in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of the Shares or such other securities of the Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

### **The International Offering**

#### ***International Underwriting Agreement***

In connection with the International Offering, it is expected that the Company will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriters would severally agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering. In the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

## UNDERWRITING

### **Underwriting Commissions and Expenses**

The Underwriters are expected to receive underwriting commissions of 3.5% of the Offer Price of all the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. Such underwriting commissions payable to the Underwriters, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, are currently estimated to be approximately HK\$45.9 million in aggregate (based on an Offer Price of HK\$0.95 per Share, being the mid-point of the indicative Offer Price range of HK\$0.90 to HK\$1.00 per Share, and on the assumption that the Over-allotment Option is not exercised), which are to be borne by our Company.

In addition, our Company may, at its absolute discretion, pay the Underwriters an incentive fee of up to 1.5% of the Offer Price of all the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option).

### **INDEMNITY**

Each of our Company, the executive Directors, Ms. Chen Junling, Seashore Fortune and Magical Success (collectively the “**Indemnity Covenantors**”) has agreed to indemnify the Hong Kong Underwriters against certain losses which the Hong Kong Underwriters may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Indemnity Covenantors of the Hong Kong Underwriting Agreement.

### **INDEPENDENCE OF THE SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### **UNDERWRITERS’ INTERESTS IN OUR COMPANY**

Save for their obligations under the relevant Underwriting Agreements, none of the Underwriters has any shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## STRUCTURE OF THE GLOBAL OFFERING

### OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.00 per Offer Share and is expected to be not less than HK\$0.90 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$1.00 per Share plus 1.0% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$2,525.20 for one board lot of 2,500 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.00, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

### DETERMINING THE OFFER PRICE

The Offer Price is expected to be determined by agreement between China Galaxy International (for itself and on behalf of the Underwriters) and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, June 2, 2017 and in any event, unless otherwise announced, no later than Monday, June 5, 2017.

The Offer Price will be no more than HK\$1.00 per Offer Share and is expected to be no less than HK\$0.90 per Offer Share. The Offer Price will be determined within the Offer Price range as stated in this prospectus unless otherwise announced, not later than the last expected Price Determination Date. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

China Galaxy International, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional, corporate and other investors during the book-building process, and with our consent, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company at [www.risecomm.com.cn](http://www.risecomm.com.cn) notices of the reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with us, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offer statistics as currently set out in the section headed “Summary” of this prospectus and any other financial information which may change materially as a result of such reduction.

In the absence of any notice being published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company at [www.risecomm.com.cn](http://www.risecomm.com.cn) of a reduction in the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed by us, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

## STRUCTURE OF THE GLOBAL OFFERING

**If we are unable to reach agreement with China Galaxy International (for itself and on behalf of the Underwriters) on the Offer Price on or before Friday, June 2, 2017, being the first expected Price Determination Date, and, in any event, if we are unable to reach agreement with China Galaxy International (for itself and on behalf of the Underwriters) on the Offer Price by Monday, June 5, 2017, unless otherwise announced, the Global Offering will not become unconditional and will lapse immediately.**

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offering and the results of application and basis of allotment of the Hong Kong Offer Shares, on Thursday, June 8, 2017.

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering and the International Offering. We intend to make available initially up to 200,000,000 Shares under the Global Offering (assuming the Over-allotment Option is not exercised), of which 180,000,000 Shares will initially be conditionally placed pursuant to the International Offering and the remaining 20,000,000 Shares will initially be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under “The Hong Kong Public Offering” in this section). The International Offer Shares are conditionally placed with professional, institutional, corporate and other investors whom we anticipate to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

Investors may apply for our Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering involves selective marketing of our Shares to professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Under the International Offering, through a process known as “bookbuilding,” prospective professional, institutional, corporate and other investors are required to specify the number of our Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

Allocation of our Shares pursuant to the International Offering will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, Shares, after the Listing. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of

## STRUCTURE OF THE GLOBAL OFFERING

balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriter(s) pursuant to the International Underwriting Agreement, exercisable by China Galaxy International on behalf of the International Underwriters. The Over-allotment Option gives China Galaxy International the right exercisable at any time from the date of the International Underwriting Agreement up to the thirtieth day from the last day for the lodging of applications under the Hong Kong Public Offering to require us to issue up to an aggregate of 30,000,000 new Shares, representing 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Offering if any. China Galaxy International may also cover such over-allocations by purchasing the Offer Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, an announcement will be made. For further details, please refer to “The Over-allotment Option” in this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters in each case on a several basis, each being subject to the conditions set out in the section headed “— Conditions of the Hong Kong Public Offering” below. We entered into the Hong Kong Underwriting Agreement and, subject to an agreement on the Offer Price between us and China Galaxy International (for itself and on behalf of the Underwriters), we expect to enter into the International Underwriting Agreement on or around June 2, 2017. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are expected to be conditional upon each other.

### THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement) for the subscription in Hong Kong of initially 20,000,000 Shares at the Offer Price (representing 10% of the total number of Shares initially available under the Global Offering). Subject to the reallocation of Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.5% of our Company’s enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may fall to be allotted and be issued pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme).

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) is to be divided into two pools for allocation purposes (subject to adjustment of odd lot size): pool A and pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of pool B. Applicants should be aware that applications in pool A and in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in

## STRUCTURE OF THE GLOBAL OFFERING

that pool and be allocated accordingly. Applicants can only receive an allocation of the Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within pool A or pool B, and between the two pools, and any application for more than 10,000,000 Offer Shares (being 50% of the 20,000,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the sole discretion of China Galaxy International.

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 60,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 80,000,000 Shares, representing 40% of the Offer Shares initially available under the Global Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 100,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering. In each such case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally (subject to adjustment of odd lot size) between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced, in such manner as China Galaxy International deems appropriate.

In addition, if the Hong Kong Public Offering is not fully subscribed, China Galaxy International will have the discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such proportion and amounts as they deem appropriate. Conversely, China Galaxy International may at its discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

## **STRUCTURE OF THE GLOBAL OFFERING**

### **CONDITIONS OF THE HONG KONG PUBLIC OFFERING**

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the exercise of options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date, and any options which may be granted under the Share Option Scheme) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between us and China Galaxy International (for itself and on behalf of the Underwriters);
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by China Galaxy International, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements,

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of the Hong Kong Public Offering is conditional upon, among other things, the International Offering and the Hong Kong Public Offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and we will notify the Stock Exchange immediately. We will publish or cause to be published a notice of the lapse of the Hong Kong Public Offering on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company at [www.risecomm.com.cn](http://www.risecomm.com.cn) on the next day following such lapse.

In case the Hong Kong Public Offering lapses, we will return all application monies to the applicants, without interest and on the terms set out under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker(s) or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

### **THE INTERNATIONAL OFFERING**

The number of Offer Shares initially offered for subscription or purchase under the International Offering are 180,000,000 Offer Shares, representing 90% of the Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.



## STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the International Offering, the International Offer Shares are conditionally placed by the International Underwriters, or through selling agents appointed by them, with professional, institutional, corporate and other investors anticipated to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

The Joint Bookrunners (for itself and on behalf of the Underwriters) may require any investor who has been offered the Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of the Offer Shares under the Hong Kong Public Offering.

### THE OVER-ALLOTMENT OPTION

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by China Galaxy International on behalf of the International Underwriters. The Over-allotment Option gives China Galaxy International the right exercisable at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering to require us to issue up to an aggregate of 30,000,000 new Shares, representing in aggregate 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Offering, if any. China Galaxy International may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If China Galaxy International exercises the Over-allotment Option in full, the additional Shares will represent approximately 3.61% of our enlarged share capital following the completion of the Capitalization Issue and the Global Offering (without taking into account the Shares which may fall to be allotted and issued pursuant to the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme). In the event that the Over-allotment Option is exercised, an announcement will be made.

In order to facilitate settlement of over-allocations in connection with the International Offering, Magical Success and the Stabilizing Manager will enter into the Stock Borrowing Agreement. Under the Stock Borrowing Agreement, Magical Success will agree with the Stabilizing Manager that, if requested by the Stabilizing Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilizing Manager up to 30,000,000 Shares held by Magical Success by way of stock lending, in order to cover over-allocations in connection with the International Offering.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that such stock borrowing arrangement will only be effected by the Stabilizing Manager for the purpose of settling over-allocations of Shares in connection with the International Offering and covering any short position prior to the exercise of the Over-allotment Option. The maximum number of shares to be borrowed from Magical Success under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option. The same number of Shares so borrowed is to be returned to Magical Success or its nominees, as the case may be, not later than the third business day following the earlier of (i) the day on which the Over-allotment Option is exercised in full, or (ii) the last day on which the Over-allotment Option may be exercised by the Stabilizing Manager. The stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payments or other benefits will be made to Magical Success by the Stabilizing Manager or any of the International Underwriters in relation to such stock borrowing arrangement.

## STRUCTURE OF THE GLOBAL OFFERING

### STABILIZING ACTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent a decline in the initial public offer prices. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws, rules and regulations of Hong Kong, over-allocate or effect transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing after the last day of the lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any stabilizing activity. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being a maximum of 30,000,000 new Shares, which represent 15% of the Shares initially available under the Global Offering.

The Stabilizing Manager or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of our Shares; and/or
- (ii) in connection with any action described in paragraph (i) above:
  - (A) (1) over-allocate our Shares; or
  - (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of our Shares;
  - (B) stock borrowing;
  - (C) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;
  - (D) sell or agree to sell any of our Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or
  - (E) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B), (ii)(C) or (ii)(D) above.

## STRUCTURE OF THE GLOBAL OFFERING

The Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager or any person acting for it, which may include a decline in the market price of our Shares.

Stabilization cannot be used to support the price of our Shares for longer than the stabilization period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on July 2, 2017. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilizing period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 9, 2017, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, June 9, 2017. The Shares will be traded on the Main Board in board lots size of 2,500 Shares each under the Company's stock code 1679.

### UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between China Galaxy International (for itself and on behalf of the Underwriters) and us on the Price Determination Date and subject to the other conditions set out in the section headed “— Conditions of the Hong Kong Public Offering” above.

We expect, shortly after determination of the Offer Price on the Price Determination Date, to enter into the International Underwriting Agreement relating to the International Offering.

**UNDERWRITING ARRANGEMENTS, THE HONG KONG UNDERWRITING AGREEMENT AND THE INTERNATIONAL UNDERWRITING AGREEMENT ARE SUMMARIZED IN THE SECTION HEADED “UNDERWRITING” IN THIS PROSPECTUS.**

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Sponsor and the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person or a core connected person (as defined in the Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Global Offering;
- an associate or a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, May 29, 2017 until 12:00 noon on Friday, June 2, 2017 from:

- (i) the following address of the Hong Kong Underwriters:

China Galaxy International Securities (Hong Kong) Co., Limited	Units 3501–3507 & 3513–14 35/F, Cosco Tower 183 Queen's Road Central Hong Kong
Long Asia Securities Limited	Unit A, 23/F, The Wellington 198 Wellington Street Sheung Wan Hong Kong
Pacific Foundation Securities Limited	11/F New World Tower II 16–18 Queen's Road Central Hong Kong
Gransing Securities Co., Limited	17/F, Hing Yip Commercial Centre 272–284 Des Voeux Road, Central Hong Kong
Sinolink Securities (Hong Kong) Company Limited	Units 2503, 2505–06 25/F Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Wellington Financial Limited	Unit B 10/F 128 Wellington Street Central Hong Kong

<b>HOW TO APPLY FOR HONG KONG OFFER SHARES</b>
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(ii) any of the following branches of the receiving bank(s):

<b>District</b>	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Gilman Street Branch	136 Des Voeux Road Central
	Johnston Road Branch	152–158 Johnston Road, Wan Chai
<b>Kowloon</b>	Shanghai Street (Mong Kok) Branch	611–617 Shanghai Street, Mong Kok
	Mei Foo Mount Sterling Mall Branch	Shop N47–49 Mount Sterling Mall, Mei Foo Sun Chuen
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
<b>New Territories</b>	Tai Po Branch	68–70 Po Heung Street, Tai Po Market

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, May 29, 2017 until 12:00 noon on Friday, June 2, 2017 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

**Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — RISECOMM GROUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Monday, May 29, 2017 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, May 31, 2017 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, June 1, 2017 — 9:00 a.m. to 5:00 p.m.**  
**Friday, June 2, 2017 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, June 2, 2017, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company, the Sole Sponsor and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners and the Underwriters nor any of their respective directors, officers, employees, agents, affiliates or advisors or any other party involved in the Global Offering will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application, any acceptance of it and the resulting contract will be governed and construed in accordance with the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.



## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

#### General

Individuals who meet the criteria in the section headed “2. Who can apply” above, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

#### Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, May 29, 2017 until 11:30 a.m. on Friday, June 2, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, June 2, 2017 or such later time under the section headed “10. Effect of Bad Weather on the Opening of the Application Lists” below.

#### No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

#### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

#### **Hong Kong Securities Clearing Company Limited**

Customer Service Center  
1/F, One & Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, China Galaxy International and our Hong Kong Branch Share Registrar.

#### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) HKSCC Nominees will do the following things on your behalf:
- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors, the Sole Sponsor and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
  - agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other party involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
  - agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank(s), the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or its respective advisors and agents;
  - agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,500 Hong Kong Offer Shares. Instructions for more than 2,500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Monday, May 29, 2017 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Wednesday, May 31, 2017 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Thursday, June 1, 2017 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Friday, June 2, 2017 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, May 29, 2017 until 12:00 noon on Friday, June 2, 2017 (24 hours daily, except on the last application day).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, June 2, 2017, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bankers, China Galaxy International, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, June 2, 2017.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure of the Global Offering — Determining the Offer Price” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 2, 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, June 2, 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable,” an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, June 8, 2017 on our Company’s website at [www.risecomm.com.cn](http://www.risecomm.com.cn) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.risecomm.com.cn](http://www.risecomm.com.cn) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m., Thursday, June 8, 2017;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, June 8, 2017 to 12:00 midnight on Wednesday, June 14, 2017;
- by telephone inquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, June 8, 2017 to Tuesday, June 13, 2017 (excluding Saturday, Sunday and public holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, June 8, 2017 to Monday, June 12, 2017 at all the receiving bank’s designated branches.



## HOW TO APPLY FOR HONG KONG OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. For further details, please refer to the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Sponsor, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Sole Sponsor and/or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.00 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, June 8, 2017.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque(s), if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Thursday, June 8, 2017. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, June 9, 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 8, 2017 or such other date as notified by us on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company at [www.risecomm.com.cn](http://www.risecomm.com.cn).

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, June 8, 2017, by ordinary post and at your own risk.

***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, June 8, 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, June 8, 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

*If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

*If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Thursday, June 8, 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the HK eIPO White Form Service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 8, 2017, or such other date as notified by our Company on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of our Company at [www.risecomm.com.cn](http://www.risecomm.com.cn) as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, June 8, 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via electronic application instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share certificates into CCASS and refund of application monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, June 8, 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, June 8, 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 8, 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, June 8, 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity

## HOW TO APPLY FOR HONG KONG OFFER SHARES

statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 8, 2017.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

*The following is the text of a report set out on page I-1 to I-56, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF RISECOMM GROUP HOLDINGS LIMITED AND CHINA GALAXY INTERNATIONAL SECURITIES (HONG KONG) CO., LIMITED**

**Introduction**

We report on the historical financial information of Risecomm Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-56, which comprises the consolidated statements of financial position of the Group as at December 31, 2014, 2015 and 2016, and the statements of financial position of the Company as at December 31, 2015 and 2016, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended December 31, 2014, 2015 and 2016 (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 I-3 to I-56 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated May 29, 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the 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.

**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 ("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 give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the

Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's financial position as at December 31, 2014, 2015 and 2016, of the Company's financial position as at December 31, 2015 and 2016, and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

#### *Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

#### *Dividends*

We refer to note 23(e) to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

#### *No historical financial statements for the Company*

No financial statements have been prepared for the Company since its incorporation.

### **KPMG**

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
May 29, 2017



**HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

**Consolidated statements of profit or loss and other comprehensive income**

	<i>Note</i>	<b>Years ended December 31,</b>		
		<b>2014</b>	<b>2015</b>	<b>2016</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	3	232,628	340,724	390,210
Cost of sales		<u>(117,806)</u>	<u>(164,971)</u>	<u>(194,947)</u>
<b>Gross profit</b>		114,822	175,753	195,263
Other income	4	6,587	9,095	13,568
Sales and marketing expenses		(33,169)	(48,956)	(60,456)
General and administrative expenses		(17,170)	(28,200)	(35,311)
Research and development expenses	5(d)	<u>(21,056)</u>	<u>(26,456)</u>	<u>(37,765)</u>
<b>Profit from operations</b>		50,014	81,236	75,299
Finance costs	5(a)	(317)	—	—
Share of loss of associate		(112)	(180)	(103)
Change in fair value of financial instruments	5(b)	<u>2,357</u>	<u>—</u>	<u>—</u>
<b>Profit before taxation</b>	5	51,942	81,056	75,196
Income tax	6	<u>(11,387)</u>	<u>(25,864)</u>	<u>(17,593)</u>
<b>Profit for the year</b>		<u>40,555</u>	<u>55,192</u>	<u>57,603</u>
<b>Attributable to:</b>				
Equity shareholders of the Company		40,555	55,300	57,743
Non-controlling interests		<u>—</u>	<u>(108)</u>	<u>(140)</u>
<b>Profit for the year</b>		<u>40,555</u>	<u>55,192</u>	<u>57,603</u>
<b>Earnings per share</b>	9			
Basic and diluted (RMB)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The accompanying notes form part of the Historical Financial Information.

	Years ended December 31,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the year</b>	40,555	55,192	57,603
<b>Other comprehensive income for the year (after tax and reclassification adjustments)</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside mainland China	<u>(529)</u>	<u>5,008</u>	<u>3,612</u>
<b>Total comprehensive income for the year</b>	<u>40,026</u>	<u>60,200</u>	<u>61,215</u>
<b>Total comprehensive income attributable to:</b>			
— Equity shareholders of the Company	40,026	60,308	61,355
— Non-controlling interests	<u>—</u>	<u>(108)</u>	<u>(140)</u>
	<u>40,026</u>	<u>60,200</u>	<u>61,215</u>

The accompanying notes form part of the Historical Financial Information.

## Consolidated statements of financial position

		As at December 31,		
		2014	2015	2016
	Note	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	10	7,609	9,987	34,210
Intangible assets	11	838	5,921	8,197
Interest in associate	12	888	708	605
Deferred tax assets	20(b)	<u>3,384</u>	<u>8,586</u>	<u>3,546</u>
		<u>12,719</u>	<u>25,202</u>	<u>46,558</u>
<b>Current assets</b>				
Inventories	13	27,671	73,683	47,447
Trade and other receivables	14	119,960	160,262	116,307
Available-for-sale financial assets	15	4,900	—	—
Cash and cash equivalents	16	<u>143,123</u>	<u>148,109</u>	<u>144,822</u>
		<u>295,654</u>	<u>382,054</u>	<u>308,576</u>
<b>Current liabilities</b>				
Bank loan		9	—	—
Trade and other payables	17	102,950	125,701	94,247
Income tax payable	20(a)	<u>11,748</u>	<u>18,316</u>	<u>21,401</u>
		<u>114,707</u>	<u>144,017</u>	<u>115,648</u>
<b>Net current assets</b>		<u>180,947</u>	<u>238,037</u>	<u>192,928</u>
<b>Total assets less current liabilities</b>		<u>193,666</u>	<u>263,239</u>	<u>239,486</u>
<b>Non-current liabilities</b>				
Deferred tax liabilities	20(b)	4,659	9,818	10,961
Deferred income	21	<u>7,860</u>	<u>10,752</u>	<u>7,816</u>
		<u>12,519</u>	<u>20,570</u>	<u>18,777</u>
<b>Net assets</b>		<u>181,147</u>	<u>242,669</u>	<u>220,709</u>

The accompanying notes form part of the Historical Financial Information.

		As at December 31,		
		2014	2015	2016
	Note	RMB'000	RMB'000	RMB'000
<b>Equity</b>				
Share capital	22	109	115	1
Reserves	23	<u>181,038</u>	<u>242,662</u>	<u>220,706</u>
<b>Total equity attributable to equity shareholders of the Company</b>				
		181,147	242,777	220,707
<b>Non-controlling interests</b>				
		<u>—</u>	<u>(108)</u>	<u>2</u>
<b>Total equity</b>				
		<u><u>181,147</u></u>	<u><u>242,669</u></u>	<u><u>220,709</u></u>

The accompanying notes form part of the Historical Financial Information.

## Statements of financial position

	As at December 31,	
	2015	2016
	RMB'000	RMB'000
<b>Non-current assets</b>		
Investments in subsidiaries	—	158,781
	—	158,781
<b>Current assets</b>		
Cash and cash equivalents	142	124
	142	124
<b>Current liabilities</b>		
Amount due to a subsidiary	169	7,094
	169	7,094
<b>Net current liabilities</b>	(27)	(6,970)
<b>Net (liabilities)/assets</b>	(27)	151,811
<b>Equity</b>		
Share capital	—	1
Reserves	(27)	151,810
<b>Total equity</b>	(27)	151,811

The accompanying notes form part of the Historical Financial Information.

## Consolidated statements of changes in equity

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 Note 22	Share premium RMB'000 Note 23(a)	Capital reserve RMB'000 Note 23(b)	PRC statutory reserves RMB'000 Note 23(c)	Exchange reserve RMB'000 Note 23(d)	(Accumulated	Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
						losses)/			
						retained earnings RMB'000			
<b>Balance at January 1, 2014</b>	22	—	7,990	1,635	7,190	(55,686)	(38,849)	—	(38,849)
Profit for the year	—	—	—	—	—	40,555	40,555	—	40,555
Other comprehensive income	—	—	—	—	(529)	—	(529)	—	(529)
Total comprehensive income	—	—	—	—	(529)	40,555	40,026	—	40,026
Issue of ordinary shares	58	75,118	—	—	—	—	75,176	—	75,176
Derecognition of convertible redeemable preference shares and the warrant (note 18)	36	30,593	74,770	—	—	—	105,399	—	105,399
Equity-settled share-based payments (note 19(d))	—	—	3,063	—	—	—	3,063	—	3,063
Issue of shares under share option plan (note 19(b))	1	997	(992)	—	—	—	6	—	6
Repurchase of shares	(8)	—	(859)	—	—	(2,807)	(3,674)	—	(3,674)
Appropriation to reserves	—	—	—	4,951	—	(4,951)	—	—	—
<b>Balance at December 31, 2014</b>	<b>109</b>	<b>106,708</b>	<b>83,972</b>	<b>6,586</b>	<b>6,661</b>	<b>(22,889)</b>	<b>181,147</b>	<b>—</b>	<b>181,147</b>
<b>Balance at January 1, 2015</b>	<b>109</b>	<b>106,708</b>	<b>83,972</b>	<b>6,586</b>	<b>6,661</b>	<b>(22,889)</b>	<b>181,147</b>	<b>—</b>	<b>181,147</b>
Profit/(loss) for the year	—	—	—	—	—	55,300	55,300	(108)	55,192
Other comprehensive income	—	—	—	—	5,008	—	5,008	—	5,008
Total comprehensive income	—	—	—	—	5,008	55,300	60,308	(108)	60,200
Equity-settled share-based payments (note 19(d))	—	—	1,296	—	—	—	1,296	—	1,296
Issue of shares under share option plan (note 19(b))	6	5,722	(5,702)	—	—	—	26	—	26
Appropriation to reserves	—	—	—	5,286	—	(5,286)	—	—	—
<b>Balance at December 31, 2015</b>	<b>115</b>	<b>112,430</b>	<b>79,566</b>	<b>11,872</b>	<b>11,669</b>	<b>27,125</b>	<b>242,777</b>	<b>(108)</b>	<b>242,669</b>

The accompanying notes form part of the Historical Financial Information.

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Capital reserve	PRC statutory reserves	Exchange reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 22	Note 23(a)	Note 23(b)	Note 23(c)	Note 23(d)				
<b>Balance at January 1, 2016</b>	115	112,430	79,566	11,872	11,669	27,125	242,777	(108)	242,669
Profit/(loss) for the year	—	—	—	—	—	57,743	57,743	(140)	57,603
Other comprehensive income	—	—	—	—	3,612	—	3,612	—	3,612
Total comprehensive income	—	—	—	—	3,612	57,743	61,355	(140)	61,215
Equity-settled share-based payments (note 19(d))	—	—	571	—	—	—	571	—	571
Capital injection from non-controlling interest	—	—	—	—	—	—	—	250	250
Shares issued arising from the Reorganization (note 22)	37	(112,430)	50,965	—	—	61,428	—	—	—
Profit distribution (note 23(e))	—	—	—	—	—	(83,996)	(83,996)	—	(83,996)
Appropriation to reserves	—	—	—	4,848	—	(4,848)	—	—	—
Repurchase of shares (note 22)	(152)	—	—	—	—	(3)	(155)	—	(155)
Issue of new shares (note 22)	1	154	—	—	—	—	155	—	155
<b>Balance at December 31, 2016</b>	<u>1</u>	<u>154</u>	<u>131,102</u>	<u>16,720</u>	<u>15,281</u>	<u>57,449</u>	<u>220,707</u>	<u>2</u>	<u>220,709</u>

The accompanying notes form part of the Historical Financial Information.

## Consolidated cash flow statements

	Note	Years ended December 31,		
		2014 RMB'000	2015 RMB'000	2016 RMB'000
<b>Operating activities:</b>				
Cash generated from operations	16(b)	85,152	27,619	25,351
Income tax paid	20(a)	(4,887)	(19,339)	(8,325)
<b>Net cash generated from operating activities</b>		<u>80,265</u>	<u>8,280</u>	<u>17,026</u>
<b>Investing activities:</b>				
Payment for purchase of property, plant and equipment and intangible assets		(5,073)	(10,520)	(17,947)
Proceeds from disposal of property, plant and equipment		4	84	—
Payment for investment in associate		(500)	(500)	—
Payment for investment in available-for-sale financial assets		(54,500)	(280,210)	(106,500)
Payment for entrusted loans		—	(21,000)	—
Proceeds from maturity of available-for-sale financial assets		59,400	285,110	106,500
Proceeds from repayment of entrusted loans		—	21,000	—
Interest received		815	2,358	406
<b>Net cash generated from/(used in) investing activities</b>		<u>146</u>	<u>(3,678)</u>	<u>(17,541)</u>
<b>Financing activities:</b>				
Proceeds from bank loan		9	—	—
Capital injection from non-controlling interest		—	—	250
Cash received from investors for share subscription		—	—	79,522
Repayment of bank loan		—	(9)	—
Payment for repurchase of own shares		(502)	—	—
Interest paid		(1)	—	—
Dividends paid to equity shareholders		—	—	(83,996)
<b>Net cash used in financing activities</b>		<u>(494)</u>	<u>(9)</u>	<u>(4,224)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		79,917	4,593	(4,739)
<b>Effect of foreign exchange rate changes</b>		(327)	393	1,452
<b>Cash and cash equivalents at beginning of the year</b>	16(a)	<u>63,533</u>	<u>143,123</u>	<u>148,109</u>
<b>Cash and cash equivalents at end of the year</b>	16(a)	<u>143,123</u>	<u>148,109</u>	<u>144,822</u>

The accompanying notes form part of the Historical Financial Information.



**NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Risecomm Group Holdings Limited (“the Company”) was incorporated in the Cayman Islands on August 19, 2015 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as part of the group reorganization of Risecomm Co. Ltd. mentioned below (“the Reorganization”) and in preparation for the listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited.

The Company is an investment holding company and has not carried on any business since the date of its incorporation save for the Reorganization. The Company and its subsidiaries (together, “the Group”) are principally engaged in the design, development and sale of power-line communication (“PLC”) products as well as the provision of relevant maintenance services in connection with the deployment and upgrades of Auto Meter Reading (“AMR”) systems by power grid companies in China and for a wide range of applications related to energy saving and environmental protection. During the Relevant Periods, the Group’s businesses were mainly conducted through Risecomm Microelectronics (Shenzhen) Co., Ltd. (“Risecomm WFOE”) and its subsidiaries established in the PRC.

Following the completion of various steps of the Reorganization, the Company became the holding company of the companies comprising the Group in February 2016. Details of the Reorganization are set out in the section headed “History, Development and Reorganization” in the Prospectus.

Risecomm Co. Ltd. was incorporated on February 10, 2006 in the Cayman Islands as an exempted company with limited liabilities. Immediately before the implementation of the Reorganization, the registered shareholders of Risecomm Co. Ltd. were SB Asia Investment Fund II L.P. (“SAIF”) and certain individual owners. Upon completion of the Reorganization in February 2016, SAIF and those individual shareholders became the ultimate beneficial owners of the Company in substantially the same proportion of their direct and/or beneficial interests in Risecomm Co. Ltd. immediately before the Reorganization.

As the Company and other intermediate holding companies of the Group had no substantive operations prior to the Reorganization and were formed for the sole purpose of effecting the Group’s restructuring and the listing of the Company’s shares, no business combination had occurred and the Reorganization has been accounted for using a principle similar to that for a reverse acquisition as set out in HKFRS 3, *Business combinations* with Risecomm Co. Ltd. being treated as the acquirer for accounting purpose. The Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Risecomm Co. Ltd. with the assets and liabilities of Risecomm Co. Ltd. recognized and measured at their historical carrying amounts prior to the Reorganization. Intra-group balances and transactions and unrealized gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Company, Harvest Year Global Limited, Prime Key Holdings Limited and Risecomm Co. Ltd., as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

Upon completion of the Reorganization and as at the date of this report, the Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

Name of company	Place and date of incorporation/ establishment	Registered capital/ issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Risecomm Co. Ltd.	The Cayman Islands February 10, 2006	18,128,214 shares of USD0.001 each	100%	—	Investment holding
Harvest Year Global Limited	Seychelles January 16, 2015	1 share of USD1 each	100%	—	Investment holding
Prime Key Holdings Limited	Seychelles January 6, 2015	1 share of USD1 each	100%	—	Investment holding
Risecomm (HK) Technology Co. Limited ("Risecomm HK Technology")	Hong Kong February 27, 2015	1 share of HKD1 each	—	100%	Trading and research and development
Risecomm (HK) Holding Co. Limited ("Risecomm HK")	Hong Kong February 27, 2015	1 share of HKD1 each	—	100%	Investment holding
Risecomm Microelectronics (Shenzhen) Co., Ltd.* 瑞斯康微电子(深圳)有限公司	The PRC May 10, 2006	USD7,500,000	—	100%	Manufacturing of PLC products
Beijing Risecomm Communication Technology Company Limited* ("Risecomm Beijing Comm") 北京瑞斯康通信技術有限公司	The PRC March 7, 2014	RMB3,000,000	—	100%	Sales and marketing
Wuxi Risecomm Communication Technology Company Limited* ("Risecomm Wuxi") 無錫瑞斯康通信技術有限公司	The PRC October 11, 2010	RMB3,100,000	—	100%	Research and development
Shenzhen Risecomm Software Technology Company Limited* 深圳市瑞斯康軟件技術 有限公司	The PRC April 1, 2014	RMB2,000,000	—	100%	Research and development
Changsha Risecomm Communication Technology Company Limited* 長沙瑞斯康通信技術有限公司	The PRC December 26, 2014	RMB1,000,000	—	75%	Research and development

\* The official names of these companies are in Chinese. The English translation of the names is for reference only.

All companies now comprising the Group have adopted December 31 as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended December 31, 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended December 31, 2016 are set out in note 29.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The accounting policies set out in note 2 have been applied consistently to all periods presented in the Historical Financial Information.

## 2 SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGEMENT AND ESTIMATES

### (a) Basis of measurement

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “Functional Currency”). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis except for the convertible redeemable preference shares (see note 2(m)), derivative financial instruments (see note 2(n)) and available-for-sale financial assets (see note 2(e)).

### (b) Use of estimates and judgments

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgments made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in notes 2(y) and 2(z).

### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

**(d) Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

In all cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

**(e) Other investments**

The Group's policies for investments in equity securities other than investments in subsidiaries and associates are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in profit or loss. The net gain or loss recognized in profit or loss does not include any dividends or interest earned on these investments as these are recognized in accordance with the policies set out in notes 2(t)(iii) and 2(t)(iv).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognized in the statement of financial position at cost less impairment losses (see note 2(i)(i)). Dividend income from equity securities is recognized in profit or loss in accordance with the policies set out in note 2(t)(iii).

When the investments are derecognized or impaired (see note 2(i)), the cumulative gain or loss recognized in equity is reclassified to profit or loss. Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

**(f) Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	20 years
— Machinery and equipment	5–10 years
— Office and other equipment	5 years
— Motor vehicles	8 years
— Leasehold improvements	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(i)(ii)). Capitalization of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

**(g) Intangible assets**

Research and development costs comprise all costs that are directly attributable to research and development activities. Because of the nature of the Group's research and development activities, the criteria for recognition of such costs as an asset are generally not met until in the later development stage of the project such that the remaining development costs are immaterial. Hence both research costs and development costs are generally recognized as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 2(i)(ii)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

— Software	3–10 years
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Both the period and method of amortization are reviewed annually.

**(h) Operating lease charges**

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(i) Impairment of assets**

**(i) *Impairment of investments in equity securities and trade and other receivables***

Investments in equity securities (other than investments in subsidiaries: see note 2(i)(ii)) and other current and non-current receivables that are stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For investments in associates accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).
- For available-for-sale securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss. Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.
- For trade and other receivables carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The Group assesses whether objective evidence of impairment exists for each individual financial asset. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually to determine whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

**(j) Inventories**

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**(k) Trade and other receivables**

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

**(l) Interest-bearing borrowings**

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.



**(m) Preference share capital**

Preference share capital is recognized initially as a financial liability at fair value if it is redeemable at the option of the holders, or if it is convertible on a specific date or at the option of the holders, or if dividend payments are not discretionary. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss. The dividends thereon are recognized on an accrual basis in profit or loss as part of finance costs.

Preference share capital is classified as equity if it is non-redeemable, and non-convertible, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognized as distributions within equity.

**(n) Derivative financial instruments**

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

**(o) Trade and other payables**

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s)(i), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(p) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

**(q) Employee benefits***(i) Short-term employee benefits*

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

*(ii) Defined contribution retirement plan*

Contributions to PRC local retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognized as an expense in profit or loss as incurred.

*(iii) Share-based payments*

The fair value of share options granted is recognized as expenses with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior year is charged/credited to the profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is included in the amount recognized in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) *Termination benefits*

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

(r) **Income tax**

Income tax for the year or period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(s) Financial guarantees issued, provisions and contingent liabilities**

*(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognized as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

*(ii) Other provisions and contingent liabilities*

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(t) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

*(i) Sale of goods*

Revenue is recognized when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes any government taxes and is after deduction of any trade discounts.

*(ii) Service income*

Revenue arising from services is recognized when the relevant service is rendered without further performance obligations.

*(iii) Dividend income*

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

*(iv) Interest income*

Interest income is recognized as it accrues using the effective interest method.

*(v) Government grants*

Government grants are recognized in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and consequently are recognized in profit or loss on a systematic basis over the useful life of the asset.

**(u) Translation of foreign currencies**

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of each reporting period. Exchange gains and losses are recognized in profit or loss and are reported in finance costs on a net basis.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations are translated into RMB at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

**(v) Repurchase and reissue of share capital (treasury shares)**

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is deducted from equity attributable to the company's equity shareholders. Repurchased shares held at the end of each reporting period are classified as treasury shares and are presented as a decrease in the retained earnings. When treasury shares are sold or reissued subsequently, the consideration received, net of any directly attributable transaction costs, is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in retained earnings.

**(w) Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(x) Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**(y) Critical accounting judgements in applying the Group's accounting policies**

In the process of applying the Group's accounting policies, management has made the following accounting judgments.

*Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized in respect of deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

**(z) Sources of estimation uncertainty**

Key sources of estimation uncertainty are as follows:

*(i) Impairment of trade receivables*

Management estimates impairment losses of trade receivables (which are recorded in an allowance account for doubtful debts) resulting from the inability of the customers to make the required payments. Management bases its estimates on the aging of the accounts receivable balance, payment terms, customer credit-worthiness, the status of customer's financial condition, and historical write-off experience. If the financial condition of the customers was to deteriorate, actual write-offs may be higher than expected and could significantly affect the results of future periods.

*(ii) Warranty provisions*

As explained in note 17(b), the Group makes product warranty provision based on its best estimate of the expected settlement under the sales agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience and historical warranty data. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

*(iii) Net realizable value of inventories*

As described in note 2(j), net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realizable value.

## 3 REVENUE AND SEGMENT REPORTING

## (a) Revenue

The amount of each significant category of revenue recognized during the Relevant Periods is as follows:

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
AMR business			
— PLC Integrated circuits (“ICs”)	81,144	108,078	114,868
— PLC Modules	129,236	199,267	214,549
— Other AMR products	5,857	13,376	16,199
— AMR maintenance services	3,627	12,508	31,057
Sub-total	219,864	333,229	376,673
Smart energy management business	12,764	7,495	13,537
<b>Total</b>	<b>232,628</b>	<b>340,724</b>	<b>390,210</b>

The Group's customer base included two customers with which transactions had exceeded 10 percent of the Group's revenues for the Relevant Periods presented as below:

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Customer A	42,306	*	*
Customer B	*	50,944	50,284

\* Less than 10 percent of the Group's revenue for the corresponding reporting period.

Details of concentrations of credit risk arising from these customers are set out in note 24(a).

## (b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- AMR business: this segment includes design, development and sale of power-line communication products and providing maintenance services in connection with the deployment and upgrading of AMR systems by power grid companies in the PRC.
- Smart energy management business: this segment includes design, development and sale of energy saving and environmental protection products and solutions used in streetlight control, building energy management, photovoltaic power management, etc.

(i) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment based on revenue less cost of sales and sales and marketing expenses. General and administrative expenses and research and development expenses are not allocated to segments.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance during the Relevant Periods was as below:

	<b>Years ended December 31, 2014</b>		
	<b>Smart energy management</b>		
	<b>AMR business</b>	<b>business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment revenue	219,864	12,764	232,628
Reportable segment cost of sales	(110,074)	(7,732)	(117,806)
Reportable segment sales and marketing expenses	<u>(32,105)</u>	<u>(1,064)</u>	<u>(33,169)</u>
Reportable segment profit	<u>77,685</u>	<u>3,968</u>	<u>81,653</u>
	<b>Years ended December 31, 2015</b>		
	<b>Smart energy management</b>		
	<b>AMR business</b>	<b>business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment revenue	333,229	7,495	340,724
Reportable segment cost of sales	(160,244)	(4,727)	(164,971)
Reportable segment sales and marketing expenses	<u>(46,801)</u>	<u>(2,155)</u>	<u>(48,956)</u>
Reportable segment profit	<u>126,184</u>	<u>613</u>	<u>126,797</u>
	<b>Years ended December 31, 2016</b>		
	<b>Smart energy management</b>		
	<b>AMR business</b>	<b>business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment revenue	376,673	13,537	390,210
Reportable segment cost of sales	(186,435)	(8,512)	(194,947)
Reportable segment sales and marketing expenses	<u>(56,822)</u>	<u>(3,634)</u>	<u>(60,456)</u>
Reportable segment profit	<u>133,416</u>	<u>1,391</u>	<u>134,807</u>



## (ii) Reconciliation of reportable segment profit to the Group's profit before taxation

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Reportable segment profit	81,653	126,797	134,807
Other income	6,587	9,095	13,568
General and administrative expenses	(17,170)	(28,200)	(35,311)
Research and development expenses	(21,056)	(26,456)	(37,765)
Finance costs	(317)	—	—
Share of loss of associate	(112)	(180)	(103)
Change in fair value of financial instruments	2,357	—	—
<b>Profit before taxation</b>	<b>51,942</b>	<b>81,056</b>	<b>75,196</b>

## (iii) Information about geographical area

The geographical location of revenue is based on the selling location. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment. During the Relevant Periods, all of the Group's revenue was generated from customers in the PRC, and substantially all specified non-current assets were physically located in the PRC.

## 4 OTHER INCOME

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Interest income from bank deposits and loan receivables	200	1,151	296
Interest income from available-for-sale financial assets	615	1,207	110
Government grants			
— Unconditional subsidies (note (a))	5,521	11,118	15,341
— Conditional subsidies (note 21)	481	1,608	3,456
Net exchange loss	(233)	(6,030)	(5,115)
Others	3	41	(520)
	<b>6,587</b>	<b>9,095</b>	<b>13,568</b>

## (a) Government grants

Unconditional government grants mainly represent value-added tax ("VAT") refund on self-developed software embedded in AMR and smart energy management products in accordance with the relevant tax law.

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

## (a) Finance costs

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Interest on bank loan	1	—	—
Accrued dividends on convertible redeemable preference shares (note 18(a))	316	—	—
	<u>317</u>	<u>—</u>	<u>—</u>
Total finance costs	<u>317</u>	<u>—</u>	<u>—</u>

## (b) Change in fair value of financial instruments

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net gain rising from change in fair value of:			
— convertible redeemable preference shares (note 18(a))	1,681	—	—
— warrant (note 18(b))	676	—	—
	<u>2,357</u>	<u>—</u>	<u>—</u>

## (c) Staff costs

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	33,195	43,132	51,680
Contributions to defined contribution plans (i)	2,353	3,220	4,076
Equity-settled share-based payment expenses (note 19(d))	2,054	1,296	571
	<u>37,602</u>	<u>47,648</u>	<u>56,327</u>

- (i) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

## (d) Other items

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cost of inventories (i)	118,439	166,535	196,867
Research and development expenses (ii)	21,056	26,456	37,765
Depreciation and amortization	2,136	2,975	4,907
Operating lease charges	3,426	6,174	7,722
Product warranty costs (note 17(b))	2,326	3,407	3,592
Impairment losses of trade receivables	72	1,355	1,768
Listing expenses	—	6,874	8,546
Auditors' remuneration	22	34	42

- (i) Cost of inventories includes the following amounts, which are also included in the respective total amounts disclosed separately above or in notes 5(c) and 5(d) for each of these types of expenses.

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Staff costs	3,617	5,495	4,167
Depreciation and amortization	308	664	1,841
Operating lease charges	346	728	953

- (ii) Research and development expenses include the following amounts, which are also included in the respective total amounts disclosed separately above or in notes 5(c) and 5(d) for each of these types of expenses, and cost of inventories as disclosed in note 13(b), respectively.

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Staff costs	12,043	16,703	22,215
Depreciation and amortization	1,257	1,457	1,756
Operating lease charges	940	1,330	2,333
Cost of inventories	633	1,564	1,920

## 6 INCOME TAX

- (a) Income tax in the consolidated statements of profit or loss and other comprehensive income represents:

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
<b>Current tax:</b>			
Provision for current income tax for the year (note 20(a))	9,841	25,907	11,410
<b>Deferred tax:</b>			
Origination and reversal of temporary differences (note 20(b))	<u>1,546</u>	<u>(43)</u>	<u>6,183</u>
	<u>11,387</u>	<u>25,864</u>	<u>17,593</u>

- (b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	Years ended December 31,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit before taxation</b>	<u>51,942</u>	<u>81,056</u>	<u>75,196</u>
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	11,612	18,087	18,365
Tax effect of preferential tax rate (ii)	(4,627)	(4,479)	(6,373)
Tax effect of non-deductible expenses	138	343	237
Additional deduction for qualified research and development costs (iii)	(973)	(2,010)	(2,726)
Tax effect of unused tax losses not recognized (iv)	229	332	821
Tax effect of tax losses utilized	—	(476)	—
Effect on deferred tax balance resulting from a change in tax rate (ii)	—	(3,515)	3,515
Withholding tax on distributable profits (v)	3,763	5,159	3,754
Tax expenses for equity transfer of a subsidiary within the Group (vi)	—	9,047	—
Provision for permanent establishment risk (vii)	<u>1,245</u>	<u>3,376</u>	<u>—</u>
<b>Actual income tax expense</b>	<u>11,387</u>	<u>25,864</u>	<u>17,593</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and Seychelles, the Group is not subject to any income tax in the Cayman Islands and Seychelles.

The Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at 16.5% of the estimated assessable profits. Payments of dividends by Hong Kong companies are not subject to any withholding tax.

The Group's PRC subsidiaries are subject to the PRC corporate income tax rate of 25%.

- (ii) According to the PRC Corporate Income Tax Law and its relevant regulations, entities that are qualified as High and New Technology Enterprise under the tax law are entitled to a preferential income tax rate of 15%. The subsidiary of the Company, Risecomm WFOE, obtained the approval of High and New Technology Enterprise in 2013 with an effective period of three years. Therefore, Risecomm WFOE was entitled to a preferential income tax rate of 15% for the years ended December 31, 2013, 2014 and 2015. As it was uncertain, as at December 31, 2015, whether Risecomm WFOE would be able to renew the qualification as High and New Technology Enterprise, a tax rate of 25% was applied to determine the carrying value of the deferred tax assets and liabilities as at December 31, 2015.

The renewal of High and New Technology Enterprise qualification was completed in November 2016 with an effective period of another three years starting from 2016, and therefore the income tax rate for the year ended December 31, 2016 and the tax rate used to recognize deferred tax assets and liabilities as at December 31, 2016 was 15%.

- (iii) Under the PRC Corporate Income Tax Law and its relevant regulations, 50% additional tax deduction is allowed for qualified research and development costs.
- (iv) Based on management's assessment of probability on the future taxable profits subsequent to the date of each reporting period, no deferred tax assets had been recognized for tax losses of certain loss-making PRC entities.

- (v) According to the PRC Corporate Income Tax Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated after January 1, 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. During the years ended December 31, 2014, 2015 and 2016, the Group has recognized deferred tax liabilities for withholding tax of PRC entities' distributable profits at 10%.
- (vi) In October 2015, an equity transfer agreement was entered into between Risecomm Co. Ltd. and Risecomm HK, pursuant to which, Risecomm Co. Ltd. transferred its 100% equity interest in Risecomm WFOE to Risecomm HK. Risecomm Co. Ltd. is a non-PRC resident enterprise and its gain from the equity transfer was subject to the PRC corporate income tax amounting to RMB9,047,000.
- (vii) The operations of Risecomm Co. Ltd. during the years ended December 31, 2014 and 2015 and the operations of Risecomm HK Technology during the year ended December 31, 2015 were partially conducted by the Group's personnel in the PRC, who habitually exercised the authority to conclude activities in the name of Risecomm Co. Ltd. and Risecomm HK Technology. This may have created permanent establishments ("PE") for Risecomm Co. Ltd. and Risecomm HK Technology through the personnel being its dependent agents. With the PEs established in the PRC, Risecomm Co. Ltd. and Risecomm HK Technology could be subject to PRC corporate income tax for their profits attributable to the PEs in the PRC.

During the year ended December 31, 2016, no such operations were conducted in Risecomm Co. Ltd. and the operations of Risecomm HK Technology were conducted by the personnel outside the PRC, who did not habitually exercise the authority to conclude activities in the name of Risecomm HK Technology within PRC. The risk that Risecomm HK Technology has created a PE in the PRC through the personnel being its dependent agents is remote. Therefore, no provision for PRC corporate income tax for the profit of Risecomm HK Technology attributable to PE risk was made for the year ended December 31, 2016.

## 7 DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods is as follows:

### Year ended December 31, 2014

	Director's fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Equity- settled share- based payments <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>						
Mr. Yue Jingxing	—	956	323	8	242	1,529
Mr. Wang Shiguang	—	542	40	10	—	592
Mr. Zhang Youyun	—	358	102	26	353	839
<b>Non-executive director</b>						
Mr. Ng Benjamin Jin-ping	—	—	—	—	—	—
	—	1,856	465	44	595	2,960

## Year ended December 31, 2015

	Director's fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Equity- settled share- based payments <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>						
Mr. Yue Jingxing	—	524	353	19	125	1,021
Mr. Wang Shiguang	—	776	452	24	—	1,252
Mr. Zhang Youyun	—	456	126	37	256	875
<b>Non-executive director</b>						
Mr. Ng Benjamin Jin-ping	—	—	—	—	—	—
	—	1,756	931	80	381	3,148

## Year ended December 31, 2016

	Director's fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Equity- settled share- based payments <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>						
Mr. Yue Jingxing	—	1,182	363	25	53	1,623
Mr. Wang Shiguang	—	895	210	40	—	1,145
Mr. Zhang Youyun	—	480	98	32	112	722
<b>Non-executive director</b>						
Mr. Ng Benjamin Jin-ping	—	—	—	—	—	—
	—	2,557	671	97	165	3,490

Mr. Yue Jingxing, Mr. Wang Shiguang and Mr. Zhang Youyun were appointed as executive directors of the Company on February 22, 2016.

Mr. Ng Benjamin Jin-ping was appointed as non-executive director of the Company on February 22, 2016.

No directors of the Group waived or agreed to waive any emoluments during the Relevant Periods.

During the Relevant Periods, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office.

**8 INDIVIDUALS WITH HIGHEST EMOLUMENTS**

The five highest paid individuals of the Group for the years ended December 31, 2014, 2015 and 2016 include three, three and two directors respectively, whose emoluments are reflected in note 7 presented above. The aggregate of the emoluments in respect of the remaining two, two and three individuals during the Relevant Periods are as follows:

	Years ended December 31,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowance and benefits in kind	1,181	1,120	3,319
Discretionary bonuses	252	960	806
Retirement scheme contributions	39	44	81
Equity-settled share-based payment expenses	424	52	22
	<u>1,896</u>	<u>2,176</u>	<u>4,228</u>

The emoluments of the two, two and three individuals with the highest emoluments are within the following bands:

	Years ended December 31,		
	2014	2015	2016
	Number of individuals	Number of individuals	Number of individuals
Nil–HKD1,000,000	1	—	—
HKD1,000,000–HKD2,000,000	1	2	3

**9 EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

## 10 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction In process RMB'000	Total RMB'000
<b>Cost:</b>							
At January 1, 2014	—	9,204	1,522	1,008	605	—	12,339
Additions	2,096	890	511	76	1,500	—	5,073
Disposals	—	—	(5)	—	—	—	(5)
<b>At December 31, 2014 and January 1, 2015</b>	<u>2,096</u>	<u>10,094</u>	<u>2,028</u>	<u>1,084</u>	<u>2,105</u>	<u>—</u>	<u>17,407</u>
Additions	—	2,436	1,448	222	1,232	—	5,338
Disposals	—	(73)	(207)	(396)	—	—	(676)
<b>At December 31, 2015 and January 1, 2016</b>	<u>2,096</u>	<u>12,457</u>	<u>3,269</u>	<u>910</u>	<u>3,337</u>	<u>—</u>	<u>22,069</u>
Additions	—	5,016	2,052	238	644	19,560	27,510
Disposals	—	—	(25)	—	—	—	(25)
<b>At December 31, 2016</b>	<u>2,096</u>	<u>17,473</u>	<u>5,296</u>	<u>1,148</u>	<u>3,981</u>	<u>19,560</u>	<u>49,554</u>
<b>Accumulated depreciation:</b>							
At January 1, 2014	—	(6,608)	(627)	(310)	(213)	—	(7,758)
Charge for the year	(82)	(1,026)	(271)	(127)	(535)	—	(2,041)
Written back on disposals	—	—	1	—	—	—	1
<b>At December 31, 2014 and January 1, 2015</b>	<u>(82)</u>	<u>(7,634)</u>	<u>(897)</u>	<u>(437)</u>	<u>(748)</u>	<u>—</u>	<u>(9,798)</u>
Charge for the year	(100)	(1,325)	(451)	(116)	(884)	—	(2,876)
Written back on disposals	—	70	200	322	—	—	592
<b>At December 31, 2015 and January 1, 2016</b>	<u>(182)</u>	<u>(8,889)</u>	<u>(1,148)</u>	<u>(231)</u>	<u>(1,632)</u>	<u>—</u>	<u>(12,082)</u>
Charge for the year	(100)	(1,308)	(749)	(126)	(1,004)	—	(3,287)
Written back on disposals	—	—	25	—	—	—	25
<b>At December 31, 2016</b>	<u>(282)</u>	<u>(10,197)</u>	<u>(1,872)</u>	<u>(357)</u>	<u>(2,636)</u>	<u>—</u>	<u>(15,344)</u>
<b>Net book value:</b>							
At December 31, 2016	<u>1,814</u>	<u>7,276</u>	<u>3,424</u>	<u>791</u>	<u>1,345</u>	<u>19,560</u>	<u>34,210</u>
At December 31, 2015	<u>1,914</u>	<u>3,568</u>	<u>2,121</u>	<u>679</u>	<u>1,705</u>	<u>—</u>	<u>9,987</u>
At December 31, 2014	<u>2,014</u>	<u>2,460</u>	<u>1,131</u>	<u>647</u>	<u>1,357</u>	<u>—</u>	<u>7,609</u>



## 11 INTANGIBLE ASSETS

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
<b>Cost:</b>			
At January 1	945	945	6,127
Additions	—	5,182	3,896
At December 31	945	6,127	10,023
<b>Accumulated amortization:</b>			
At January 1	(12)	(107)	(206)
Charge for the year	(95)	(99)	(1,620)
At December 31	(107)	(206)	(1,826)
<b>Net book value:</b>			
At December 31	838	5,921	8,197

## 12 INTEREST IN ASSOCIATE

The following list contains only the particulars of the Group's associate, which is immaterial and accounted for using the equity method in the consolidated financial statements.

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of registered capital	Proportion of ownership interest-Group's effective interest	Principal activities
Risecomm (Beijing) Technology Company Limited. ("Risecomm Beijing Tech")* 瑞北通 (北京) 科技有限公司	Incorporated	The PRC	RMB2,000,000	50%	Research and development

\* The official name of the company is in Chinese. The English translation of the company name is for reference only.

## 13 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	As at December 31,		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Raw materials	7,570	41,689	14,258
Work in progress	6,919	3,800	8,686
Finished goods	<u>13,182</u>	<u>28,958</u>	<u>25,200</u>
	27,671	74,447	48,144
Provision for diminution in value of inventories	<u>—</u>	<u>(764)</u>	<u>(697)</u>
	<u>27,671</u>	<u>73,683</u>	<u>47,447</u>

(b) The analysis of the amount of inventories recognized as expenses and included in profit or loss is as follows:

	Years ended December 31,		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Carrying amount of inventories sold	117,806	164,207	195,014
Write down/(reversal) of inventories	—	764	(67)
Cost of inventories directly recognized as research and development expenses	<u>633</u>	<u>1,564</u>	<u>1,920</u>
	<u>118,439</u>	<u>166,535</u>	<u>196,867</u>

## 14 TRADE AND OTHER RECEIVABLES

	Years ended December 31,		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Trade receivables (note (a))	40,178	61,889	104,336
Less: Provision for doubtful debts (note (b))	<u>(319)</u>	<u>(1,674)</u>	<u>(3,442)</u>
	39,859	60,215	100,894
Bills receivables (note (d))	<u>600</u>	<u>5,500</u>	<u>2,500</u>
Total trade receivables	40,459	65,715	103,394
Deposits and prepayments	1,825	5,755	10,014
Other receivables	<u>2,795</u>	<u>9,270</u>	<u>2,899</u>
Amounts due from third parties	45,079	80,740	116,307
Amounts due from related parties — non-trade (note 27(b))	<u>74,881</u>	<u>79,522</u>	<u>—</u>
Trade and other receivables, net	<u>119,960</u>	<u>160,262</u>	<u>116,307</u>

All of the trade and other receivables are expected to be recovered or recognized as expense within one year.

The amounts due from related parties are unsecured, non-interest bearing and repayable on demand.

**(a) Aging analysis**

As at the end of each reporting period, the aging analysis of trade receivables, based on the invoice date, is as follows:

	As at December 31,		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Within 6 months	38,151	53,945	77,040
After 6 months but within 1 year	577	3,327	12,845
After 1 year	<u>1,450</u>	<u>4,617</u>	<u>14,451</u>
Trade receivables	40,178	61,889	104,336
Less: Provision for doubtful debts	<u>(319)</u>	<u>(1,674)</u>	<u>(3,442)</u>
Trade receivables, net	<u><u>39,859</u></u>	<u><u>60,215</u></u>	<u><u>100,894</u></u>

Further details on the Group's credit policy are set out in note 24(a).

**(b) Impairment of trade receivables**

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 2(i)(i)).

The movement in the provision for impairment during the Relevant Periods is as follows:

	Years ended December 31,		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Balance at beginning of the year	247	319	1,674
Impairment losses recognized	<u>72</u>	<u>1,355</u>	<u>1,768</u>
Balance at end of the year	<u><u>319</u></u>	<u><u>1,674</u></u>	<u><u>3,442</u></u>

As at December 31, 2014, 2015 and 2016, the Group's trade receivables of RMBnil, RMB721,000 and RMB521,000 were individually determined to be impaired.

**(c) Trade receivables that are not impaired**

The aging analysis of trade account receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at December 31,		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Neither past due nor impaired	24,055	34,995	43,445
Less than 6 months past due	14,263	21,615	42,752
6 to 12 months past due	1,091	1,140	11,715
Over 12 months	450	2,465	2,982
Total amount past due but not impaired	15,804	25,220	57,449
	39,859	60,215	100,894

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good payment track records with the Group and did not encounter financial difficulty or fail to fulfill their repayment plan. Based on past experience with these customers and evaluation of their current creditability, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

**(d) Bills receivables**

Bills receivables represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from banks at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivables to suppliers as part of the treasury management.

During the years ended December 31, 2014, 2015 and 2016, the Group endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a fully recourse basis. The Group had derecognized these bills receivable and the payables to suppliers in their entirety. These derecognized bank acceptance bills had a maturity date of less than six months from the end of each reporting period. In the opinion of the directors, the Group had transferred substantially all the risks and rewards of ownership of these bills and had discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at December 31, 2014, 2015 and 2016, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB2,288,000, RMB2,070,000 and RMB2,016,000 respectively.

## 15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Available-for-sale securities	4,900	—	—

Available-for-sale securities comprise the investments in wealth management products sold by banks in the PRC. The directors consider that the carrying amounts of the investments in wealth management products carried at cost are not materially different from their fair values as at December 31, 2014 due to short-term maturity of these instruments.

## 16 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	143,123	148,109	144,822

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	Years ended December 31,		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Profit before taxation		51,942	81,056	75,196
Adjustments for:				
Depreciation and amortization	5(d)	2,136	2,975	4,907
Finance costs	5(a)	317	—	—
Impairment losses of trade receivables	5(d)	72	1,355	1,768
Write down/(reversal) of inventories	13(b)	—	764	(67)
Interest income	4	(815)	(2,358)	(406)
Change in fair value of financial instruments	5(b)	(2,357)	—	—
Equity-settled share-based payment expenses	19(d)	3,063	1,296	571
Share of loss of associate		112	180	103
Changes in working capital:				
(Increase)/decrease in inventories		(4,168)	(46,776)	26,303
Increase in trade and other receivables		(15,660)	(37,016)	(37,335)
Increase/(decrease) in trade and other payables		45,331	23,251	(42,753)
Increase/(decrease) in deferred income		5,179	2,892	(2,936)
Cash generated from operations		85,152	27,619	25,351

## 17 TRADE AND OTHER PAYABLES

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade payables ( <i>note (a)</i> )	73,739	95,467	49,806
Receipts in advance	10,213	1,869	6,457
Product warranty provision ( <i>note (b)</i> )	3,066	4,570	5,295
Other payables and accruals	<u>15,432</u>	<u>22,850</u>	<u>32,689</u>
Amounts due to third parties	<u>102,450</u>	<u>124,756</u>	<u>94,247</u>
Amounts due to related parties — trade	—	945	—
Amounts due to related parties — non-trade	<u>500</u>	<u>—</u>	<u>—</u>
Amounts due to related parties ( <i>note 27(b)</i> )	<u>500</u>	<u>945</u>	<u>—</u>
Trade and other payables	<u>102,950</u>	<u>125,701</u>	<u>94,247</u>

All trade payables are expected to be settled within one year.

The amounts due to related parties are unsecured, non-interest bearing and repayable on demand.

## (a) An aging analysis of trade payables, based on the invoice date, is as follows:

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Within 3 months	51,279	34,425	40,413
After 3 months but within 6 months	3,072	32,121	3,954
After 6 months but within 1 year	12,312	24,624	5,190
Over 1 year but within 2 years	<u>7,076</u>	<u>4,297</u>	<u>249</u>
Trade payables	<u>73,739</u>	<u>95,467</u>	<u>49,806</u>

## (b) Product warranty provision

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	1,912	3,066	4,570
Provision for the year ( <i>note 5(d)</i> )	2,326	3,407	3,592
Utilization during the year	<u>(1,172)</u>	<u>(1,903)</u>	<u>(2,867)</u>
Balance at end of the year	<u>3,066</u>	<u>4,570</u>	<u>5,295</u>

A provision for warranties is recognized when the underlying products are sold. Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within the warranty period, which primarily ranges from one to two years from the date of customer acceptance. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within warranty period. The amount of provision takes into account the Group's recent claim experience and historical warranty data.

## 18 OTHER FINANCIAL LIABILITIES

## (a) Convertible redeemable preference shares

	Number of shares	Amount of par value USD	Issued amount USD
<b>Authorized by Risecomm Co. Ltd.:</b>			
At April 7, 2006, December 31, 2013, 2014, 2015, 2016	<u>8,120,000</u>	<u>8,120</u>	
<b>Issued and fully paid</b>			
At April 7, 2006	2,900,000	2,900	2,500,000
At July 24, 2006	<u>2,900,000</u>	<u>2,900</u>	<u>2,500,000</u>
<b>At January 1, 2014</b>	5,800,000	5,800	5,000,000
Derecognition from financial liabilities followed by recognition of equity instruments	<u>(5,800,000)</u>	<u>(5,800)</u>	<u>(5,000,000)</u>
<b>At December 31, 2014, 2015 and 2016</b>	<u>—</u>	<u>—</u>	<u>—</u>

The convertible redeemable preference shares with a nominal value of USD0.001 were issued by Risecomm Co. Ltd. at USD0.862 to SAIF per share in year 2006, together with the warrant issued to SAIF (see note 18(b)).

The convertible redeemable preference shares are determined to be hybrid instruments and are initially designated as a financial liability at fair value in accordance with the accounting policy set out in note 2(m). The fair value of the convertible redeemable preference shares was estimated primarily based on the Group's estimated enterprise value using the Black-Scholes model. The preference shares are remeasured at the end of each reporting date and changes in fair value are charged to profit or loss. The preference shareholder is entitled to receive dividend at a fixed rate of 6% of the issued price per annum for each preference share. Therefore, the preference share dividends are recognized on an accrual basis in profit or loss as part of finance costs (note 5(a)).

*Fair value of preference shares and assumptions*

Average risk-free rate	0.13%–0.36%
Volatility	33.94%–39.78%
Expected dividend yield	0%

On March 5, 2014, save for the right to give prior consent for certain corporate actions, the preference shareholder, SAIF, irrevocably waived all the preference rights including the conversion rights, the redemption rights and the right to receive preference dividends at a fixed rate of the issued price per annum. Also, the preference shareholder irrevocably waived the outstanding accumulative dividends payable to it. Therefore, the then fair value of preference shares amounting to USD12,772,000 (equivalent to RMB78,240,000) and preference dividend payable amounting to USD2,324,000 (equivalent to RMB14,239,000) were derecognized from liabilities and recognized as reserves (see note 23(a) and note 23(b)).

## (b) Warrant

On April 7, 2006, a warrant was issued by Risecomm Co. Ltd. to the preference shareholder, SAIF, ("the holder of warrant") pursuant to which the holder of warrant shall have an option to purchase 2,320,000 preference shares of Risecomm Co. Ltd. at a cash consideration of USD3,000,000. This warrant shall be exercisable starting from the date of issuance until April 2014.

Based on the above terms, the warrant is a stand-alone derivative and shall be recognized and initially measured at fair value in accordance with the accounting policy set out in note 2(n). The subsequent changes in fair value are recognized in profit or loss.

The fair value of the warrant is determined based on the Black-Scholes model.

*Fair value of the warrant and assumptions*

Average risk-free rate	0.10%–0.16%
Volatility	25.75%–37.85%
Expected dividend yield	0%

On March 5, 2014, the holder of warrant, SAIF, waived all its rights to subscribe for preference shares under the warrant and the warrant is derecognized from liabilities and recognized as capital reserve (see note 23(b)) at the then fair value of USD2,109,000 (equivalent to RMB12,920,000).

**19 EQUITY-SETTLED SHARE-BASED TRANSACTIONS**

Risecomm Co. Ltd. issued three tranches of share options on February 1, 2007, April 21, 2011 and March 26, 2014 respectively (collectively “the Old Scheme”). Pursuant to written resolutions passed by all the shareholders of the Company on August 25, 2016, the Group replaced the Old Scheme with equity-settled share options issued by the Company (“Pre-IPO Share Option Scheme”) which is referred to as the “Replacement”. As the Replacement did not change any option terms and conditions other than a change of the issuer, no accounting treatment was required for the Group arising from the Replacement and the details are disclosed below as defined by the original option grant date.

(a) The terms and conditions of the grants are as follows:

	<b>Number of instrument</b>	<b>Vesting conditions</b>	<b>Contractual life of options</b>
Options granted to employees			
— On February 1, 2007	731,334	25% of total shares vested on year anniversary of the grant date, the rest	10 years
— On April 21, 2011	200,000	vested in 36 substantially equal monthly installments from year anniversary of the grant date	10 years
— On March 26, 2014	503,858		10 years
Options granted to non-executive directors			
— On February 1, 2007	200,000	Vested immediately on grant date	10 years
— On March 26, 2014	26,799		10 years
Options granted to SAIF			
— On April 21, 2011	168,666	Vested immediately on grant date	10 years
— On March 26, 2014	<u>136,000</u>		10 years
Total share options granted	<u><u>1,966,657</u></u>		



(b) The number and weighted average exercise prices of share options are as follows:

	Years ended December 31,					
	2014		2015		2016	
	<i>Weighted average exercise price</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>
Outstanding at the beginning of the year	USD0.01	1,300,000	USD0.01	1,616,657	USD0.01	771,680
Exercised during the year	USD0.01	(200,000)	USD0.01	(844,977)	—	—
Repurchased during the year	USD0.01	(150,000)	—	—	—	—
Granted during the year	USD0.01	666,657	—	—	—	—
Canceled during the year	—	—	—	—	USD0.01	(76,500)
Outstanding at the end of the year	<u>USD0.01</u>	<u>1,616,657</u>	<u>USD0.01</u>	<u>771,680</u>	<u>USD0.01</u>	<u>695,180</u>
Exercisable at the end of the year	<u>USD0.01</u>	<u>1,100,299</u>	<u>USD0.01</u>	<u>498,757</u>	<u>USD0.01</u>	<u>548,221</u>

(c) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise and forfeiture rate are incorporated into the binomial option pricing model.

	Share options issued in		
	February 2007	April 2011	March 2014
Fair value of share options and assumptions			
Fair value at measurement date	USD746,428	USD420,228	USD809,779
Share price	USD0.80	USD1.14	USD1.23
Exercise price	USD0.01	USD0.01	USD0.01
Expected volatility (expressed as a weighted average volatility used in the modeling under binomial option pricing model)	51.90%	50.15%	46.15%
Option life	10 years	10 years	10 years
Suboptimal exercise factor	2.86 to 3.3422	2.86 to 3.3422	2.86 to 3.3422
Expected dividend yield	0%	0%	0%
Average risk-free interest rate	4.14%	2.72%	2.29%
Forfeiture rate	0%	0%	0%

- (d) Equity-settled share-based compensation expenses recognized in the consolidated statements of profit or loss and other comprehensive income during the Relevant Periods are set out as follows:

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Sales and marketing expenses	488	355	157
General and administrative expenses	1,874	432	190
Research and development expenses	<u>701</u>	<u>509</u>	<u>224</u>
	<u>3,063</u>	<u>1,296</u>	<u>571</u>
Represented by:			
Staff costs ( <i>note 5(c)</i> )	2,054	1,296	571
Consulting fees	<u>1,009</u>	<u>—</u>	<u>—</u>
	<u>3,063</u>	<u>1,296</u>	<u>571</u>

## 20 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

- (a) Current taxation in the consolidated statements of financial position represents:

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Balance at January 1	6,794	11,748	18,316
Provision for current income tax for the year ( <i>note 6(a)</i> )	9,841	25,907	11,410
Payment during the year	<u>(4,887)</u>	<u>(19,339)</u>	<u>(8,325)</u>
Balance at December 31	<u>11,748</u>	<u>18,316</u>	<u>21,401</u>

(b) Deferred tax assets and liabilities recognized:

(i) The components of deferred tax assets/(liabilities) recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Impairment losses on receivables and inventories <i>RMB'000</i>	Unrealized profit due to intra- group transactions <i>RMB'000</i>	Accrued expenses and other payables <i>RMB'000</i>	Deferred income <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Withholding tax on distributable profits <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at January 1, 2014	38	102	625	402	—	(896)	271
Credited/(charged) to profit or loss ( <i>note 6(a)</i> )	<u>11</u>	<u>481</u>	<u>948</u>	<u>777</u>	<u>—</u>	<u>(3,763)</u>	<u>(1,546)</u>
Balance at December 31, 2014 and January 1, 2015	49	583	1,573	1,179	—	(4,659)	(1,275)
Credited/(charged) to profit or loss ( <i>note 6(a)</i> )	<u>560</u>	<u>3,674</u>	<u>615</u>	<u>1,509</u>	<u>(1,156)</u>	<u>(5,159)</u>	<u>43</u>
Balance at December 31, 2015 and January 1, 2016	609	4,257	2,188	2,688	(1,156)	(9,818)	(1,232)
Credited/(charged) to profit or loss ( <i>note 6(a)</i> )	46	(2,413)	(1,334)	(1,546)	207	(3,754)	(8,794)
Realized upon distribution of profits ( <i>note 6(a)</i> )	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,611</u>	<u>2,611</u>
Balance at December 31, 2016	<u><u>655</u></u>	<u><u>1,844</u></u>	<u><u>854</u></u>	<u><u>1,142</u></u>	<u><u>(949)</u></u>	<u><u>(10,961)</u></u>	<u><u>(7,415)</u></u>

(ii) Reconciliation to the consolidated statements of financial position:

	As at December 31,		
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Deferred tax assets recognized in the consolidated statements of financial position	3,384	8,586	3,546
Deferred tax liabilities recognized in the consolidated statements of financial position	<u>(4,659)</u>	<u>(9,818)</u>	<u>(10,961)</u>
	<u><u>(1,275)</u></u>	<u><u>(1,232)</u></u>	<u><u>(7,415)</u></u>

## 21 DEFERRED INCOME

Deferred income represents conditional government subsidies for encouragement of research and development projects, which is recognized in profit or loss in accordance with the accounting policy adopted for government grants set out in note 2(t)(v).

## 22 SHARE CAPITAL

For the purpose of the Historical Financial Information, share capital as at December 31, 2014, and 2015 represented the share capital of Risecomm Co. Ltd. which was the then holding company of the Group before completion of the Reorganization.

The Company was incorporated in the Cayman Islands on August 19, 2015 as part of the Reorganization with an initial authorized share capital of HKD390,000 divided into 39,000,000 shares with a par value of HKD0.01 each.

On February 1, 2016, the shareholders of the Risecomm Co. Ltd. transferred in aggregate 18,128,214 shares (5,800,000 of which are preference shares and 12,328,214 of which are ordinary shares) in the Risecomm Co. Ltd., representing the entire issued share capital of the Risecomm Co. Ltd., to the Company in exchange for the same amount of ordinary shares issued by the Company. Immediately upon completion of the transfer, the Company became the holding company of the Group. Share capital as at December 31, 2016 represented the amount of issued share capital of the Company.

On August 18, 2016, the Company repurchased the 18,128,124 existing issued shares with a par value of HKD0.01 each from all the existing shareholders with the aggregate repurchase price of HKD181,000 and canceled all the 39,000,000 unissued shares with a par value of HKD0.01 each in the share capital of the Company. Meanwhile, the authorized share capital of the Company was increased by HKD1,000,000 divided into 10,000,000,000 shares with a par value of HKD0.0001 each, among which, 18,128,124 shares were issued to the existing shareholders of the Company with the same proportion of their interests in the Company before the repurchase with a consideration of HKD181,000 (equivalent to RMB155,000) paid up by the shareholders, out of which HKD1,810 (equivalent to RMB1,500) and HKD179,190 (equivalent to RMB153,500) were recorded in share capital and share premium respectively.

(a) Authorized and issued share capital of the Company

	Number of shares	Amount of par value <i>HKD</i>	Nominal value <i>HKD'000</i>
Authorized shares	10,000,000,000	0.0001	1,000
	Number of shares issued	Nominal value <i>HKD'000</i>	Nominal value <i>RMB'000</i>
<b>Issued and fully paid</b>			
At August 19, 2015 (date of incorporation) and December 31, 2015	1	—	—
Issue of new shares on February 1, 2016	18,128,213	181	152
Repurchase on August 18, 2016	(18,128,214)	(181)	(152)
Issue of new shares on August 18, 2016	<u>18,128,214</u>	<u>2</u>	<u>1</u>
At December 31, 2016	<u><u>18,128,214</u></u>	<u><u>2</u></u>	<u><u>1</u></u>

23 RESERVES

(a) Share premium

For the purpose of the Historical Financial Information, share premium as at December 31, 2014, and 2015 represented the share premium of Risecomm Co. Ltd. which was the then holding company of the Group before completion of the Reorganization. It primarily comprises the followings:

- the difference between the par value of exercised share options and the fair value of these options (see note 19(b));
- the difference between the par value of ordinary shares and preference shares issued by Risecomm Co. Ltd. and the consideration received or to be receivable.

Following the completion of Reorganization in February 2016, share premium as at December 31, 2016 represented the share premium of the Company.

**(b) Capital reserve**

Capital reserve as at December 31, 2014 and 2015 primarily comprised the followings:

- the fair value of unexercised share options (see note 19(c));
- the difference between fair value of the preference shares and the warrant and the issued amount, upon the waiver of the terms of convertible redeemable preference shares and the warrant in March 2014, and capitalization of the outstanding cumulative dividends payable due to preference shareholders upon waiver in March 2014 (see note 18).

Upon completion of Reorganization in February 2016, the share premium of Risecomm Co. Ltd., which was the then holding company of the Group, was deducted from the share premium presented in the consolidated statement of changes in equity with a corresponding credit to capital reserve and retained earnings.

**(c) PRC statutory reserves***Statutory general reserve*

Statutory general reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

For the entities concerned, statutory general reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

**(d) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the group companies outside the mainland China which are dealt with in accordance with the accounting policies set out in note 2(u).

**(e) Profit distribution**

On March 31, 2016, the Group approved cash dividends of USD13,000,000 (equivalent to RMB83,996,000) payable to its then equity shareholders. The above dividends were fully paid in May 2016.

**(f) Distributable reserves**

There was no reserve available for distribution to shareholders of the Company as at December 31, 2015 and December 31, 2016.

**(g) Capital risk management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. This ratio is calculated as net debt divided by equity. The Group defines net debt as loans and borrowings less available-for-sale financial assets and cash and cash equivalents. Total equity comprises all components of equity.

During the years ended December 31, 2014, 2015 and 2016, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor its subsidiaries are subject to internally or externally imposed capital requirements.

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial assets of the Group include cash and cash equivalents, available-for-sale financial assets, trade and other receivables. Financial liabilities of the Group include bank loans, trade and other payables and other financial liabilities.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- foreign currency risk

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The risks are mitigated by various measures as disclosed below.

### (a) Credit risk

The Group's credit risk is primarily attributable to bank deposits, available-for-sale financial assets and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Bank deposits and available-for-sale financial assets are placed with financial institutions that have high credit ratings. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

In respect of trade and other receivables, as part of the Group's ongoing credit control procedures, management monitors the creditworthiness of customers to whom it grants credit in the normal course of business.

Before the Group's acceptance of orders from customers, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's background and financial strengths, historical repayment records and current repayment ability, and take into account information specific to the economic environment in which the customer operates. Trade receivables under credit sales arrangement are due in accordance with specific payment terms agreed with individual customer on a case by case basis subject to the fulfillment of conditions as stipulated in the respective sales contracts. Normally, the Group does not obtain collateral from customers.

With respect to the collection of trade receivables, the Group's sales personnel are responsible for follow-up of overdue balances on a regular basis. The Group management reviews overdue balances to make appropriate assessment and determine whether or not provision for impairment of trade receivables should be made on a case-by-case basis. The management team works closely with sales personnel to conduct regular reviews of repayment status of customers with overdue trade receivable balances. Management will from time to time review, and if appropriate, revise and update the Group's credit policy and internal control procedures for trade receivables collection.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2014, 2015 and 2016, 16.4%, 33.8% and 13.6% of the total trade and bills receivables was due from the Group's largest customer and 52.1%, 58.5% and 42.1% of the total trade and bills receivables was due from the Group's five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance (see note 14), and endorsed bills with full recourse which were derecognized by the Group (see note 14(d)).

Except for the financial guarantee given by the Group as set out in note 26, the Group did not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of the financial guarantee at the end of the latest reporting period was nil (see note 26).

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table shows the contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	As at December 31, 2014			Carrying amount RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	
Bank loan	10	—	10	9
Trade and other payables	102,950	—	102,950	102,950
	<u>102,960</u>	<u>—</u>	<u>102,960</u>	<u>102,959</u>
	As at December 31, 2015			Carrying amount RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	
Trade and other payables	125,701	—	125,701	125,701
	<u>125,701</u>	<u>—</u>	<u>125,701</u>	<u>125,701</u>
	As at December 31, 2016			Carrying amount RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	
Trade and other payables	94,247	—	94,247	94,247
	<u>94,247</u>	<u>—</u>	<u>94,247</u>	<u>94,247</u>

## (c) Foreign currency risk

The Group is exposed to currency risk primarily through purchases which give rise to payables and bank balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States Dollars ("USD").

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognized assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of each reporting period.

	Exposure to USD (expressed in RMB)		
	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	15	26	138
Trade and other payables	(82,722)	(137,787)	(76,675)
	<u>(82,707)</u>	<u>(137,761)</u>	<u>(76,537)</u>

The following table indicates the change in the Group's profit after taxation (and retained earnings) and other components of equity that would arise if foreign exchange rates to which the Group's financial assets and liabilities have significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant:

	2014	As at December 31,				2016
		2015		2015		
		Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings RMB'000	Increase/ decrease in foreign exchange rates	(Decrease)/ increase in profit after taxation and retained earnings RMB'000	
USD	5%	(3,515)	5%	(5,855)	5%	(3,253)
	-5%	3,515	-5%	5,855	-5%	3,253

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translating into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each reporting period.



**(d) Fair value measurement****(i) Financial liabilities measured at fair value***Fair value hierarchy*

The Group's financial instruments are measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged an external valuer to perform valuations for its financial instruments, including the convertible redeemable preference shares and the warrant which are categorized into Level 3 of the fair value hierarchy. A valuation report with analysis of changes in fair value measurement is prepared by external valuer at each reporting date, and is reviewed and approved by the Group's management.

For the fair values of convertible redeemable preference shares and the warrant and the valuation techniques and inputs, please see note 18.

**(ii) Fair values of financial assets and liabilities carried at other than fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values as at December 31, 2014, 2015 and 2016 due to short-term maturity of these instruments.

**25 COMMITMENTS****(a) Capital commitments**

Capital commitments of the Group in respect of property, plant and equipment outstanding at the end of each reporting period not provided in the Historical Financial Information were as follows:

	As at December 31,		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	—	—	2,427
Authorized but not contracted for	—	—	1,558
Total	—	—	3,985

**(b) Operating lease commitments**

The Group leases business premises through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At each end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Within 1 year	993	5,926	4,151
After 1 year but within 5 years	<u>361</u>	<u>5,168</u>	<u>1,514</u>
	<u>1,354</u>	<u>11,094</u>	<u>5,665</u>

## 26 CONTINGENT LIABILITIES

As at December 31, 2014 and 2015, the Group had provided a guarantee to an independent third-party supplier to secure sourcing of raw materials. During the Relevant Periods, the Group had not been required to make any payment under the guarantee. The directors do not consider it probable that a claim will be made against the Group under the guarantee and the maximum liability of the Group at the end of the latest reporting period was nil because the guarantee arrangement had already expired.

## 27 RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Historical Financial Information, the Group entered into the following material related party transactions.

During the Relevant Periods, the directors are of the view that the following companies and individuals are related parties of the Group:

Name of party	Relationship
SAIF	Shareholder
Chen Junling 陳俊玲	Shareholder and key management personnel
Wang Shiguang 王世光	Spouse of Chen Junling and key management personnel
Yue Jingxing 岳京興	Shareholder and key management personnel
Gu Jian 顧建	Shareholder and key management personnel
Zhang Baojun 張保軍	Shareholder and key management personnel
Han Yuan 韓源	Shareholder and key management personnel
Zhang Xin 張鑫	Shareholder
Wang Wenshan 王文善	Shareholder
Zhang Youyun 張友運	Shareholder and key management personnel
Liu Ming 劉明	Shareholder and key management personnel
Chen Guo 陳果	Shareholder before March 2014
Li Shaohua 李少華	Shareholder before March 2014
Risecomm Beijing Tech	Associate of the Group

Name of party	Relationship
Shenzhen Tongwei Power Engineering Company Limited (“Shenzhen Tongwei”)* 深圳市通維電力工程有限公司	The sole investor of Shenzhen Tongwei during the year ended December 31, 2015 was the spouse of Mr. Zhang Youyun

\* The official name of this company is in Chinese. The English translation of the name is for reference only. Related party relationship ceased when the spouse of Mr. Zhang Youyun disposed of her interest in Shenzhen Tongwei to independent third parties in January 2016.

(a) Transactions with related parties

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
<b>Recurring transactions:</b>			
<b>Office premises rental expenses paid to</b>			
Wang Shiguang	734	724	724
<b>Customer service fees and AMR maintenance service fees paid to</b>			
Shenzhen Tongwei	—	14,123	N/A

(b) Balances with related parties

As at the end of each reporting period, the Group had the following balances with related parties:

*Amounts due from:*

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Yue Jingxing	11,358	12,077	—
Gu Jian	851	913	—
Zhang Baojun	5,967	6,333	—
Han Yuan	1,492	1,583	—
Wang Shiguang	33,718	35,786	—
Chen Junling	7,161	7,599	—
Zhang Xin	7,161	7,599	—
Wang Wenshan	7,161	7,599	—
Zhang Youyun	6	9	—
Liu Ming	6	9	—
SAIF	—	15	—
	<u>74,881</u>	<u>79,522</u>	<u>—</u>

*Amounts due to:*

	As at December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Shenzhen Tongwei	—	945	N/A
Risecomm Beijing Tech	500	—	—
	<u>500</u>	<u>945</u>	<u>—</u>

The outstanding balances of amounts due from and due to related parties are all unsecured, interest-free and have no fixed terms of repayment.

**(c) Directors and key management personnel remuneration**

Directors' remuneration is disclosed in note 7. Details of key management personnel remuneration are as follows:

	Years ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	5,606	6,881	9,472
Post-employee benefits	206	265	308
Equity-settled share-based payments	1,090	740	321
	<u>6,902</u>	<u>7,886</u>	<u>10,101</u>

**28 LIST OF STATUTORY AUDITORS OF THE SUBSIDIARIES**

The following list contains details of the companies included in the Historical Financial Information that are subject to audit during the Relevant Periods and the names of the respective statutory auditors.

Name of company	Financial period	Statutory auditor
Risecomm Microelectronics (Shenzhen) Co., Ltd.* 瑞斯康微電子(深圳)有限公司	For the years ended December 31, 2014, 2015 and 2016	Shenzhen Chenghua Accounting Firm Co., Ltd.* 深圳誠華會計師事務所
Wuxi Risecomm Communication Technology Company Limited* 無錫瑞斯康通信技術有限公司	For the years ended December 31, 2014, 2015 and 2016	Wuxi Jiayu Accounting Firm Co., Ltd.* 無錫嘉譽會計師事務所有限公司
Beijing Risecomm Communication Technology Company Limited* 北京瑞斯康通信技術有限公司	For the years ended December 31, 2014, 2015 and 2016	Beijing Yongqin Accounting Firm Co., Ltd.* 北京永勤會計師事務所有限公司
Shenzhen Risecomm Software Technology Company Limited* 深圳市瑞斯康軟件技術有限公司	For the years ended December 31, 2014, 2015 and 2016	Shenzhen Chenghua Accounting Firm Co., Ltd.* 深圳誠華會計師事務所
Changsha Risecomm Communication Technology Company Limited* 長沙瑞斯康通信技術有限公司	For the year ended December 31, 2015 and 2016	Hunan Zhichao United Certified Public Accountant's Firm* 湖南智超聯合會計師事務所
Risecomm (HK) Holding Co. Limited**	For the year ended December 31, 2015	FTW & Partners CPA Limited
Risecomm (HK) Technology Co. Limited**	For the year ended December 31, 2015	FTW & Partners CPA Limited

\* The official names of these companies are in Chinese. The English translation of the names is for reference only.

\*\* As at the date of this report, the audits of these two companies' statutory financial statements for the year ended December 31, 2016 have not been completed.

**29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS**

Up to the issuance date of the Historical Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2016 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 12, Income taxes: "Recognition of deferred tax assets for unrealized losses"	January 1, 2017
Amendments to HKAS 7, Statement of cash flows: "Disclosure initiative"	January 1, 2017
Amendments to HKFRS 2, Share-based payment: "Classification and measurement of share-based payment transactions"	January 1, 2018
Amendments to HKFRS 4, Insurance contracts: "Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts"	January 1, 2018
HKFRS 9, Financial Instruments	January 1, 2018
HKFRS 15, Revenue from contracts with customers	January 1, 2018
HKFRS 16, Leases	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position. Specifically, the Group assesses the impact of HKFRS 9, HKFRS 15 and HKFRS 16 as follows:

**HKFRS 9 Financial Instruments**

HKFRS 9 replaces the existing guidance in HKAS 39 Financial instruments: Recognition and measurement. HKFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from HKAS 39.

Based on the assessment so far, the Group considers that the initial application of HKFRS 9 will not have a significant impact on the Group's results of operations and financial position.

**HKFRS 15 Revenue from contracts with customers**

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including HKAS 18 Revenue, HKAS 11 Construction contracts and HK (IFRIC)-Int 13 Customer Loyalty Programs. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

Based on the assessment so far, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operations and financial position.

**HKFRS 16 Leases**

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for a number of properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 25(b), at December 31, 2016 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB5,665,000 under operating leases, the majority of which is payable within 1 year after the reporting date. Some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

**30 SUBSEQUENT EVENTS****(a) Extension of option period and exercise of share options**

On January 26, 2017, a director of the Company exercised his 200,000 pre-IPO share options to subscribe for 200,000 shares, as a result, the total issued shares of the Company has increased to 18,328,214.

Pursuant to a board resolution and a shareholders’ resolution passed on January 26, 2017, the exercise period of 81,344 outstanding pre-IPO share options granted to certain employees, initially valid until January 31, 2017, was extended to December 31, 2017.

**SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to December 31, 2016.

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

#### A UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the equity shareholders of the Company as of December 31, 2016, as if the Global Offering had taken place on December 31, 2016.

The pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of December 31, 2016 or at any future date.

Consolidated net tangible assets of our Group attributable to equity shareholders of our Company as of December 31, 2016 <i>RMB'000</i> <sup>(1)</sup>	Estimated net proceeds from the Global Offering <i>RMB'000</i> <sup>(2)(5)</sup>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company <i>RMB'000</i> <sup>(3)(4)</sup>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company <i>RMB</i> <sup>(4)</sup>	Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company <i>HK\$</i> <sup>(5)</sup>
Based on an Offer Price of HK\$0.90 per Offer Share	212,510	119,251	331,761	0.41
Based on an Offer Price of HK\$1.00 per Offer Share	212,510	136,087	348,597	0.44

*Notes:*

- (1) The consolidated net tangible assets of the Group attributable to equity shareholders of the Company as of December 31, 2016 have been calculated based on the audited consolidated total equity attributable to equity shareholders of the Company as of December 31, 2016 of RMB220,707,000 less intangible assets of RMB8,197,000, extracted from the financial information section of the Accountants' Report set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the issuance of 200,000,000 Shares and the indicative Offer Prices of HK\$0.90 and HK\$1.00 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, after deduction of total listing expenses of approximately RMB40.3 million and RMB41.1 million, respectively, and does not take account of any Shares which may be issued upon the exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme, or any options which may be granted under the Share Option Scheme.

<b>APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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- (3) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2016.
  
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) and on the basis of 800,000,000 Shares in issue (including Shares in issue as of the date of this Prospectus and those Shares to be issued pursuant to the Capitalization Issue and the Global Offering) assuming that the Capitalization Issue and the Global Offering had been completed on December 31, 2016 but taking no account of any shares which may be issued upon the exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares as described in “Appendix IV — Statutory and General Information” in this Prospectus.
  
- (5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of HK\$1.00 to RMB0.8861. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.



**B      INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILED OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.*



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILED OF PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF RISECOMM GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Risecomm Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at December 31, 2016 and related notes as set out in Part A of Appendix II to the prospectus dated May 29, 2017 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at December 31, 2016 as if the Global Offering had taken place at December 31, 2016. As part of this process, information about the Group's financial position as at December 31, 2016 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

**Directors' Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**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 behavior.

The 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 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 pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the 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 purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of 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 events or transactions as at December 31, 2016 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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 pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

<b>APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

May 29, 2017

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 19, 2015 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “**Memorandum**”) and its Amended and Restated Articles of Association (the “**Articles**”).

## 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on May 16, 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### (a) Shares

#### (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### (ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so canceled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

*(iv) Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant

registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

*(v) Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

*(vi) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

*(vii) Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may

still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors**

*(i) Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.



Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.\

*(iv) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits

for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to

the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members***(i) Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

*(iv) Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, amongst others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address, by advertisement in newspapers in accordance with the requirements of the Stock Exchange or placing it on the Company's website or the website of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
  - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
  - (cc) the election of directors in place of those retiring;
  - (dd) the appointment of auditors and other officers;
  - (ee) the fixing of the remuneration of the directors and of the auditors;
  - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
  - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which be those of a country or jurisdiction other than the Cayman Islands.. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.



No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as canceled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from February 2, 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(p) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of

the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

#### **(q) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

#### **(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on August 19, 2015.

We were registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on June 21, 2016 and our principal place of business in Hong Kong is at Unit No. 2, 12/F., Emperor Group Centre, No. 288 Hennessy Road, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Leung Ka Lok has been appointed as our agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of Companies Law is set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company***(a) Change in authorized share capital*

- (i) As at the date of incorporation of our Company on August 19, 2015, our authorized share capital was HK\$390,000 divided into 39,000,000 shares having a par value of HK\$0.01 each.
- (ii) On August 18, 2016, the authorized share capital of our Company was increased by an additional HK\$1,000,000 by creation of 10,000,000,000 Shares.
- (iii) On August 18, 2016, the authorized but unissued share capital of our Company was diminished by the cancelation of all the 39,000,000 unissued shares of par value of HK\$0.01 each in the share capital of our Company. Immediately following the said cancelation, our Company had an authorized share capital of HK\$1,000,000 divided into 10,000,000,000 Shares.

Immediately following completion of the Capitalization Issue and the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme and the exercise of the Over-allotment Option), the authorized share capital of our Company will be HK\$1,000,000 divided into 10,000,000,000 Shares, of which 800,000,000 Shares will be issued, fully paid or credited as fully paid, and 9,200,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in paragraphs headed “Information about our Company — 3A. Resolutions in writing of the Shareholders passed on August 18, 2016, 3B. Resolutions in writing of our Shareholders passed on May 16, 2017” and “Information about our Company — 4. Group reorganization” in this appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder shares*

Our Company has no founder shares, management shares or deferred shares.

**3A. Resolutions in writing of the Shareholders passed on August 18, 2016**

Written resolutions were passed by the Shareholders on August 18, 2016 pursuant to which, among other matters:

- (a) the authorized share capital of our Company was increased by an additional HK\$1,000,000 by creation of 10,000,000,000 Shares;
- (b) our Company issued in aggregate 18,128,214 Shares to the then existing Shareholders of our Company, credited as fully paid;
- (c) our Company repurchased from the then existing Shareholders the 18,128,214 then existing issued shares of par value of HK\$0.01 each in the issued share capital of our Company at par value; and
- (d) the authorized but unissued share capital of our Company was diminished by the cancellation of all the 39,000,000 unissued shares of par value of HK\$0.01 each in the share capital of our Company.

**3B. Resolutions in writing of our Shareholders passed on May 16, 2017**

Written resolutions were passed by the Shareholders on May 16, 2017 pursuant to which, among other matters:

- (a) our Company approved and adopted the Memorandum with immediate effect;
- (b) our Company approved and adopted the Articles conditional upon and with effect from the listing of the Shares on the Stock Exchange on the Listing Date;
- (c) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
  - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;

- (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15(I) of this Appendix, were approved and adopted and our Directors were authorized to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors' absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
- (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorized to capitalize HK\$58,167,1786 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 581,671,786 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on May 16, 2017 in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorized to give effect to such capitalization;
- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, or under the Capitalization Issue or the Global Offering or upon the exercise of the Over-allotment Option, an aggregate number of Shares not exceeding 20% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or any other applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (v) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to purchase or repurchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognized by the SFC and the Stock Exchange for this purpose, with an aggregate number of Shares not exceeding 10% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and

- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above.
- (d) our Company approved the form and substance of each of the service agreements made between the executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our non-executive Director and independent non-executive Directors with our Company.

#### **4. Group reorganization**

The companies comprising our Group underwent a reorganization to rationalize our Group's structure in preparation for the listing of the Shares on the Stock Exchange. For more details regarding the Reorganization, please refer to the section headed "History, Development and Reorganization".

#### **5. Changes in share capital of subsidiaries**

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this prospectus. Save as disclosed below and in the section headed "History, Development and Reorganization", there are no changes in the share capital of our Company's subsidiaries during the two years preceding the date of this prospectus:

##### *Risecomm WFOE*

The registered capital of Risecomm WFOE was increased from US\$3.5 million to US\$7.5 million on 23 March 2016.

## 6. Further information about our subsidiaries and associate in the PRC

Our Group has interest in the registered capital of various subsidiaries and an associate established in the PRC. A summary of the corporate information of the PRC subsidiaries as at the Latest Practicable Date is set out as follows:

### (I) Subsidiaries in the PRC

#### (a) *Risecomm WFOE*<sup>(1)</sup>

Name of the enterprise:	瑞斯康微電子(深圳)有限公司 (Risecomm Microelectronics (Shenzhen) Co., Ltd.)
Registered address:	Skyworth Building C501, Hi-tech Industrial Park, Shenzhen, PRC
Date of its establishment:	May 10, 2006
Economic nature:	Wholly foreign-owned enterprise
Registered owner:	Risecomm HK
Registered capital:	US\$7.5 million
Attributable interest to our Group:	100%
Term of operation:	May 10, 2006 to May 10, 2056

#### (b) *Risecomm Beijing Comm*

Name of the enterprise:	北京瑞斯康通信技術有限公司 (Beijing Risecomm Communication Technology Company Limited)
Registered address:	E-518-B, 4/F., No. 6 Taiping Street, Xicheng District, Beijing City, PRC
Date of its establishment:	March 7, 2014
Economic nature:	Limited liability company
Registered owner:	Risecomm WFOE
Registered capital:	RMB3 million
Attributable interest to our Group:	100%
Term of operation:	March 7, 2014 to March 6, 2064

*(c) Risecomm Wuxi*

Name of the enterprise:	無錫瑞斯康通信技術有限公司 (Wuxi Risecomm Communication Technology Company Limited)
Registered address:	21-1-802, 803, Changjiang Road, Wuxi New District, PRC
Date of its establishment:	October 11, 2010
Economic nature:	Limited liability company
Registered owner:	Risecomm WFOE
Registered capital:	RMB3.1 million
Attributable interest to our Group:	100%
Term of operation:	Indefinite term commencing from October 11, 2010

*(d) Risecomm Changsha*

Name of the enterprise:	長沙瑞斯康通信技術有限公司 (Changsha Risecomm Communication Technology Company Limited)
Registered address:	Room 501, Block 4, Zone C, Jindao Yuan, No. 179 Haizhizhong Road, Gaoxin Development Zone, Changsha, PRC
Date of its establishment:	December 26, 2014
Economic nature:	Limited liability company
Registered owners:	Risecomm WFOE and other individual shareholders <sup>(2)</sup>
Registered capital:	RMB1 million
Attributable interest to our Group:	75%
Term of operation:	December 26, 2014 to December 25, 2064

*(e) Risecomm Shenzhen*

Name of the enterprise:	Shenzhen Risecomm Software Technology Company Limited (深圳市瑞斯康軟件技術有限公司)
Registered address:	Skyworth Building C504, Hi-tech Industrial Park, Shenzhen, PRC
Date of its establishment:	April 1, 2014

Economic nature:	Limited liability company
Registered owner:	Risecomm WFOE
Registered capital:	RMB2 million
Attributable interest to our Group:	100%
Term of operation:	Indefinite term commencing from April 1, 2014

**(II) Associate of our Group***Risecomm Beijing Tech*

Name of the enterprise:	Risecomm (Beijing) Technology Company Limited (瑞北通(北京) 科技有限公司)
Registered address:	B1-331, 1/F., No. 88 Nongda South Road, Haiding District, Beijing, PRC
Date of its establishment:	June 3, 2014
Economic nature:	Limited liability company
Registered owner:	Risecomm WFOE and two other individual shareholders <sup>(3)</sup>
Registered capital:	RMB2 million
Attributable interest to our Group:	50%
Term of operation:	June 3, 2014 to June 2, 2034

*Notes:*

- (1) Risecomm WFOE has two branch offices, namely Risecomm WFOE Yantian Branch and Risecomm WFOE Hunan Branch, which were established in the PRC on October 31, 2012 and February 19, 2016, respectively.
- (2) Risecomm WFOE held 75% of the equity interest in Risecomm Changsha. Among the remaining 25% equity interest in Risecomm Changsha, 13% is held by Mr. Qiu Renfeng, 2% is held by Mr. Yi Mo, 2% is held by Mr. Li Dingzhang, 2% is held by Mr. Xiong Haifeng, 2% is held by Mr. Huang Zhourong, 1% is held by Mr. Lei Zhenkun, 1% is held by Mr. Yang Chao, 1% is held by Mr. Xu Liang and 1% is held by Mr. Zhang Bin, respectively. Each of the aforesaid individual shareholders is an employee of Risecomm Changsha.
- (3) Since the establishment of Risecomm Beijing Tech, it has been owned as to 50% by Risecomm WFOE, 25% by Mr. Yu Xinmin (于新民) and 25% by Mr. Fu Weiji (付偉際). Mr. Yu Xinmin and Mr. Fu Weiji are Independent Third Parties save for their respective interests and directorships in Risecomm Beijing Tech.

## 7. Securities repurchase mandate

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

### *(a) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by the Shareholders on May 16, 2017, the Repurchase Mandate was given to our Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of issued Shares immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles, the Companies Law or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

### *(b) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorized by the Articles and subject to the provisions of the Companies Law, out of capital.

Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorized by the Articles and subject to the provisions of the Companies Law, out of capital.

### *(c) Reasons for repurchases*

Our Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.



*(d) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after the Listing, would result in up to 80,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

*(e) General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

**FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY****8. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement dated October 19, 2015 entered into between Old Cayman and Risecomm HK, pursuant to which, Old Cayman transferred its 100% equity interest in Risecomm WFOE to Risecomm HK for a consideration of RMB113,439,587.47;
- (b) an instrument of transfer dated November 19, 2015 signed by Lam Chi Wai Tammy (林芝慧) and Harvest Year, pursuant to which Lam Chi Wai Tammy (林芝慧) transferred one ordinary share of Risecomm HK (which was held by Lam Chi Wai Tammy (林芝慧) as a nominee for and on behalf of Harvest Year) to Harvest Year;
- (c) an instrument of transfer dated November 19, 2015 signed by Lam Chi Wai Tammy (林芝慧) and Prime Key, pursuant to which Lam Chi Wai Tammy (林芝慧) transferred one ordinary share of Risecomm HK Technology (which was held by Lam Chi Wai Tammy (林芝慧) as a nominee for and on behalf of Prime Key) to Prime Key;
- (d) a sale and purchase agreement dated February 1, 2016 entered into among SAIF, Wang Shiguang (王世光), Yue Jingxing (岳京興), Gu Jian (顧建), Chen Junling (陳俊玲), Ma Hui (馬暉), Wang Wenshan (王文善), Zhang Baojun (張保軍), Han Yuan (韓源), Zhang Youyun (張友運) and Liu Ming (劉明) as vendors and our Company as purchaser, pursuant to which SAIF, Wang Shiguang (王世光), Yue Jingxing (岳京興), Gu Jian (顧建), Chen Junling (陳俊玲), Ma Hui (馬暉), Wang Wenshan (王文善), Zhang Baojun (張保軍), Han Yuan (韓源), Zhang Youyun (張友運) and Liu Ming (劉明) transferred in aggregate 18,128,214 shares (comprising 12,328,214 common shares and 5,800,000 series A preferred shares) of US\$0.001 each, representing the entire issued share capital of Old Cayman, to our Company, in consideration of our Company allotting and issuing an aggregate of 18,128,213 shares of HK\$0.01 each in the share capital of our Company, credited as fully paid to the aforesaid vendors;
- (e) an instrument of transfer dated February 22, 2016 signed by Lam Chi Yin Henry (林智然) and our Company, pursuant to which Lam Chi Yin Henry (林智然) transferred one ordinary share of Harvest Year to our Company at nil consideration;
- (f) an instrument of transfer dated February 22, 2016 signed by Li Wing Chun Charles (李穎臻) and our Company, pursuant to which Li Wing Chun Charles (李穎臻) transferred one ordinary share of Prime Key to our Company at nil consideration;
- (g) the Deed of Non-competition;
- (h) the Deed of Indemnity;
- (i) a cornerstone investment agreement dated May 17, 2017 entered into among Lead Capital Fund III, L.P. 利得資本3号基金, the Company and China Galaxy International, a summary of which is set out in the section headed “Cornerstone Investor”; and
- (j) the Hong Kong Underwriting Agreement.

## 9. Exemption from requirement of a property valuation report




For the purpose of Chapter 5 of the Listing Rules, as no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets, this prospectus is not required to include any valuation report of our property interests.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our Group's assets in land or buildings.

## 10. Intellectual property rights of our Group

### (a) Trade marks

As at the Latest Practicable Date, our Group has obtained all material intellectual property rights for its operations and is the registered proprietor and beneficial owner of the following material trademarks:

No.	Trademark	Place of Registration	Class	Registration Number	Duration of Validity	Registered Owner
1.	 <b>RISECOMM</b>	PRC	Type 9	6776966	June 28, 2010– June 27, 2020	Risecomm WFOE
2.	 <b>RISECOMM</b> 瑞斯康  <b>RISECOMM</b> 瑞斯康	Hong Kong	Class 9, Class 35 and Class 42	303606859	November 24, 2015– November 23, 2025	Risecomm HK

*(b) Patents*

As at the Latest Practicable Date, our Group has obtained all material intellectual property rights for its operations and is the registered proprietor and beneficial owner of the following material patents:

No.	Type	Patent Description	Place of Registration	Patent No.	Duration of Validity	Registered Owner
1.	Invention	Method for transmitting and receiving low pressure carrier wave centralized type network and apparatus thereof (低壓載波集中式網絡的發送方法、收發方法及其裝置)	PRC	PRC ZL200710142795.X	August 23, 2007– August 22, 2027	Risecomm WFOE
2.	Invention	An automatic registration algorithm for carrier terminal of low-voltage power distribution network (一種低壓配電網載波終端自動註冊算法)	PRC	ZL201210591678.2	December 31, 2012– December 30, 2032	Risecomm WFOE
3.	Utility Model	A power line carrier intelligent street lamp control system (一種電力載波智能路燈控制系統)	PRC	ZL201320479590.1	August 7, 2013– August 6, 2023	Risecomm WFOE
4.	Utility Model	An intelligent control system for LED tunnel lamps (一種LED隧道燈智能控制系統)	PRC	ZL201320479773.3	August 7, 2013– August 6, 2023	Risecomm WFOE
5.	Utility Model	An energy saving controller for air conditioner (一種空調節能控制器)	PRC	ZL201320433068.X	July 19, 2013– July 18, 2023	Risecomm WFOE
6.	Utility Model	Multifunctional intelligent street lamp centralized controller (多功能智能路燈集中控制器)	PRC	ZL201320479620.9	August 7, 2013– August 6, 2023	Risecomm WFOE
7.	Utility Model	An air conditioner centralized monitoring equipment (一種空調集中監控設備)	PRC	ZL201320433063.7	July 19, 2013– July 18, 2023	Risecomm WFOE
8.	Invention	Wireless automatic relay networking method and meter reading system (無線自動中繼組網的方法及抄表系統)	PRC	ZL20141002042.9	January 2, 2014– January 1, 2034	Risecomm WFOE
9.	Utility Model	A commercial power zero cross detection circuit (一種市電過零檢測電路)	PRC	ZL201420122786.X	March 18, 2014– March 17, 2024	Risecomm WFOE
10.	Utility Model	Power line carrier power amplification circuit (電力線載波功率放大電路)	PRC	ZL201420260142.7	May 21, 2014– May 20, 2024	Risecomm WFOE
11.	Utility Model	A heat data acquisition unit and heat management system (一種熱力數據採集器及熱力管理系統)	PRC	ZL201420760169.2	December 5, 2014– December 4, 2024	Risecomm WFOE
12.	Utility Model	An intelligent central air conditioner temperature controller and central air conditioner system (一種中央空調智能溫控器及中央空調系統)	PRC	ZL201521136671.7	December 31, 2015 to December 30, 2025	Risecomm WFOE
13.	Design	Controller for air conditioner (空調控制器)	PRC	ZL201530350079.6	September 11, 2015– September 10, 2025	Risecomm WFOE
14.	Design	Intelligent router (智能路由器)	PRC	ZL201530350195.8	September 11, 2015– September 10, 2025	Risecomm WFOE
15.	Utility Model	An all-band power line carrier communication device (一種全頻帶電力線載波通信裝置)	PRC	ZL201620206311.8	March 17, 2016– March 16, 2026	Risecomm Changsha

As at the Latest Practicable Date, our Group has applied for the following material patents:

No.	Type	Patent Description	Place of Application	Application No.	Date of Application	Applicant
1.	Invention	A centralized control system for intelligent lighting street lamp (一種智慧照明路燈集控系統)	PRC	201410736046.X	December 5, 2014	Risecomm WFOE
2.	Invention	An all-band power line carrier communication method (一種全頻帶電力線載波通信方法)	PRC	201610152998.6	March 17, 2016	Risecomm WFOE
3.	Invention	An embedded distributed networking method and system (一種嵌入分佈式組網方法及其系統)	PRC	201610272213.9	April 28, 2016	Risecomm WFOE
4.	Invention	A data transmission method and repeater based on LORA wireless communication (基於LORA無線通信的數據傳輸方法及中繼器)	PRC	201611063428.6	November 25, 2016	Risecomm WFOE
5.	Invention	A type II data collector, method and system (II型採集器、數據採集方法及系統)	PRC	201611159053.3	December 15, 2016	Risecomm WFOE
6.	Invention	An all-band power line carrier communication system (一種全頻帶電力線載波通信系統)	PRC	201610153456.0	March 17, 2016	Risecomm Changsha
7.	Invention	A broadband carrier with meter-reading method and system (一種寬帶載波並行抄表方法及系統)	PRC	201610153336.0	March 17, 2016	Risecomm Changsha

*(c) Software Copyrights*

As at the Latest Practicable Date, our Group has obtained all material intellectual property rights for its operations and is the registered proprietor and beneficial owner of the following material software copyrights:

No.	Software Copyright	Place of Registration	Registration Number	Date of Registration	Registered Copyright Owner
1.	Risecomm's street lamp remote control system software (瑞斯康路燈遠程控制系統軟件)	PRC	2011SR034314	June 3, 2011	Risecomm WFOE
2.	Risecomm's low voltage power line meter centralized reading system software (瑞斯康低壓電力線載波集中抄表系統軟件)	PRC	2012SR041869	May 22, 2012	Risecomm WFOE
3.	Risecomm's PLC node control software (瑞斯康電力線載波通信節點控制軟件)	PRC	2012SR085011	September 7, 2012	Risecomm WFOE
4.	PLC collector control software (電力線載波通信採集器控制軟件)	PRC	2013SR147095	December 16, 2013	Risecomm WFOE
5.	Huizhi's gateway control software (匯智網關控制軟件)	PRC	2016SR379482	December 19, 2016	Risecomm WFOE
6.	Risecomm's thermal centralized management system software (瑞斯康熱力集中管理系統軟件)	PRC	2016SR392007	December 24, 2016	Risecomm WFOE
7.	Risecomm's air conditioning centralized management system software (瑞斯康空調集中管理系統軟件)	PRC	2016SR392024	December 24, 2016	Risecomm WFOE
8.	Risecomm's air conditioning centralized monitor main control software (瑞斯康空調集中監控器主機控制軟件)	PRC	2013SR150223	December 19, 2013	Risecomm WFOE
9.	Concentrator module control software (集中器載波模塊控制軟件)	PRC	2013SR147459	December 17, 2013	Risecomm WFOE

No.	Software Copyright	Place of Registration	Registration Number	Date of Registration	Registered Copyright Owner
10.	Risecomm's heating supply centralized control management terminal software (瑞斯康熱力集中控制管理終端軟件)	PRC	2014SR182159	November 27, 2014	Risecomm WFOE
11.	Risecomm's temperature detector control software (瑞斯康溫度檢測器控制軟件)	PRC	2014SR183261	November 28, 2014	Risecomm WFOE
12.	Risecomm's concentrator local communication module main node control software (瑞斯康集中器本地載波通信模塊主節點控制軟件)	PRC	2014SR063692	May 20, 2014	Risecomm Shenzhen
13.	Risecomm's PLC control from node software (瑞斯康電力線載波通信從節點控制軟件)	PRC	2014SR063694	May 20, 2014	Risecomm Shenzhen
14.	Risecomm's air conditioning energy saving control system management software (瑞斯康空調節能控制系統管理軟件)	PRC	2014SR095246	July 10, 2014	Risecomm Shenzhen
15.	Risecomm's temperature control concentrator system software (瑞斯康溫控集中器系統軟件)	PRC	2014SR095747	July 11, 2014	Risecomm Shenzhen
16.	Risecomm's air conditioning energy saving controller management software (瑞斯康空調節能控制器控制軟件)	PRC	2014SR095743	July 11, 2014	Risecomm Shenzhen
17.	Risecomm's Handheld Terminal Control Software (瑞斯康手持終端設備控制軟件)	PRC	2014SR102543	July 22, 2014	Risecomm Shenzhen
18.	Risecomm's Type I collector control software (瑞斯康I型採集器控制軟件)	PRC	2014SR102791	July 22, 2014	Risecomm Shenzhen
19.	Risecomm's Type II collector control software (瑞斯康II型採集器控制軟件)	PRC	2014SR102278	July 22, 2014	Risecomm Shenzhen

No.	Software Copyright	Place of Registration	Registration Number	Date of Registration	Registered Copyright Owner
20.	Risecomm's air-conditioning controller embedded music (LQ-01) control software (瑞斯康空調控制器樂嵌 (LQ-01) 控制軟件)	PRC	2017SR084841	March 21, 2017	Risecomm WFOE
21.	Risecomm's air-conditioning controller rock (PS-01) control software (瑞斯康空調控制器磐石 (PS-01) 控制軟件)	PRC	2017SR088326	March 23, 2017	Risecomm WFOE
22.	Risecomm's air-conditioning controller core (XR-01) control software (瑞斯康空調控制器芯睿 (XR-01) 控制軟件)	PRC	2017SR092663	March 27, 2017	Risecomm WFOE
23.	Risecomm's air-conditioning controller smart (LD-01) control software (瑞斯康空調控制器靈動 (LD-01) 控制軟件)	PRC	2017SR108263	April 10, 2017	Risecomm WFOE
24.	Risecomm's streetlight control management system software (瑞斯康路燈控制管理系統軟件)	PRC	2013SR091074	August 28, 2013	Risecomm Wuxi
25.	Risecomm's southern power grid handheld setting tool software (瑞斯康南網掌機設置工具軟件)	PRC	2016SR164873	July 1, 2016	Risecomm Changsha
26.	Intelligent air conditioner management system (智能空調管理系統)	PRC	2016SR165128	July 1, 2016	Risecomm Changsha
27.	Heat supply meter monitoring system (供熱計量監控系統)	PRC	2016SR165129	July 1, 2016	Risecomm Changsha
28.	Risecomm's micropower wireless child node software (瑞斯康微功率無線子節點軟件)	PRC	2016SR193118	July 26, 2016	Risecomm Changsha
29.	Risecomm's micropower wireless routing software (瑞斯康微功率無線路由軟件)	PRC	2016SR196747	July 28, 2016	Risecomm Changsha



No.	Software Copyright	Place of Registration	Registration Number	Date of Registration	Registered Copyright Owner
30.	Risecomm's broadband carrier concentrator with meter-reading software (瑞斯康寬帶載波集中器並行抄表軟件)	PRC	2016SR228828	August 22, 2016	Risecomm Changsha
31.	Risecomm's Type II southern power grid concentrator software (瑞斯康南網II型集中器軟件)	PRC	2017SR014549	January 17, 2017	Risecomm Changsha
32.	Risecomm's Type II broadband carrier wave collector software (瑞斯康寬帶載波II型採集器軟件)	PRC	2017SR014567	January 17, 2017	Risecomm Changsha
33.	Risecomm's Type I southern power grid concentrator software (瑞斯康南網I型集中器軟件)	PRC	2017SR014572	January 17, 2017	Risecomm Changsha
34.	Risecomm's communication interface converter software (瑞斯康通信接口轉換器軟件)	PRC	2017SR033554	February 7, 2017	Risecomm Changsha
35.	Intellectual water pipe network monitoring system (智慧水務管網監控系統)	PRC	2017SR043514	February 15, 2017	Risecomm Changsha

*(d) Design of Integrated Circuits Layout*

As at the Latest Practicable Date, our Group has obtained all material intellectual property rights for its operations and is the registered proprietor and beneficial owner of the following material designs:

No.	Name of Design	Place of Registration	Registration Number	Duration of Validity	Registered Owner
1.	RISE3401	PRC	BS.08500550.9	October 31, 2008– October 30, 2018	Risecomm WFOE
2.	RISE3501E	PRC	BS.11500045.3	January 20, 2011– January 19, 2021	Risecomm WFOE
3.	RISE3601	PRC	BS.11500152.2	March 17, 2011– March 16, 2021	Risecomm WFOE
4.	RISE3701	PRC	BS.12500405.2	March 28, 2012– March 27, 2022	Risecomm WFOE
5.	RISE3802	PRC	BS.155508172	October 12, 2015– October 11, 2025	Risecomm WFOE
6.	RISE3902	PRC	BS.165512342	May 5, 2016– May 4, 2026	Risecomm WFOE

*(e) Domain Names*

As at the Latest Practicable Date, our Group has the following material registered domain names:

No.	Domain Name	Date of Registration	Expiry Date	Registrant
1.	risecomm.com.cn	May 29, 2006	May 29, 2019	Risecomm WFOE
2.	risecomm.cn	June 29, 2012	June 29, 2022	Risecomm WFOE
3.	risecomm.net	November 27, 2012	November 27, 2021	Risecomm WFOE
4.	znkz.cn	November 7, 2013	November 7, 2018	Risecomm WFOE

**11. Connected transactions and related party transactions**

Save as disclosed in the sections headed “Business” and “Continuing Connected Transaction” and in note 27 to the Accountants’ Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

## FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

## 12. Directors

*(a) Disclosure of interests of our Directors*

- (i) Each of Mr. Yue Jingxing, Mr. Wang Shiguang and Mr. Zhang Youyun is interested in the Reorganization and the transaction as contemplated under the material contract (d) as set out in “— *Further Information about the Business of Our Company* — 8. *Summary of material contracts*” in this Appendix.
- (ii) Except as disclosed in this prospectus, none of our Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

*(b) Particulars of Directors’ service contracts**Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date until terminated by not less than three months’ notice in writing served by either party on the other. Each of the executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of the executive Directors payable under their service contracts with our Company are as follows:

<b>Name</b>	<b>Approximate annual salary (HK\$)</b>
Mr. Yue Jingxing	120,000
Mr. Wang Shiguang	120,000
Mr. Zhang Youyun	120,000

*Non-executive Director*

The non-executive Director has been appointed for an initial term of three years commencing from the Listing Date pursuant to a letter of appointment. Either our Company or the non-executive Director may give a three months’ written notice to the other party for early termination of appointment. The appointment is subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. The non-executive Director will not receive any remuneration for holding his office as a non-executive Director but will be reimbursed with out-of-pocket expenses in connection with the attendance of board meetings of the Company.

*Independent non-executive Directors*

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date pursuant to a letter of appointment. Either our Company or the independent non-executive Directors may give a three months' written notice to the other party for early termination of appointment. The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK\$240,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (excluding contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**(c) *Directors remuneration***

- (i) The aggregate amount of salaries, allowances and benefits in kind, discretionary bonuses, contributions to retirement schemes, and equity-settled share-based payments paid or payable by us to our Directors in respect of each of the three years ended December 31, 2014, 2015 and 2016 were approximately RMB3.0 million, RMB3.1 million and RMB3.5 million, respectively.
- (ii) Under the arrangements currently in force, the aggregate amount of remuneration payable by us to, and allowances and benefits in kind receivable by, our Directors for the year ending December 31, 2017 are expected to be approximately RMB3,658,000 (excluding discretionary bonus).
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended December 31, 2014, 2015 and 2016 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to any emoluments for each of the three years ended December 31, 2014, 2015 and 2016.

**(d) *Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations***

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to

therein, or which will be required to notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Name of Director	Relevant company	Nature of interest	Number of shares in the relevant company <sup>(1)</sup>	Approximate percentage of interest
Mr. Yue Jingxing <sup>(2)</sup>	Our Company	Interest in a controlled corporation	91,943,624 (L) <sup>(2)(i)</sup>	11.49%
		Beneficial owner	863,587 (L) <sup>(2)(ii)</sup>	0.11%
Mr. Wang Shiguang <sup>(3)</sup>	Our Company	Interest of spouse	169,527,845 (L)	21.19%
Mr. Zhang Youyun <sup>(4)</sup>	Our Company	Interest in a controlled corporation	4,705,859 (L) <sup>(4)(i)</sup>	0.59%
		Beneficial owner	1,841,423 (L) <sup>(4)(ii)</sup>	0.23%
Mr. Ng Benjamin Jin-ping	Our Company	Beneficial owner	6,547,283 (L)	0.82%

*Notes:*

1. The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.
2. Mr. Yue Jingxing is the sole shareholder of Seashore Fortune which will hold 91,943,624 Shares. By virtue of the SFO, Mr. Yue Jingxing is deemed to be interested in the Shares in which Seashore Fortune is interested. The disclosed interest represents (i) the interest in our Company held by Seashore Fortune; and (ii) options held by Mr. Yue Jingxing under the Pre-IPO Share Option Scheme.
3. Mr. Wang Shiguang, our executive Director, the chairman of our Board and the spouse of Ms. Chen Junling, is deemed to be interested in Ms. Chen Junling’s interest in our Company by virtue of the SFO.
4. Mr. Zhang Youyun is the sole shareholder of Glorious Lead which will hold 4,705,859 Shares upon the completion of the Global Offering. By virtue of the SFO, Mr. Zhang Youyun is deemed to be interested in the Shares in which Glorious Lead is interested. The disclosed interest represents (i) the interest in our Company held by Glorious Lead; and (ii) options held by Mr. Zhang Youyun under the Pre-IPO Share Option Scheme.

### 13. Interest discloseable under the SFO and substantial shareholders

So far as is known to our Directors, immediately following completion of the Capitalization Issue and the Global Offering (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the paragraph headed “Further Information about Directors and Shareholders — 12. Directors” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions

of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Capacity/nature of interest	Number of Shares <sup>(1)</sup>	Approximate percentage of shareholding
Seashore Fortune	Beneficial owner	91,943,624 (L)	11.49%
Ms. Chen Junling <sup>(2)</sup>	Interest in a controlled corporation	169,527,845 (L)	21.19%
Magical Success	Beneficial owner	169,527,845 (L)	21.19%
SAIF <sup>(3)</sup>	Beneficial owner	197,340,537 (L)	24.67%
SAIF II GP L.P. <sup>(3)</sup>	Interest in a controlled corporation	197,340,537 (L)	24.67%
SAIF Partners II L.P. <sup>(3)</sup>	Interest in a controlled corporation	197,340,537 (L)	24.67%
SAIF II GP Capital Ltd. <sup>(3)</sup>	Interest in a controlled corporation	197,340,537 (L)	24.67%
Mr. Andrew Y. Yan <sup>(3)</sup>	Interest in a controlled corporation	197,340,537 (L)	24.67%

*Notes:*

1. The letter "L" denotes a person's long position in our Shares.
2. Ms. Chen Junling is the sole shareholder of Magical Success which will hold 169,527,845 Shares upon the completion of the Global Offering. By virtue of the SFO, Ms. Chen Junling is deemed to be interested in the Shares in which Magical Success is interested.
3. SAIF is an exempted limited partnership registered under the laws of the Cayman Islands. The general partner of SAIF is SAIF II GP L.P., a limited partnership established in the Cayman Islands, whose general partner is SAIF Partners II L.P., a limited partnership established in the Cayman Islands. The general partner of SAIF Partners II L.P. is SAIF II GP Capital Ltd., an exempted limited liability company incorporated in the Cayman Islands wholly owned by Mr. Andrew Y. Yan. By virtue of the SFO, SAIF II GP L.P., SAIF Partners II L.P., SAIF II GP Capital Ltd. and Mr. Andrew Y. Yan are deemed to be interested in the Shares in which SAIF is interested.

**14. Disclaimers**

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following completion of the Capitalization Issue and the Global Offering will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph 23 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in the paragraph 23 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph 23 below:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

**OTHER INFORMATION****15.(I) Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the Shareholders passed on May 16, 2017.

*(a) Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of our Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

*(b) Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Director and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisors, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
  - (aa) contribution to the development and performance of our Group;
  - (bb) quality of work performed for our Group;
  - (cc) initiative and commitment in performing his/her duties; and
  - (dd) length of service or contribution to our Group.



(c) *Acceptance of an offer of options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorized share capital of our Company.

(d) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting

options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of capitalization issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

*(e) Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of our Company but subsequently canceled) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders’ approval and the date of the Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the exercise price of our Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:
  - (aa) the Eligible Participant’s name, address and occupation;
  - (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
  - (cc) the date upon which an offer for an option must be accepted;

- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
- (ee) the number of Shares in respect of which the option is offered;
- (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
- (gg) the date of the notice given by the grantee in respect of the exercise of the option;
- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and
- (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

*(f) Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

*(g) Granting options to connected persons*

Any grant of options to a Director, non-executive Director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and

- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favor, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before the Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

*(h) Restrictions on the times of grant of Options*

An offer of the grant of an option may not be made after inside information has come to the knowledge of our Company until the information has been announced in accordance with the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the Listing Rules);

and ending on the actual date of publication of the results announcement for such year, half year, quarterly or interim period (as the case may be).

(i) *Rights are personal to grantee*

An option is personal to the grantee and shall not be transferable or assignable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name those Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) *Time of exercise of option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of ten years from the Listing Date.

(k) *Performance target*

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) *Rights on ceasing employment/death*

If the grantee of an option ceases to be an Eligible Participant:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Company and/or any of its subsidiaries on one of more of the grounds specified in paragraph (m) below, the option to the extent not already exercised on the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with our Group or any related entities, the last actual working day with our Group or the related entity whether salary is paid in lieu of notice or not) shall lapse automatically on the date of cessation; or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of our Board) and none of the events which would be a ground for termination of his relationship with our Group under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as our Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the options in full (to the extent not already exercised).

(m) *Rights on dismissal*

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made any arrangements or compromises with his creditors generally, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable on and after the date of termination of his employment.

*(n) Rights on takeover*

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

*(o) Rights on winding-up*

In the event that a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

*(p) Rights on compromise or arrangement between our Company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members and/or creditors summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full (but only upon the extent not already exercised).

*(q) Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights including those arising on liquidation of our Company as attached to the other fully-paid Shares in issue on the date of issue, save that they will not rank for any rights for dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of allotment.

*(r) Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, consolidation, subdivision or reduction of capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price per Share of each outstanding option as the auditors of our Company or an independent financial advisor shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes. The capacity of the auditors of our Company or the approved independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

*(s) Expiry of option*

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (n), (o) or (p);
- (iii) the date upon which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason of such grantee's termination of his relationship on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made arrangements or compromises with his creditors generally, or has been convicted of any criminal offense involving his integrity or honesty. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date upon which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

(t) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; or
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted;

shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme must still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) *Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is canceled pursuant to paragraph (i).

(v) *Termination of the Share Option Scheme*

Our Company may by resolution in general meeting or our Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Administration of the Board*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;



- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by China Galaxy International (for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme and to authorize our Board to grant options under the Share Option Scheme and to allot and issue Shares pursuant to exercise of any options; and
- (iv) the commencement of dealings in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within six calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

*(y) Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 80,000,000 Shares in total.

## **(II) Pre-IPO Share Option Scheme**

### ***(a) Introduction***

The purpose of the Pre-IPO Share Option Scheme is to recognize the contribution that certain parties made or may have made to the growth of our Group and/or the listing of Shares on the Stock Exchange. The principal terms of the Pre-IPO Share Option Scheme were approved and adopted by resolutions in writing of all our Shareholders passed on August 25, 2016 and are substantially the same as the terms of our Share Option Scheme except for the following principal terms:

- (a) the exercise price per Share shall not be less than the par value of such Share. Subject to the preceding sentence, the Board shall determine the exercise price at its sole discretion;

- (b) the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme immediately following completion of the Capitalization Issue and the Global Offering is 16,210,417 Shares, representing approximately 2.03% of the issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering and taking no account of any shares which may be allotted and issued pursuant to the exercise of the Over-allotment Options or the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme;
- (c) the eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of our Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries;
- (d) the conditions which the Board may in its absolute discretion to consider (including, without limitation, any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before an option can be exercised) as it may think fit; and
- (e) except for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange.

HK\$1.00 was payable by each Grantee as consideration for grant of the options. Save as administration costs and expenses, our Company is not required to incur other costs or expenses in respect of the Pre-IPO Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the 16,210,417 Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date.

***(b) Outstanding options***

On August 25, 2016, our Company adopted the Pre-IPO Share Option Scheme and granted options to subscribe for an aggregate of 771,680 Shares. On November 9, 2016, the options to subscribe for 76,500 Shares held by SAIF were canceled by our Company with the approval of SAIF pursuant to the terms of the Pre-IPO Share Option Scheme. As advised by the Hong Kong legal advisors of our Company, the aforesaid cancellation of the outstanding options held by SAIF pursuant to the mechanism set out under the Pre-IPO Share Option Scheme did not constitute a new agreement between our Company and SAIF, and, upon cancellation of the outstanding options held by SAIF, SAIF has no outstanding right to subscribe for and/or purchase additional Shares under the Pre-IPO Share Option Scheme. On January 26, 2017, Mr. Ng Benjamin Jin-ping exercised his options to subscribe for 200,000 Shares at the exercise price of US\$0.01 per Share.

As at the Latest Practicable Date, options to subscribe for an aggregate of 495,180 Shares remained outstanding under the Pre-IPO Share Option Scheme. A total of 15 eligible participants held options under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date.

Below is a list of grantees with options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date:

Grantee	Position	Address	Exercise price (Note 1)		Number of Shares to be subscribed upon full exercise of options		Approximate percentage of issued share capital of our Company upon Listing (Note 2)
			Per Share (US\$)	Aggregate (US\$)	As at the date of this prospectus	Upon the completion of the Capitalization Issue and the Global offering	
<i>Directors</i>							
Yue Jingxing (岳京興)	Executive Director and chief executive officer of our Company	1703, Block B, Meishu Lanshan Community, Nanshan District, Shenzhen, PRC	0.01	263.8	26,380	863,587	0.11%
Zhang Youyun (張友運)	Executive Director	Unit 604, Tower 3 5 Ande Street Futian District Shenzhen PRC	0.01	562.5	56,250	1,841,423	0.23%
<i>Senior Management of our Group</i>							
Gu Jian (顧建)	Chief technology officer and vice president of Risecomm WFOE, general manager of Risecomm Wuxi and Risecomm HK Technology	Flat 607, Block 5, Yifeng Garden District C, Futian District, Shenzhen, Guangdong Province, PRC	0.01	113.06	11,306	370,118	0.05%
Liu Ming (劉明)	Vice president of Risecomm WFOE	Flat 16G, Block 86, Meilin Village I, Futian District, Shenzhen, Guangdong Province, PRC	0.01	562.5	56,250	1,841,423	0.23%
Chen Shuiying (陳水英)	Financial controller of Risecomm WFOE and director of Risecomm HK, Risecomm HK Technology and Risecomm Changsha	Unit K302, Wonderland Vanke, Rongxiangxi Road, Longgang District, Shenzhen, Guangdong Province, PRC	0.01	200	20,000	654,728	0.08%

Grantee	Position	Address	Exercise price (Note 1)		Number of Shares to be subscribed upon full exercise of options		Approximate percentage of issued share capital of our Company upon Listing (Note 2)
			Per Share (US\$)	Aggregate (US\$)	As at the date of this prospectus	Upon the completion of the Capitalization Issue and the Global offering	
<i>Other employees of our Group</i>							
Yang Qingming (楊慶明)	Technical director	Flat 12B, Block 1, Haofang Modern Haoyuan, Qilin Road East, Nanshan District, Shenzhen, Guangdong Province, PRC	0.01	550	55,000	1,800,503	0.23%
Chen Zhilong (陳支龍)	Deputy chief engineer	Flat 18A5, Unit A2, Block 1, Lvhai Mingdu, Nanshan District, Shenzhen, Guangdong Province, PRC	0.01	500	50,000	1,636,821	0.20%
Fan Weiguang (范偉光)	Senior engineer	Flat 1015, Block 18, Lianhua Village I, Futian District, Shenzhen, Guangdong Province, PRC	0.01	240	24,000	785,674	0.10%
Zhao Feng (趙峰)	Marketing director	Flat 802, Block 55, Taoyuan Village, Nanshan District, Shenzhen, Guangdong Province, PRC	0.01	450	45,000	1,473,139	0.18%
Qu Shiqi (瞿詩琦)	Research and development manager	Flat 103, Block B, Xinghua Court, Haocheng Xintingju, Bao'an District, Shenzhen, Guangdong Province, PRC	0.01	200	20,000	654,728	0.08%
Hong Aixia (洪愛霞)	Technical Director	Flat 8, 21st Floor, Shekou Peninsula Chengbang Phase 1, No.1 Jinshiji Road, Shekou, Nanshan District, Shenzhen, Guangdong Province, PRC	0.01	411.95	41,195	1,348,577	0.17%

Grantee	Position	Address	Exercise price (Note 1)		Number of Shares to be subscribed upon full exercise of options		Approximate percentage of issued share capital of our Company upon Listing (Note 2)
			Per Share (US\$)	Aggregate (US\$)	As at the date of this prospectus	Upon the completion of the Capitalization Issue and the Global offering	
Jiang Zhoujin (蔣周金)	Technical Director	Flat 502, Block 33, Songping Village, Baoshen Road, Nanshan District, Shenzhen, Guangdong Province, PRC	0.01	230	23,000	752,937	0.09%
Xiao Hongdong (肖洪東)	Deputy chief engineer	Flat 7C, Block 5, Jingang Shengshihuating, Yantian District, Shenzhen, Guangdong Province, PRC	0.01	200	20,000	654,728	0.08%
Liu Zaile (劉再樂)	Technical Director	Flat 7H, Xianji Mansion, Baomin Road Two, Xixiang Street, Bao'an District, Shenzhen, Guangdong Province, PRC	0.01	200	20,000	654,728	0.08%
<i>Other parties</i>							
Lau Chung Ki Lynda (劉琮琪)	Director of Risecomm WFOE	Suites 2516-20, Two Pacific Place, Central, Hong Kong	0.01	267.99	26,799	877,303	0.11%
					495,180	16,210,417	2.03%

*Notes:*

1. The aggregate exercise price of the options granted under the Pre-IPO Share Option Scheme will remain the same and will not change as a result of the Capitalization Issue, consolidation or subdivision of Shares.
2. These percentages are calculated on the basis of 800,000,000 Shares in issue immediately following completion of the Global Offering without taking into account any Shares which may be allotted and issued upon exercise of the Over-Allotment Option or the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.

Except as set out above, no other options have been granted or agreed to be granted by us under the Pre-IPO Share Option Scheme.

Assuming the Over-allotment Option is not exercised, our shareholding structure before and after the full exercise of all the options granted under the Pre-IPO Share Option Scheme will be as follows:

Shareholders	Shareholding structure immediately after completion of the Capitalization Issue and the Global Offering but before the exercise of the options granted under the Pre-IPO Share Option Scheme		Shareholding structure immediately after completion of the Capitalization Issue and the Global Offering and full exercise of the options granted under the Pre-IPO Share Option Scheme	
	Shares	%	Shares	%
SAIF	197,340,537	24.67%	197,340,537	24.18%
Magical Success	169,527,845	21.19%	169,527,845	20.77%
Seashore Fortune	91,943,624	11.49%	91,943,624	11.26%
Hope Thrive	34,896,624	4.36%	34,896,624	4.28%
Best Gala	29,698,311	3.71%	29,698,311	3.64%
Unicorn Beauty	29,698,311	3.71%	29,698,311	3.64%
Golden Shell	24,748,598	3.09%	24,748,598	3.03%
Ng Benjamin Jin-ping (吳俊平)	6,547,283	0.82%	6,547,283	0.80%
Key Surplus	6,187,149	0.77%	6,187,149	0.76%
Glorious Lead	4,705,859	0.59%	4,705,859	0.58%
Rainbow Dawn	4,705,859	0.59%	4,705,859	0.58%
Grantees under the Pre-IPO Share Option Scheme who are connected persons <sup>(1)</sup>	—	—	4,237,041	0.52%
Grantees under the Pre-IPO Share Option Scheme who are not connected persons	—	—	11,973,376	1.47%
Public Shareholders	<u>200,000,000</u>	<u>25%</u>	<u>200,000,000</u>	<u>24.50%</u>
Total	<u>800,000,000</u>	<u>100%</u>	<u>816,210,417</u>	<u>100%</u>

*Note:*

1. Grantees under the Pre-IPO Share Option Scheme who are connected persons include Mr. Yue Jingxing and Mr. Zhang Youyun, being our Directors, and Ms. Chen Shuiying and Ms. Lau Chung Ki Lynda, being directors of our subsidiaries.

We will not permit the exercise of any Pre-IPO Share Option Scheme by any of our connected persons if, upon such exercise, we would not be able to maintain the minimum public float requirement of the Stock Exchange.

**(c) Valuation of the options granted under the Pre-IPO Share Option Scheme**

All the outstanding options to subscribe for shares in Old Cayman have been mutually terminated by the grantees and Old Cayman with the adoption of the Pre-IPO Share Option Scheme and the grant of share options under the Pre-IPO Share Option Scheme by our Company to each grantee with same terms and conditions on August 25, 2016. The outstanding options to subscribe for shares in Old Cayman that have been mutually terminated were granted on February 1, 2007 and March 26, 2014 respectively.

The valuation of options granted under the Pre-IPO Share Option Scheme was conducted based on the Binomial Model with the following assumptions:

Date of grant	February 1, 2007	March 26, 2014
Estimated share price at the date of grant	US\$0.80	US\$1.23
Exercise price per share	US\$0.01	US\$0.01
*Annual risk free rate	4.14% per year	2.29% per year
*Expected volatility	51.90% per year	46.15% per year
Life of the option	10 years, valid until January 31, 2017 <sup>+</sup>	10 years, valid until March 25, 2024
Expected dividend yield	0.00% per year	0.00% per year

\* The annual risk free rate was estimated based on 10-year HK\$ Hong Kong Sovereign Curve as at each date of grant and the expected volatility was estimated based on the historical stock price volatility of comparable listed companies over a period comparable to the life of the options.

+ Pursuant to the written resolutions of our Board and our Shareholders passed on January 26, 2017, the life of the options granted under the Pre-IPO Share Option Scheme valid until January 31, 2017 has been extended to December 31, 2017. Despite the aforesaid extension to the life of the options and thus a change in an assumption, the effect on the fair value of the options is immaterial as the exercise price of the options is low.

The expected suboptimal early exercise multiple for Ms. Lau Chung Ki Lynda is assumed to be 3.34 times the exercise price while the expected suboptimal early exercise multiple for each of the other grantees is assumed to be 2.86 times the exercise price. The post-vesting exit rate for the grantees is assumed to be 0% per year.

The result of the Binomial Model can be materially affected by changes in the aforesaid assumptions so an option's actual value may differ from the estimated fair value of the options due to limitations of the Binomial Model.

The fair value of the options granted under the Pre-IPO Share Option Scheme valid until December 31, 2017 is US\$0.80 while the fair value of the options granted under the Pre-IPO Share Option Scheme valid until March 25, 2024 is US\$1.22.

***(d) Effect on the earnings per Share as a result of the Pre-IPO Share Options***

The Shares which may be allotted and issued pursuant to the exercise of all the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date represent approximately 2.03% of the issued share capital of our Company immediately upon completion of the Capitalization Issue and the Global Offering (without taking into account of any share which may be allotted and issued pursuant to the exercise of the Over-allotment Options or the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme). If all options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date are exercised and that 816,210,417 Shares, comprising 800,000,000 Shares to be in issue immediately after the Global Offering and the Capitalization Issue and 16,210,417 Shares to be issued upon the exercise of all the options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date, were deemed to have been in issue, but not taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, this would have a dilutive effect of approximately 1.99% on earnings per Share of our Shareholders. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

***(e) Summary of the major terms of the Pre-IPO Share Option Scheme and the offer letter***

***(i) Purpose***

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that the eligible participants (as described in paragraph (ii) below) have or may have made to our Group. The Pre-IPO Share Option Scheme will provide the eligible participants with an opportunity to have a personal stake in our Company with a view to achieving the following objectives:

- (1) motivate the eligible participants to optimize their performance efficiency for the benefit of our Group; and
- (2) attracting and retaining or otherwise maintaining relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of our Group.

***(ii) Who may join***

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price set out in paragraph (iv) below to:

- (1) any full-time employees, executives or officers or directors (including executive, non-executive and independent non-executive Directors) of our Company;
- (2) the full-time employees of any of our subsidiaries of the level of manager or above;



- (3) other full-time employees of our Company or any of our subsidiaries and such other persons or other parties who, in the sole opinion of our Board, have contributed or will contribute to our Company and/or any of our subsidiaries.

*(iii) Maximum number of Shares*

The maximum number of Shares which may be allotted and issued upon exercise of all options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date is 16,210,417 Shares.

*(iv) Price of Shares*

The exercise price of a Share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall not be less than the par value of such Share.

*(v) Rights are personal to grantee*

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt to do so.

*(vi) Duration of options and duration of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme shall commence on its adoption date and end on the tenth anniversary of such adoption date (both dates inclusive).

The grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her/its outstanding options in the following manner:

- (a) Ms. Lau Chung Ki Lynda shall be entitled to exercise all of her options at any time from August 25, 2016, being the date upon which such options were granted and accepted in accordance with the rules of the Pre-IPO Share Option Scheme, until March 25, 2024;
- (b) Mr. Fan Weiguang shall be entitled to exercise all of his options at any time from August 25, 2016, being the date upon which such options were granted and accepted in accordance with the rules of the Pre-IPO Share Option Scheme, until December 31, 2017;
- (c) each of Ms. Hong Aixia, Mr. Zhao Feng, Mr. Chen Zhilong and Mr. Yang Qingming shall be entitled to exercise his/her options as follows:
- the first batch of his/her options at any time from August 25, 2016, being the date upon which such options were granted and accepted in accordance with the rules of the Pre-IPO Share Option Scheme, until December 31, 2017;
  - the second batch of his/her options at any time from August 25, 2016, being the date upon which such options were granted and accepted in accordance with the rules of the Pre-IPO Share Option Scheme, until March 25, 2024; and

- the remaining options at any time from the date when the options become vested until March 25, 2024. Such remaining options become vested in equal monthly installments from the last day in each month during the period from August 2016 to February 2018.

(d) each of the other grantees shall be entitled to exercise his/her options as follows:

- the first batch of his/her options at any time from August 25, 2016, being the date upon which such options were granted and accepted in accordance with the rules of the Pre-IPO Share Option Scheme, until March 25, 2024; and
- the remaining options at any time from the date when the options become vested until March 25, 2024. Such remaining options become vested in equal monthly installments from the last day in each month during the period from August 2016 to February 2018.

*(vii) Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of allotment.

*(viii) Effect of alterations to capital*

In the event of any capitalization issue, rights issue, open offer, consolidation, subdivision or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the method of exercise of the option as our auditors or an independent financial advisor shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes (the “**Supplemental Guidance**”). Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company (as interpreted in accordance with the Supplementary Guidance) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription amount payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of our auditors or the independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

*(ix) Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (1) the date of expiry of the option as may be determined by our Board;
- (2) the date of commencement of the winding-up of our Company in accordance with the Hong Kong Law;
- (3) the date on which the grantee ceases to be an eligible participant for reasons of gross negligence, wilful misconduct or convicted of a criminal offense; or
- (4) the date on which our Board shall exercise our right to cancel the option in accordance with paragraph (xi) below.

*(x) Alteration of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme may be altered in any respect by resolution of our Board except that any material alteration to the terms and conditions of the Pre-IPO Share Option Scheme or any change to the terms of options granted, shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Pre-IPO Share Option Scheme.

*(xi) Cancellation of Options*

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options.

*(xii) Termination of the Pre-IPO Share Option Scheme*

Our Company may by resolution of our Shareholder in general meeting or our Board may at any time terminate the Pre-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

*(xiii) Administration of our Board*

The Pre-IPO Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Pre-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided therein) shall be final and binding on all parties.

*(xiv) Disclosure in annual and interim reports*

Our Company will disclose details of the Pre-IPO Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

**16. Estate duty, tax and other indemnity**

Each of Mr. Yue Jingxing, Seashore Fortune, Ms. Chen Junling, Magical Success and Mr. Wang Shiguang (the “**Indemnifiers**”) has entered into the Deed of Indemnity in favor of our Company (for itself and as trustee for its subsidiaries) (being the material contract (h) referred to in paragraph 8 above) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing;
- (b) any tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;
- (c) any liability which are suffered by our Group in connection with its non-compliance with applicable laws and requirements during Track Record Period; and
- (d) any expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties in connection with any failure, delay or defects of corporate or regulatory compliance or errors, discrepancies or missing documents in the statutory records of any member of our Group under, or any breach of any provision of, the Companies Ordinance or any other applicable laws, rules or regulations on or before the date on which the Global Offering becomes unconditional.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to December 31, 2016;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after January 1, 2017 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether

alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; or
- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in the prospectus; or
- (c) to the extent that such taxation claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to December 31, 2016 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also undertaken to us that it will indemnify and at all times keep us fully indemnified, on a joint and several basis, from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganization.

## **17. Litigation**

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

## **18. Preliminary expenses**

The preliminary expenses incurred by our Company are approximately HK\$99,000 and have been paid by our Company.

## **19. Promoters**

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit had been paid, allotted or given within two years preceding the date of this prospectus, or proposed to be paid, allotted or given, to any promoter in connection with the Global Offering or the related transactions described in this prospectus.

**20. Sponsors' Independence**

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

**21. Agency fees or commissions received**

The Underwriters are expected to receive underwriting commissions of 3.5% of the Offer Price of all the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commissions. In addition, our Company may pay the Underwriters an incentive fee of up to 1.5% of the Offer Price of all the Offer Shares (including any Shares to be issued pursuant to the Over-allotment Option). The Sole Sponsor will also receive sponsor fee of HK\$5,000,000 relating to the Listing.

**22. Application for listing of Shares**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options granted under the Pre-IPO Share Option Scheme which remained outstanding as at the Latest Practicable Date or any options to be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date, on the Stock Exchange.

All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**23. Qualifications of experts**

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
China Galaxy International Securities (Hong Kong) Co., Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Shu Jin Law Firm	Legal advisors to our Company as to PRC law
Conyers Dill & Pearman	Legal advisors to our Company as to Cayman Islands law
KPMG	Certified Public Accountants
Frost & Sullivan	Industry consultant

**24. Consents of experts**

Each of the Sole Sponsor, Shu Jin Law Firm, Conyers Dill & Pearman, KPMG and Frost & Sullivan has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, valuation, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

**25. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**26. Taxation of holders of Shares***(a) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

*(b) The Cayman Islands*

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares if they are executed and remain outside the Cayman Islands.

*(c) Consultation with professional advisors*

Intending holders of Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**27. Miscellaneous***(a) Save as disclosed herein:**(i) within two years preceding the date of this prospectus:*

- (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;*
- (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and*
- (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;*

- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since December 31, 2016 (being the date to which the latest consolidated financial statements of our Group were made up);
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and
- (d) our Group does not have any outstanding convertible debt securities or debentures.

**28. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).



## 1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents:

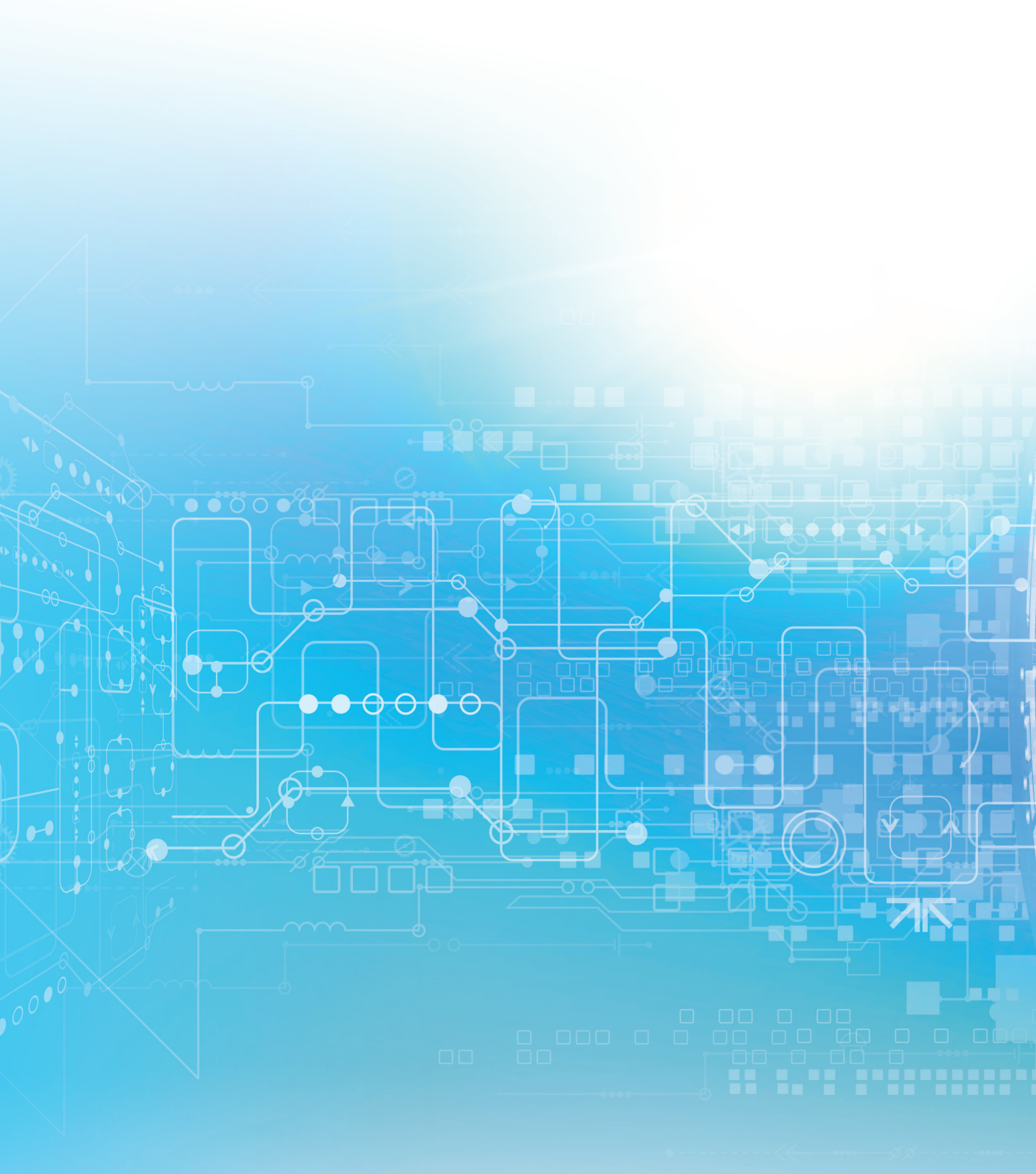
- (a) copies of the **WHITE, YELLOW and GREEN** Application Forms;
- (b) the written consents referred to under the paragraph headed “Statutory and General Information — Other Information — 24. Consents of experts” in Appendix IV to this prospectus; and
- (c) certified copies of the material contracts referred to in the paragraph headed “Statutory and General Information — Further Information about the Business of our Company — 8. Summary of material contracts” in Appendix IV to this prospectus.

## 2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Mayer Brown JSM at 18th Floor, Prince’s Building, 10 Chater Road, Central, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report from KPMG in respect of the historical financial information of our Group for each of the three years ended December 31, 2014, 2015 and 2016, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group from KPMG, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for each of the three years ended December 31, 2014, 2015 and 2016;
- (e) the Companies Law;
- (f) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of the Companies Law referred to in Appendix III to this prospectus;
- (g) the legal opinions prepared by Shu Jin Law Firm in respect of certain aspects of our Group;
- (h) the industry report prepared by Frost & Sullivan, the industry consultant;
- (i) the material contracts referred to in the paragraph headed “Statutory and General Information — Further Information about the Business of our Company — 8. Summary of material contracts” in Appendix IV to this prospectus;
- (j) the written consents referred to in the paragraph headed “Statutory and General Information — Other Information — 24. Consents of experts” in Appendix IV to this prospectus;
- (k) the Share Option Scheme;

- (l) the Pre-IPO Share Option Scheme;
- (m) the full list of grantees under the Pre-IPO Share Option Scheme; and
- (n) the service contracts and letter of appointments referred to in the paragraph headed “Statutory and General Information — Further Information about Directors and Shareholders — 12. Directors” in Appendix IV to this prospectus.



**Risecomm Group Holdings Limited**

瑞斯康集團控股有限公司