

# 恒益控股有限公司

HANG YICK HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1894

## GLOBAL OFFERING



Sole Sponsor



富強金融資本  
FORTUNE FINANCIAL CAPITAL

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



興證國際  
INDUSTRIAL SECURITIES INTERNATIONAL



富強證券  
FORTUNE (HK) SECURITIES



昌盛證券有限公司  
PROMISING SECURITIES CO LTD

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## IMPORTANT

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

# Hang Yick Holdings Company Limited 恒益控股有限公司

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

## GLOBAL OFFERING

<b>Number of Offer Shares under the Global Offering</b>	<b>:</b>	<b>190,000,000 Shares (subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>:</b>	<b>19,000,000 Shares (subject to reallocation)</b>
<b>Number of International Placing Shares</b>	<b>:</b>	<b>171,000,000 Shares (subject to reallocation and the Over-allotment Option)</b>
<b>Offer Price</b>	<b>:</b>	<b>Not more than HK\$0.90 per Offer Share and expected to be not less than HK\$0.80 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>:</b>	<b>HK\$0.01 per Share</b>
<b>Stock code</b>	<b>:</b>	<b>1894</b>

### Sole Sponsor



### Joint Global Coordinators, Joint Bookrunners and Joint 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 "Documents Delivered to the Registrar of Companies and Available for Inspection" in 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 of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

See "Risk Factors" for a discussion of certain risks that you should consider before investing in our Shares.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or about Thursday, 4 October 2018 and, in any event, not later than Wednesday, 10 October 2018. The Offer Price will be not more than HK\$0.90 per Offer Share and is currently expected to be not less than HK\$0.80 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.90 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$0.80 per Offer Share.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters), with the consent of our Company, may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering 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, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.hy-engineering.com](http://www.hy-engineering.com), not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Offer Shares". If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Wednesday, 10 October 2018 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. See "Underwriting — Underwriting arrangements and expenses — The Hong Kong Public Offering — Grounds for termination" for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds for termination arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the subsection headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus.

28 September 2018

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

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*If there is any change in the following expected timetable, our Company will issue a separate announcement to be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of our Company ([www.hy-engineering.com](http://www.hy-engineering.com)).*

2018

- Latest time to complete electronic applications under the **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 Thursday, 4 October
- Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Thursday, 4 October
- Latest time to lodge **WHITE** and **YELLOW** Application Forms and to give **electronic application instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Thursday, 4 October
- Latest time to complete payment of **HK eIPO White Form** applications by effecting PPS payment transfer(s)<sup>(2)</sup>. . . . . 12:00 noon on Thursday, 4 October
- Application lists close<sup>(3)</sup>. . . . . 12:00 noon on Thursday, 4 October
- Expected Price Determination Date<sup>(5)</sup> . . . . . Thursday, 4 October
- Announcement of the final Offer Price, the indication of level of interest in the International Placing, the results of applications in the Hong Kong Public Offering and the basis of allocation under the Hong Kong Public Offering to be published (i) on the website of our Company at [www.hy-engineering.com](http://www.hy-engineering.com); and (ii) on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before<sup>(6)</sup> . . . . . Thursday, 11 October
- Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including on the website of our Company at [www.hy-engineering.com](http://www.hy-engineering.com)<sup>(7)</sup> and Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(6 and 7)</sup> as described in "How to Apply for the Hong Kong Offer Shares — 11. Publication of results" from . . . . . Thursday, 11 October
- Results of allocations in the Hong Kong Public Offering will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function on . . . . . Thursday, 11 October

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

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Despatch of share certificates of the Offer Shares or deposit of share certificates of the Offer Shares into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(8)</sup> . . . . . Thursday, 11 October

Despatch of e-Auto Refund payment instructions/refund cheques in respect of wholly successful (in the event that the final Offer Price is less than initial price per Hong Kong Offer Share payable on application) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(9)</sup> . . . . . Thursday, 11 October

Dealing in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . . Friday, 12 October

*Notes:*

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering, are set out in “Structure and Conditions of the Global Offering”.
2. You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained 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 eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 4 October 2018, the application lists will not open and close on that day. Please refer to “How to Apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Thursday, 4 October 2018, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
4. Applicants who apply by giving electronic application instructions to HKSCC should refer to “How to Apply for the Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS”.
5. The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Thursday, 4 October 2018 and in any event, not later than Wednesday, 10 October 2018. If, for any reason, the final Offer Price is not agreed by 6:00 p.m. on Wednesday, 10 October 2018 between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.
6. The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the website of the Stock Exchange at **www.hkexnews.hk**.
7. None of the information contained on any website forms part of this prospectus.

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

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8. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more may collect share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2018 or any other date as notified by us as the date of despatch of share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his/her/its corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants who have applied on **YELLOW** Application Forms may not elect to collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be despatched by ordinary post to the addresses specified in the relevant applications at the applicants' own risk. Further information is set out in "How to Apply for the Hong Kong Offer Shares".
  
9. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in "How to Apply for the Hong Kong Offer Shares".

**Share certificates are expected to be issued on Thursday, 11 October 2018 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

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*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Underwriters, any of their respective directors, employees, agents or professional advisers or any other person or party involved in the Global Offering.*

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## SUMMARY

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

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares. Unless otherwise specified, translations of RMB into HK\$ in this document are based on the exchange rate RMB1.00 to HK\$1.25.*

### OVERVIEW

We are a leading and well-established steel and metal engineering company, specialising in design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong. Led by Mr. PS Lee and Ms. LC Lau, our executive Directors, our Group has been operating for over 25 years. According to the Frost & Sullivan Report, in 2017, we were the largest steel and metal engineering company in overall public sector in Hong Kong in terms of revenue with a market share of approximately 31.9%, and ranked third in the overall steel and metal works engineering service market in Hong Kong in terms of revenue with an estimated market share of approximately 8.6%. Apart from provision of steel and metal engineering services, we also sell steel and metal products, including metal gates, collapsible gates, fire-insulated shutters, sliding shutters, rolling shutters and metal doors, to our customers based on their requirements and specifications.

As a leading steel and metal engineering company in Hong Kong, we are capable to offer a full range of engineering services from design, manufacture, supply, installation and maintenance of steel and metal products. We generally provide our steel and metal engineering services on a project-by-project basis, and participate in a variety of projects, including residential properties, office buildings, shopping malls, and other public facilities. For the years ended 31 March 2016, 2017 and 2018, our revenue in respect of steel and metal engineering services amounted to approximately HK\$96.1 million, HK\$103.3 million and HK\$140.6 million, representing approximately 78.3%, 64.0% and 70.6% of our total revenue, respectively. During the Track Record Period, our Group completed 31 projects which were awarded by tender with a total contract sum of approximately HK\$277.7 million. As at the Latest Practicable Date, we had 45 on-going projects (either in progress or yet to commence) with a total contract sum of HK\$430.4 million, including nine construction contracts with an aggregate contract sum of approximately HK\$75.7 million which were awarded after 31 March 2018. During the Track Record Period, most of our revenue in respect of engineering services were generated from the public sector projects.

We sell our steel and metal products to customers, which we are not required to provide installation works and after-sale services. For the years ended 31 March 2016, 2017 and 2018, our revenue generated from sales of steel and metal products were approximately HK\$26.6 million, HK\$58.2 million and HK\$58.6 million, representing approximately 21.7%, 36.0% and 29.4% of our total revenue, respectively.

Our Group, through Huizhou Hengyi, our PRC operating subsidiary, owns the production facilities located in Huizhou, the PRC, which manufactures steel and metal products required by our customers based on their demand and specifications. We manufacture metal gates, shutters and doors, such as collapsible gates, fire-insulated shutters, rolling shutters, metal doors and other steel and metal products. We consider that our ability to manufacture steel and metal products at our own production facilities enables us to provide full range services to our customers and to control quality, as well as to achieve cost efficiency and offer competitive prices as compared to our competitors. In addition, Huizhou Hengyi obtained the AEO certificate — general certified enterprise (一般認證企業) in December 2015 which is an internationally recognised quality mark indicating that our role in the international supply chain is secure, and that the customs controls and procedures are efficient and compliant, and such certification is generally awarded to participants who fully meet AEO requirements, such as customs compliance, appropriate record keeping, financial solvency and, where relevant, security and safety standards.

### OUR BUSINESS MODEL

Our Group focuses on (a) provision of steel and metal engineering services for construction projects in Hong Kong and (b) sales of steel and metal products.



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## SUMMARY

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Our Group provides a full range of engineering services including design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong, depending on our customers' needs and requirements, and our customers include the well-known construction companies, as well as small and medium size engineering companies, which usually invite us to contract the steel and metal engineering works by way of tender or quotation and on a project-by-project basis.

For our sales of steel and metal products, we supply steel and metal products, such as metal gates, collapsible gates, fire-insulated shutters, sliding shutters, rolling shutters and metal doors, to our customers, which we are not required to provide installation works and after-sale services. Generally, our customers require us to provide quotations based on their specifications and requirements for the products before placing orders.

For both provision of engineering services and sales of steel and metal products, our pricing is usually determined based on cost-plus basis which we consider to be competitive and acceptable to us.

Below table sets forth our revenue by business segments during the Track Record Period:

	<b>For the year ended 31 March</b>					
	<b>2016</b>		<b>2017</b>		<b>2018</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Provision of steel and metal engineering services	96,130	78.3	103,291	64.0	140,620	70.6
Sales of steel and metal products	26,568	21.7	58,192	36.0	58,579	29.4
<b>Total</b>	<u>122,698</u>	<u>100.0</u>	<u>161,483</u>	<u>100.0</u>	<u>199,199</u>	<u>100.0</u>

See "Business — Business model" for further details of our business model.

### OUR CUSTOMERS

Our customers include construction companies, as well as contractors and small and medium size engineering companies. We have maintained good and stable business relationships with most of our major customers. For the years ended 31 March 2016, 2017 and 2018, revenue generated from our five largest customers amounted to approximately HK\$89.7 million, HK\$93.7 million and HK\$125.1 million, representing approximately 73.1%, 58.2% and 62.9% of our total revenue, respectively. Revenue generated from our largest customers during the years ended 31 March 2016, 2017 and 2018, amounted to approximately HK\$41.4 million, HK\$48.7 million and HK\$51.6 million, representing approximately 33.8%, 30.2% and 25.9% of our total revenue, respectively. See "Business — Customers" for details.

### OUR PROJECTS

During the Track Record Period, we had completed 31 projects which were awarded by tender. For the years ended 31 March 2016, 2017 and 2018, we completed 11, ten and five public sector projects and one, two and two private sector projects, respectively. The duration of these projects ranged from four months to 48 months. As at 31 March 2018, we had 36 on-going projects with an aggregate contract sum of approximately HK\$354.7 million, and approximately HK\$6.8 million, HK\$20.3 million and HK\$103.4 million had been recognised as revenue for the years ended 31 March 2016, 2017 and 2018, respectively. Of these 36 on-going projects, the remaining balance of approximately HK\$180.0 million is expected to be recognised as our revenue for the year ending 31 March 2019 and approximately HK\$44.1 million after the year ending 31 March 2019. After the Track Record Period, we were awarded with nine contracts with an aggregate contract sum of approximately HK\$75.7 million which is expected to be recognised as our revenue after the year ending 31 March 2019. See "Business — Our projects" for details.

Below table sets forth the tender submission made and success rate<sup>(1)</sup> during the Track Record Period and up to the Latest Practicable Date:

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## SUMMARY

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	For the year ended 31 March			From 1 April 2018 and up to the Latest Practicable Date
	2016	2017	2018	
Number of tenders submitted	54	61	53	35
Number of successful tenders	12	15	21	7
Success rate <sup>(2)</sup>	22.2%	24.6%	39.6%	20.0%

*Notes:*

- (1) In calculating the tender success rate, we did not count the projects awarded by quotations which we were not required to prepare the tender submission and go through the tender process. Such quotations were generally prepared by our chief project manager and approved by Mr. PS Lee, our executive Director.
- (2) Tender success rate is calculated by dividing the number of contracts awarded in respect of the tenders submitted during a financial year by the number of tenders submitted during such financial year.

Generally, our tender team would submit the tenders after assessing the viability of the projects and the likelihood of being awarded. During the Track Record Period, the number of tenders submitted and number of successful tenders increased from approximately 22.2% for the year ended 31 March 2016 to approximately a total of 39.6% for the year ended 31 March 2018. As at the Latest Practicable Date, there were 19 tenders for engineering services which the tender results were still pending and among these 19 tenders, five of which were submitted after the Track Record Period. See “Business — Operating procedures — 1. Tender process” for details.

### OUR SUPPLIERS AND SERVICE PROVIDERS

Our purchases of raw materials from suppliers are mainly stainless steel, metal, galvanised coils and accessories. Our suppliers are located in the PRC and Hong Kong and we have developed the stable relationships with our suppliers. For the years ended 31 March 2016, 2017 and 2018, our purchases attributable to our five largest suppliers amounted to approximately HK\$15.2 million, HK\$37.3 million and HK\$19.2 million, representing approximately 35.7%, 54.4% and 34.5% of our total purchases, respectively. Our purchases attributable to our largest supplier during the years ended 31 March 2016, 2017 and 2018 amounted to approximately HK\$7.0 million, HK\$20.1 million and HK\$5.7 million, representing approximately 16.3%, 29.3% and 10.2% of our total purchases, respectively. See “Business — Suppliers and services providers — Suppliers” for details.

With respect to our provision of engineering services in private sector, we may engage installation service providers for the installation works. For our projects in public sector, all the works are carried out by our employees. See “Business — Suppliers and service providers — Installation service providers” for details.

In respect of our production, we may engage hot-dip galvanising service provider for the hot-dip galvanising process due to the availability of our labour services and production capacity. See “Business — Suppliers and service providers — Hot-dip galvanising service provider” for details.

### OUR PRODUCTION FACILITIES

Our production facilities are located in Huizhou, the PRC, with the gross floor area of approximately 17,273.7 sq. m.. We manufacture a variety of steel and metal products at our production facilities for provision of engineering services and sales of steel and metal products. See “Business — Production facilities” for details.

### CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of options to be granted under the Share Option Scheme), HY Steel will directly hold 75% of our Company’s issued share capital. As at the Latest Practicable Date, HY Steel, an investment holding company, is owned as to 70% by Mr. PS Lee and 30% by Ms. LC Lau. As such, for the purpose of the Listing Rules, Mr. PS Lee, Ms. LC Lau and HY Steel are a group of our Controlling Shareholders. See “Relationship with Our Controlling Shareholders” for details.

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## SUMMARY

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### COMPETITIVE STRENGTHS

Our Group provides a full range of steel and metal engineering services to our customers, from design, manufacture, supply and installation of steel and metal products. Our Directors believe that several competitive strengths set our Group apart from our competitors, and enable our Group to continue the growth and enhance our profitability. Such competitive strengths include: (i) we are a leading steel and metal engineering company in Hong Kong with long operating history and proven track record; (ii) we are capable to provide vertically integrated engineering services in relation to steel and metal works to our customers; (iii) we have maintained stable and long-term relationships with our suppliers; (iv) we have an experienced and dedicated management team and direct workforce; and (v) our commitment to maintaining safety standard, quality control and environmental protection. See “Business — Competitive strengths” for details.

### BUSINESS STRATEGIES

Our Directors intend to pursue the following key strategies to achieve our Group’s future expansion plans: (i) to strengthen our capacity in order to capture the business opportunities and expand our market share; (ii) to increase our operational efficiency and enhance our quality of service; and (iii) to enhance our information management systems. See “Business — Business strategies” for details.

### RISK FACTORS

Potential investors are advised to carefully read “Risk Factors” before making any investment decision in the Offer Shares. Some of the more particular risk factors include: (i) our revenue relies on successful quotation or tenders of construction projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers; (ii) reduction or termination of public sector projects in Hong Kong may adversely affect our revenue and results of operations; (iii) sales of collapsible gates may be adversely affected by change in or termination of the government policy; (iv) we may be unable to retain or replace our major customers; and (v) our liquidity position and financial performance may be adversely affected if progress payment or retention money for our steel and metal engineering services is not paid to us on time or in full.

### SUMMARY OF FINANCIAL INFORMATION

The below tables set forth summaries of selected consolidated financial information of our Group for the years ended 31 March 2016, 2017 and 2018, which is extracted from, and should be read in conjunction with our financial information (including the notes thereto) in the Accountants’ Report as set out in Appendix I to this prospectus:

#### Summary of consolidated statements of profit or loss and other comprehensive income

	Year ended 31 March		
	2016	2017	2018
	HK\$’000	HK\$’000	HK\$’000
Revenue	122,698	161,483	199,199
Direct costs	<u>(82,606)</u>	<u>(107,712)</u>	<u>(124,840)</u>
Gross profit	40,092	53,771	74,359
Other income and other gains and losses (Note 1)	720	524	7,784
Administrative expenses	(5,265)	(7,675)	(13,091)
Finance costs	(116)	(132)	(121)
Listing expenses	<u>—</u>	<u>—</u>	<u>(6,397)</u>
Profit before taxation	35,431	46,488	62,534
Income tax expense	<u>(6,025)</u>	<u>(8,395)</u>	<u>(10,310)</u>
Profit for the year	29,406	38,093	52,224

## SUMMARY

	Year ended 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Other comprehensive income (expense) for the year			
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operation	250	(293)	429
Total comprehensive income for the year	<u>29,656</u>	<u>37,800</u>	<u>52,653</u>

*Note:*

- Our Group recorded other income and other gains and losses of approximately HK\$0.5 million for the year ended 31 March 2017 and approximately HK\$7.8 million for the year ended 31 March 2018 which was increased by approximately HK\$7.3 million. Such increase was mainly attributable to a gain on disposal of investment properties of approximately HK\$6.3 million for the year ended 31 March 2018. See “Financial Information — Analysis of various items from the statements of financial position — Investment properties” for details.

During the Track Record Period, the increase in our overall revenue was mainly attributable to the increase in size of projects in terms of contract sum undertaken by us.

Our revenue from the sales of steel and metal products increased from approximately HK\$26.6 million for the year ended 31 March 2016 to approximately HK\$58.2 million for the year ended 31 March 2017, then further increased to approximately HK\$58.6 million for the year ended 31 March 2018. The increase was primarily attributable to our significant increase in sales of standardised collapsible gates as a result of the policy implemented by the Hong Kong Housing Authority to replace the old-type see-through collapsible gates in the flats of public rental housing estates since January 2016.

See “Financial Information — Description of certain line items of the consolidated statements of profit or loss and other comprehensive income” for details.

### Selected information from consolidated statements of financial position

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	24,438	23,530	17,521
Current assets	99,399	120,860	100,161
Current liabilities	66,523	72,783	18,397
Non-current liabilities	1,210	1,703	728
Net current assets	32,876	48,077	81,764
Net assets	56,104	69,904	98,557

### Selected information from consolidated statements of cash flows

	Year ended 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Net cash from operating activities	12,216	38,993	60,448
Net cash (used in) from investing activities	(2,856)	(1,093)	7,366
Net cash used in financing activities	(5,496)	(31,695)	(70,898)
Net increase (decrease) in cash and cash equivalent	3,864	6,205	(3,084)
Cash and cash equivalents at beginning of the year	21,270	25,384	31,387
Effect of foreign exchange rate changes	250	(202)	300
Cash and cash equivalents at end of the year, represented by bank balances and cash	25,384	31,387	28,603

## SUMMARY

Our cash and cash equivalents balance was approximately HK\$21.3 million as at 1 April 2015, and increased to approximately HK\$25.4 million as at 31 March 2016, mainly due to the net effect of the cash inflows from operating activities of approximately HK\$12.2 million, cash outflows of approximately HK\$2.5 million used in purchase of machinery and cash outflows of approximately HK\$5.0 million used in repayments to our Controlling Shareholders. Our cash and cash equivalents balance further increased to approximately HK\$31.4 million as at 31 March 2017, mainly due to the net effect of the cash inflows from operating activities of approximately HK\$39.0 million, cash outflows of HK\$24.0 million dividends paid, cash outflows of approximately HK\$7.0 million used in repayments to the Controlling Shareholders, and the cash outflows of approximately HK\$1.3 million used in purchase of motor vehicles and machinery. Our cash and cash equivalents balance dropped to approximately HK\$28.6 million as at 31 March 2018, mainly due to the net effect of the cash inflows from operating activities of approximately HK\$60.4 million, cash inflows of approximately HK\$10.6 million received from the disposal of certain investment properties of the Group, cash outflows of approximately HK\$45.0 million used in repayments to the Controlling Shareholders, cash outflows of HK\$24.0 million dividends paid, cash outflows of approximately HK\$2.9 million used in purchase of machinery, and the cash outflows of approximately HK\$1.3 million used in repayments of obligations under finance leases. See “Financial Information — Liquidity and capital resources” for details.

### Revenue

We derive revenue principally from the (i) provision of steel and metal engineering services and (ii) sales of steel and metal products.

The below table sets out our revenue breakdown by business segments for the years indicated:

	2016		Year ended 31 March 2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Provision of steel and metal engineering services						
- Public sector <sup>(1)</sup>	91,230	74.3	100,944	62.5	133,129	66.8
- Private sector <sup>(2)</sup>	4,900	4.0	2,347	1.5	7,491	3.8
<b>Subtotal</b>	<b>96,130</b>	<b>78.3</b>	<b>103,291</b>	<b>64.0</b>	<b>140,620</b>	<b>70.6</b>
Sales of steel and metal products						
- Standardised collapsible gates	5,240	4.3	34,022	21.0	42,821	21.5
- Other steel and metal products	21,328	17.4	24,170	15.0	15,758	7.9
<b>Subtotal</b>	<b>26,568</b>	<b>21.7</b>	<b>58,192</b>	<b>36.0</b>	<b>58,579</b>	<b>29.4</b>
<b>Total</b>	<b>122,698</b>	<b>100.0</b>	<b>161,483</b>	<b>100.0</b>	<b>199,199</b>	<b>100.0</b>

#### Notes:

- (1) For illustration purpose, public sector refers to construction works commissioned by the Hong Kong Government, MTR Corporation Limited and the Airport Authority, and construction works commissioning departments and statutory bodies of the Hong Kong Government include Hong Kong Housing Authority, Development Bureau, Civil Engineering and Development Department and Water Services Department, as well as schools, educational institutions and universities, and properties owned and/or managed by Link Real Estate Investment Trust, excluding any infrastructures projects.
- (2) For illustration purpose, private sector refers to contractor works commissioned by individuals, privately owned property development companies and commercial enterprises.

See “Financial Information — Description of certain line items of the consolidated statements of profit or loss and other comprehensive income” for details.

## SUMMARY

### Direct costs

The below table sets out our direct costs breakdown by nature for the years indicated:

	Year ended 31 March					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct material costs	44,939	54.4	65,433	60.8	67,849	54.4
Direct labour costs	23,518	28.5	30,136	28.0	45,373	36.3
Installation service fees	4,615	5.6	3,504	3.2	3,018	2.4
Other costs	9,534	11.5	8,639	8.0	8,600	6.9
	<u>82,606</u>	<u>100.0</u>	<u>107,712</u>	<u>100.0</u>	<u>124,840</u>	<u>100.0</u>

Our direct costs mainly include material costs and labour costs. They represent a significant portion of our direct costs. For the years ended 31 March 2016, 2017 and 2018, we incurred material costs of approximately HK\$44.9 million, HK\$65.4 million and HK\$67.8 million, representing approximately 54.4%, 60.8%, and 54.4%, of our total direct costs, respectively. The percentage of direct material costs over total direct costs increased from 54.4% for the year ended 31 March 2016 to 60.8% for the year ended 31 March 2017 due to increase in sales of standardised collapsible gates, which we are not required to provide installation works. The percentage then decreased to 54.4% for the year ended 31 March 2018 since the increase in direct labour costs for the same period was proportionately higher than that in direct material costs. Please refer to “Financial Information — Description of certain line items of the consolidated statements of profit and other comprehensive income — Direct labour costs” for the reason behind the increase in direct labour costs.

For the years ended 31 March 2016, 2017 and 2018, our direct labour costs amounted to approximately HK\$23.5 million, HK\$30.1 million and HK\$45.4 million, representing approximately 28.5%, 28.0%, and 36.3% of our total direct costs, respectively. Due to increasing project size in terms of contract sum during the Track Record Period, we had deployed more labour resources to carry out project works and project management.

### Gross profit and gross profit margin

The below table sets out our gross profit and gross profit margin by business segments for the years indicated:

	For the year ended 31 March					
	2016		2017		2018	
	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Provision of steel and metal engineering services	32,599	33.9	37,685	36.5	57,089	40.6
Sales of steel and metal products						
- Standardised collapsible gates	1,097	20.9	8,183	24.1	11,441	26.7
- Other steel and metal products	6,396	30.0	7,903	32.7	5,829	37.0
Subtotal	<u>7,493</u>	28.2	<u>16,086</u>	27.6	<u>17,270</u>	29.5
<b>Total</b>	<u>40,092</u>	32.7	<u>53,771</u>	33.3	<u>74,359</u>	37.3

Our overall gross profit amounted to approximately HK\$40.1 million, HK\$53.8 million and HK\$74.4 million for the years ended 31 March 2016, 2017 and 2018, respectively. Our overall gross profit margin was approximately 32.7%, 33.3% and 37.3% for the years ended 31 March 2016, 2017 and 2018, respectively. See “Financial Information — Gross profit and gross profit margin” for details.

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## SUMMARY

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### Key financial ratios

	As at/for the year ended 31 March		
	2016	2017	2018
Current ratio <sup>(1)</sup>	1.5 times	1.7 times	5.4 times
Interest coverage <sup>(2)</sup>	306.4 times	353.2 times	517.8 times
Gearing ratio <sup>(3)</sup>	6.4%	5.6%	2.4%
Net debt to equity ratio <sup>(4)</sup>	Net cash	Net cash	Net cash
Return on assets <sup>(5)</sup>	23.7%	26.4%	44.4%
Return on equity <sup>(6)</sup>	52.4%	54.5%	53.0%
Net profit margin <sup>(7)</sup>	24.0%	23.6%	26.2%

*Notes:*

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year end.
2. Interest coverage is calculated by the profit before interest and tax divided by the interest expenses for the respective year.
3. Gearing ratio is calculated based on the total interest-bearing debts divided by the total equity as at the respective year and multiplied by 100%.
4. Net debt to equity ratio is calculated based on net debt, being total interest-bearing debts net of cash and cash equivalents and short term bank deposits, divided by the total equity as at respective year.
5. Return on assets is calculated by the profit for the year divided by the total assets for the respective year and multiplied by 100.0%.
6. Return on equity is calculated by the profit for the year divided by the total equity for the respective year and multiplied by 100.0%.
7. Net profit margin is calculated by the profit for the year divided by the revenue for the respective year and multiplied by 100.0%.

Our net profit margin was approximately 24.0%, 23.6% and 26.2% for the years ended 31 March 2016, 2017 and 2018, respectively. Our net profit margin remained relatively stable for the years ended 31 March 2016 and 2017. Our relatively higher net profit margin for the year ended 31 March 2018 was due to the increase in gross profit margin which was discussed in “Financial Information — Year-to-year comparison of results of operations”. Also, see “Financial Information — Key financial ratios” for details.

### LITIGATION, CLAIMS AND NON-COMPLIANCE

During the Track Record Period and as at the Latest Practicable Date, save as disclosed in “Business — Litigation and claims”, our Group had not been involved in claims or litigation which had material adverse effect on our business, results of operations or financial condition or on our Shares or the Listing.

During the Track Record Period, there were a number of instances of non-compliance with certain Hong Kong and the PRC regulatory requirements on various occasions by our Group. These include, among others: (i) failure to make contribution under the Regulations on the Administration of Housing Provident Fund (住房公積金管理條例); (ii) failure to file IR56E with IRD under the Inland Revenue Ordinance; and (iii) failure to make sufficient employees’ compensation insurance under the Employees’ Compensation Ordinance. See “Business — Non-compliance” for details.

### DIVIDEND

During the Track Record Period, Hang Yick declared and paid dividends of nil, HK\$24.0 million and HK\$24.0 million for the years ended 31 March 2016, 2017 and 2018, respectively, to its then shareholders. All such dividends had been fully paid and we financed the payment of such dividends by internal resources. We have declared and paid a special dividend of approximately HK\$24.0 million on 29 August 2018.

Our Group currently does not have a dividend policy and may distribute dividends by way of cash or by other means that our Directors consider appropriate. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements and economic outlook.

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## SUMMARY

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### OFFER STATISTICS

All statistics in the table below are based on the assumption that the Over-allotment Option is not exercised.

	Based on minimum indicative Offer Price of HK\$0.80 per Offer Share	Based on maximum indicative Offer Price Of HK\$0.90 per Offer Share
Market capitalisation of our Shares ( <i>Note 1</i> )	HK\$608.0 million	HK\$684.0 million
Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 per Share ( <i>Note 2 &amp; 3</i> )	HK\$0.30	HK\$0.32

*Notes:*

- The calculation of market capitalisation is based on the 760,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and Capitalisation Issue and assuming that the Over-allotment Option is not exercised.
- The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information — A. Statement of unaudited Pro Forma of Adjusted Consolidated Net Tangible Assets of the Group Attributable to Owners of the Company” to this prospectus and on the basis of 760,000,000 Shares in issue at the indicative Offer Price of HK\$0.80 and HK\$0.90 per Offer Share immediately following completion of the Global Offering and Capitalisation Issue and assuming that the Over-allotment Option is not exercised.
- Assuming the special dividend of HK\$24,000,000 declared on 29 August 2018 had been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 would have been HK\$202,353,000 and HK\$220,555,000, whereas the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 per Share would have been HK\$0.27 and HK\$0.29, at the Offer Price of HK\$0.80 and HK\$0.90 per Share, respectively. Such calculation is based on 760,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering, taking into consideration the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 of HK\$98,557,000 adjusted for (i) the estimated net proceeds from the Global Offering, and (ii) the declaration of the special dividend of HK\$24,000,000. See “Appendix II — Unaudited Pro Forma Financial Information — A. Statement of unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the company” for details.

### USE OF PROCEEDS

We currently intend to apply the net proceeds from the Global Offering of approximately HK\$130.5 million for the following purposes assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.85 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus:

Intended use of net proceeds	Approximate amount	Approximate percentage of net proceeds
Acquiring machines to replace and enhance our production capacity	HK\$51.2 million	39.2%
Expanding our workforce in Hong Kong and the PRC	HK\$33.7 million	25.8%
Renovation and re-design of our existing production facilities	HK\$24.1 million	18.5%
Purchasing delivery trucks	HK\$5.0 million	3.8%
Upgrading our information technology system and equipment	HK\$3.5 million	2.7%
General working capital of our Group	HK\$13.0 million	10.0%

The above allocation of the net proceeds from the Global Offering will be adjusted on a pro-rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus.

In the event that the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds from the Global Offering to the above uses in the proportions stated above.

See “Business — Business strategies” and “Future Plans and Use of Proceeds” for further details.



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## SUMMARY

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### REASONS FOR LISTING

Our Directors consider that the Listing will benefit our Group by enhancing our corporate profile, facilitating the implementation of our business strategies, strengthening our financial position and enhancing the liquidity of our Shares. See “Future Plans and Use of Proceeds — Reasons for Listing” for details.

### LISTING EXPENSES

Our Directors estimate that the total estimated listing expenses in connection with the Global Offering are approximately HK\$31.0 million, based on the mid-point of the Offer Price of HK\$0.85 per Offer Share and assuming no Over-allotment Option will be exercised, of which approximately HK\$6.4 million has been charged to our consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2018, and approximately HK\$12.5 million is expected to be further charged to our consolidated statement of profit or loss and other comprehensive income for the year ending 31 March 2019, and approximately HK\$12.1 million is expected to be accounted for as a deduction from equity upon the Listing.

### RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 45 on-going construction contracts awarded by tender (whether in progress or yet to commence) with an aggregate contract sum of approximately HK\$430.4 million. Of these 45 on-going projects, nine projects were newly awarded after Track Record Period with an aggregate contract sum of approximately HK\$75.7 million. See “Business — Our projects” for details of our on-going projects and the newly awarded projects after the Track Record Period. Our Directors expect that the amount of backlog revenue to be recognised from the 45 on-going projects as at the latest practicable date as disclosed in “Business — Our projects — Our project backlog” to be approximately HK\$180.0 million for the year ending 31 March 2019 and approximately HK\$119.8 million after the year ending 31 March 2019. As at the Latest Practicable Date, there were 19 tenders for provision of steel and metal engineering services which we were yet to be notified of the tender results. See “Business — Provision of steel and metal engineering services — Operating procedures — 1. Tender process” for details.

Our Company expects to record a decrease in its net profit for the year ending 31 March 2019 as a result of the incurrence one-off Listing expenses of approximately HK\$12.5 million to be charged to the profit or loss of our Group for the corresponding period.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial, operational or trading position since 31 March 2018, being the end date of our audited consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Accountants’ Report”	the accountants’ report of our Group prepared by the Reporting Accountants set out in Appendix I to this prospectus
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of such forms as used in the Hong Kong Public Offering
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on 19 September 2018 with effect from the Listing Date, and as amended from time to time, a summary of which is contained in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Biopower Co.”	Biopower Co., Ltd., a limited liability company incorporated in the BVI on 2 January 2001, which is wholly owned by Mr. PS Lee
“Board”	the board of Directors
“business day”	a day on which banks in Hong Kong are open for general banking business, other than (i) a Saturday or a Sunday; or (ii) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 569,999,900 Shares made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to “Statutory and General Information — A. Further information about our Company — 3. Written resolutions of our existing Shareholder passed on 19 September 2018” in Appendix IV to this prospectus

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## DEFINITIONS

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“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of our Board
“China Industrial Securities”	China Industrial Securities International Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, consolidated or otherwise modified from time to time
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Hang Yick Holdings Company Limited (恒益控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2018
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and in the context of our Company, means Mr. PS Lee, Ms. LC Lau and HY Steel
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules

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## DEFINITIONS

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“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“Deed of Indemnity”	the deed of indemnity dated 19 September 2018 and executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries) to provide certain indemnities, further details of which are set out in “Statutory and General Information — E. Other information — 1. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 19 September 2018 and executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries), further details of which are set out in “Relationship with our Controlling Shareholders — Non-competition undertaking”
“Director(s)”	the director(s) of our Company
“Fortune Securities”	Fortune (HK) Securities Limited, a corporation licensed to carry out type 1 (dealing in securities) regulated activities under the SFO
“Frost & Sullivan”	Frost & Sullivan Limited, an independent industry consultant
“Frost & Sullivan Report”	an independent industry report commissioned by us and issued by Frost & Sullivan
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by <b>HK eIPO White Form</b> Service Provider designated by our Company
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries
“Hang Yick”	Hang Yick Gate Engineering Limited (恒益捲閘工程有限公司), a company incorporated in Hong Kong with limited liability on 20 January 1993, and an indirect wholly-owned subsidiary of our Company upon completion of Reorganisation

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## DEFINITIONS

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“Hang Yick Co”	Hang Yick Gate Eng Co. (恒益捲閘工程公司), a sole proprietorship established in Hong Kong which was owned by Mr. PS Lee since 1 June 1982 and ceased to operate on 8 March 2018
“Hang Yick Macau”	Hang Yick Gate Engineering (Macau) Limited (恒益捲閘工程(澳門)有限公司), a company incorporated under laws of Macau on 21 December 2005 and dissolved on 11 April 2017
“Hang Yick Metal Products”	Hang Yick Metal Products (恒益五金製品), a sole proprietorship established in Hong Kong which was owned by Ms. LC Lau since 15 March 2003 and ceased to operate on 8 March 2018
“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 <b>www.hkeipo.hk</b>
“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 <b>www.hkeipo.hk</b>
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” or “HK dollars” or “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Government”	the Government of Hong Kong
“Hong Kong Offer Shares”	the 19,000,000 new Shares (subject to reallocation) being initially offered by our Company for subscription in the Hong Kong Public Offering, as described in “Structure and conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the conditional offering by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms

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## DEFINITIONS

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“Hong Kong Underwriters”	the Underwriters of the Hong Kong Public Offering, whose names are set out in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 27 September 2018 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Sole Sponsor, the Joint Global Coordinators, our Controlling Shareholders, our executive Directors and the Hong Kong Underwriters, as further described in “Underwriting” in this prospectus
“Huizhou Hengyi”	Huizhou Hengyi Wujin Zhipin Limited* (惠州恒益五金製品有限公司), a limited liability company established in the PRC on 27 August 2010, and an indirect wholly-owned subsidiary of our Company upon completion of Reorganisation
“Huizhou Jiantai”	Huizhou Jiantai Sujiao Wujin Zhipin Limited* (惠州市健泰塑膠五金製品有限公司), a limited liability company established in the PRC on 26 July 2005, which is indirectly wholly owned by Mr. PS Lee through Biopower Co.
“HY Metal”	HY Metal Company Limited, a company incorporated in the BVI with limited liability on 15 March 2018, and a direct wholly-owned subsidiary of our Company upon completion of the Reorganisation
“HY Steel”	HY Steel Company Limited, a company incorporated in the BVI with limited liability on 14 March 2018 which is owned as to 70% by Mr. PS Lee and 30% by Ms. LC Lau, as one of our Controlling Shareholders
“Independent Third Party(ies)”	person(s) or company(ies) which are independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of our Company, any of our subsidiaries or any of our respective associates, and an “Independent Third Party” means any of them
“International Placing”	the conditional placing of the International Placing Shares, at the Offer Price with professional, institutional and other investors by the International Underwriters on behalf of our Company as described in “Structure and Conditions of the Global Offering” in this prospectus

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## DEFINITIONS

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“International Placing Shares”	the 171,000,000 Offer Shares initially being offered for subscription at the Offer Price under the International Placing together with, where relevant, any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option, but subject to the adjustment as described in “Structure and Conditions of the Global Offering”
“International Underwriters”	our group of underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Placing Shares
“International Underwriting Agreement”	the underwriting agreement in relation to the International Placing expected to be entered into on the Price Determination Date between, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the International Underwriters
“IRD”	Inland Revenue Department of the Hong Kong Government
“Joint Global Coordinators”, “Joint Bookrunners” and “Joint Lead Managers”	China Industrial Securities, Fortune Securities and Promising Securities
“Latest Practicable Date”	19 September 2018, being the latest practicable date for the inclusion of information in this prospectus prior to the printing of this prospectus
“Legislative Council”	Legislative Council of Hong Kong
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings of the Shares on the Main Board first commence, which is expected to be on 12 October 2018
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange

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## DEFINITIONS

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“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, adopted on 19 September 2018 with immediate effect, and as amended from time to time
“MOP”	Macau Pataca, the lawful currency of Macau
“Mr. Benny Lee”	Mr. Lee Ka Chun Benny (李嘉俊先生), our non-executive Director and the son of Mr. PS Lee and Ms. LC Lau
“Mr. PS Lee”	Mr. Lee Pui Sun (李沛新先生), our Chairman, chief executive officer, executive Director and Controlling Shareholder, the spouse of Ms. LC Lau and the father of Mr. Benny Lee
“Ms. LC Lau”	Ms. Lau Lai Ching (劉麗菁女士), our executive Director and Controlling Shareholder, the spouse of Mr. PS Lee and the mother of Mr. Benny Lee
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) under the Global Offering which is expected to be determined as further described in “Structure and Conditions of the Global Offering — Structure of the Global Offering — Pricing and allocation”
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, together with, where relevant, any additional Shares issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the Joint Global Coordinators, exercisable by them on behalf of the International Underwriters, subject to the terms and conditions of the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 28,500,000 additional Offer Shares (representing 15% of the initial number of the Offer Shares) to cover, among other things, over-allocations in the International Placing and/or to satisfy the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement, particulars of which are set out in “Structure and Conditions of the Global Offering”
“PRC” or “China”	The People’s Republic of China which, for the purpose of this prospectus, shall exclude Hong Kong, Macau and Taiwan
“PRC Government”	the central government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof



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## DEFINITIONS

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“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the laws of Hong Kong) as in force before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date expected to be on or around Thursday 4 October 2018 but no later than Wednesday, 10 October 2018, on which the Offer Price is fixed for the purpose of the Global Offering
“Promising Securities”	Promising Securities Company Limited, a corporation licensed to carry out type 1 (dealing in securities) regulated activities under the SFO
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in “History, Reorganisation and Corporate Structure — Reorganisation”
“Reporting Accountants”	Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 September 2018, a summary of principal terms of which is set out in “Statutory and General Information — D. Share Option Scheme”
“Shares”	ordinary shares of our Company with a nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Shares
“Sole Sponsor” or “Fortune Financial Capital”	Fortune Financial Capital Limited, the sole sponsor of our Company for the Listing, a corporation licensed by the SFC to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, acting as the sponsor to the Listing
“sq.m.” or “m <sup>2</sup> ”	square metres

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## DEFINITIONS

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“Stabilising Manager”	China Industrial Securities
“Stock Borrowing Agreement”	the stock borrowing agreement which is expected to be entered into on or about the Price Determination Date between the Stabilising Manager (or its affiliates acting on its behalf) and our Controlling Shareholders, pursuant to which our Controlling Shareholders will agree to lend up to 28,500,000 Shares to the Stabilising Manager on terms set out therein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the years ended 31 March 2016, 2017 and 2018
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States”, “U.S.” or “US”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars” or “US dollars”	United States dollars, the lawful currency of the United States
“ <b>WHITE</b> Application Form(s)”	the application form(s) to be completed by the public who requires such Hong Kong Offer Shares to be issued in the applicants’ own name
“ <b>YELLOW</b> Application Form(s)”	the application form(s) to be completed by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent

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## DEFINITIONS

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*The English names of marked with “\*” are unofficial English translations of the Chinese names of, among others, entities, laws or regulations or government authorities, that do not have official English names. If there is any inconsistency, the Chinese names shall prevail.*

*Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the date of this prospectus.*

*Certain monetary amounts included in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.*

*For the purpose of illustration only and unless otherwise specified in this prospectus, amounts denominated in RMB and MOP have been translated into HK\$ at the rate of RMB1.00 = HK\$1.25 and MOP1.00 = HK\$0.97. No representation is made that the RMB and MOP amounts could have been, or could be, converted into HK\$ at such rates or at any other rate on such date or on any other date. Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains certain definitions and technical terms in this prospectus which relate to our business and the industries and sectors that we operate in. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.*

“AEO”	Authorised Economic Operator (認證企業證書)
“al-alloys”	aluminium alloys
“collapsible gate (摺閘)”	a gate which is usually fabricated from steel and can be opened or closed by slight pull or push, and is used where the width of the door is large and space is insufficient to provide two-leafed hinged shutters to open. It is usually fabricated from steel
“CNC”	computer numerical control, an automation methodology that uses computer as an integral controller to operate the machine tools with precisely programmed commands
“fire-insulated shutter (防火閘)”	the shutter has a fire insulation value, which must undergo and fulfill certain fire test to determine its fire insulation capability according to certain international standards
“GMS”	galvanised mild steel
“ISO”	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“mill test certificate”	is a quality assurance document generally used in the metals industry that certifies chemical composition and mechanical properties of a material and states a product made of metal (steel, aluminium, brass or other alloys) compliance with specific standards under an international standards organisation, such as American Society for Testing and Materials and American Society of Mechanical Engineers
“private sector”	construction works commissioned by individuals, privately owned property development companies and commercial enterprises

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## GLOSSARY OF TECHNICAL TERMS

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“public sector”	construction works commissioned by the Hong Kong Government, MTR Corporation Limited and the Airport Authority, and construction works commissioning departments and statutory bodies of the Hong Kong Government include Hong Kong Housing Authority, Development Bureau, Civil Engineering and Development Department and Water Services Department, as well as schools, educational institutions and universities, and properties owned and/or managed by Link Real Estate Investment Trust, excluding any infrastructures projects
“variation order(s)”	an alteration to the scope of works in a construction contract in the form of an addition, substitution or omission from the original scope of works

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may”, “will”, “should”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “continue”, “seek”, or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our business strategies, development activities, estimates and projections, expectations concerning future operations, profit margins, profitability, competition and the effects of regulation.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. We give no assurance that these expectations and assumptions will prove to have been correct. Although these forward-looking statements are made by our Directors after due and careful consideration, these statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of the risks or uncertainties materialise, or should the underlying assumptions be proved to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are neither statements of historical fact nor guarantees or assurances of future performance. Hence, you should not place undue reliance on such forward-looking statements.

Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our business strategies and plan of operation;
- the success of our existing and future operation;
- our capital expenditure plans;
- our dividend policy;
- our ability to retain senior management team members and recruit qualified and experienced new team members;
- our ability to maintain our competitiveness and operational efficiency;
- our prospective financial conditions;
- future development in the industries in which we operate;
- the global and domestic economy;
- laws, regulations and rules for the industry and markets in which we operate;

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## FORWARD-LOOKING STATEMENTS

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- factors that are described in “Risk Factors”; and
- other factors beyond our control.

Any forward-looking statement made by us in this prospectus applies only as at the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations and the Listing Rules, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section as well as the risks and uncertainties discussed in “Risk Factors”.

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## RISK FACTORS

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*Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. Our business, financial condition and results of operations could be adversely affected if any of the following risks materialises. Trading prices of the Shares could decline due to any of the following risks, and you may lose part or all of your investment.*

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to doing business in the PRC; (iv) risks relating to the Global Offering; and (v) risks relating to the statements in this prospectus. Potential investors should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

### **RISKS RELATING TO OUR BUSINESS**

**Our revenue relies on successful quotation or tenders of engineering services projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new customers**

During the Track Record Period, approximately 70% of our revenue was derived from provision of steel and metal engineering services in Hong Kong, which were awarded to us by successful tenders or by quotation requests. For the years ended 31 March 2016, 2017 and 2018, our tender success rate was approximately 22.2%, 24.6%, and 39.6%, respectively. Our past tender success rates are not indicative of our future results and we cannot guarantee you that we will achieve similar or an even higher success rate in the future.

During the Track Record Period, our engineering services projects were mainly on a non-recurring contract basis through a competitive tender process or quotation, relating to designing, manufacturing, supplying and installing steel and metal products for construction projects. There is no guarantee that our existing customers will in the future include us in their tender process or award us with new contracts, or that we will be able to seek new customers. From time to time, we have to go through a competitive tendering process or quotation to secure new contracts. In the event that we are unable to maintain business relationships with our existing customers or unable to price our tender or quotation competitively, our business and our revenue will be adversely affected.

**Reduction or termination of public sector projects in Hong Kong may adversely affect our revenue and results of operations**

During the Track Record Period, over 60% of our total revenue was generated from the public sector projects. The number of such projects is limited and may be reduced if the Hong Kong Government reduces expenditure on or changes its policy in relation to public sector works. For the years ended 31 March 2016, 2017 and 2018, our revenue in respect of provision of steel and metal



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## RISK FACTORS

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engineering services in public sector projects amounted to approximately 74.3%, 62.5% and 66.8% of our total revenue, respectively, and our revenue in respect of sales of steel and metal products on standardised collapsible gates amounted to approximately 4.3%, 21.0% and 21.5% of our total revenue, respectively.

Our provision of steel and metal engineering services and sales of steel and metal products in connection with our public sector projects will be affected by the following: (i) the Hong Kong Government's or other statutory bodies' policy in relation to public construction works, in particular, the Hong Kong Government's plans for increasing public rental housing units and subsidised sale flats and the Hong Kong Housing Authority's policy on replacement of old-type see-through collapsible gates at public rental estates as identified in the Frost & Sullivan Report; (ii) other factors that generally affect the Hong Kong construction industry; and (iii) our ability to continue to secure public sector construction projects from our customers. Any material delay, suspension, termination or reduction of number of contract value of public sector construction projects may adversely affect our revenue, hence our results of operations.

### **The sales of standardised collapsible gates may be adversely affected by change in or termination of the government policy**

For the years ended 31 March 2016, 2017 and 2018, our revenue generated from sales of standardised collapsible gates amounted to approximately HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, respectively, representing approximately 4.3%, 21.0% and 21.5% of our total revenue, respectively. The increase in sales of standardised collapsible gates during the Track Record Period was mainly due to the policy implemented by the Hong Kong Housing Authority to replace the old-type see-through collapsible gates in the flats of public rental housing estates for the year 2015/2016. In the event that there is a change in or termination of the relevant government policy, the demand for standardised collapsible gates will decrease. As such, our sales of standardised collapsible gates may be adversely affected causing a decrease in our revenue and results of operations.

### **We may be unable to retain or replace our major customers**

Our Group's five largest customers collectively accounted for approximately 73.1%, 58.2% and 62.9% of our total revenue, respectively, and our largest customers accounted for approximately 33.8%, 30.2% and 25.9% of our total revenue, respectively, for the years ended 31 March 2016, 2017 and 2018. Our Group does not enter into long-term contracts with our customers, and our products and services are generally provided on a project-by-project basis, thus there can be no assurance that our major customers will retain us upon completion of the existing projects or that they will maintain the current level of business with us and engage us in the future. Any significant decrease in number of projects or size of projects in terms of contract value awarded by our major customers or inability to obtain sufficient projects for both provision of steel and metal engineering services and sales of steel and metal products with comparable size as replacement could have a material adverse effect on the business, result of operations and profitability of our Group.

### **If progress payment or retention money for our steel and metal engineering services is not paid to us on time or in full, we may be exposed to credit risk and our liquidity position and financial performance may be adversely affected**

We generally do not receive any sums as prepayment from our customers for our steel and metal engineering services. Nonetheless, we may incur upfront costs following the commencement of our projects upon tender award.

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## RISK FACTORS

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Our customers are generally required under the construction contracts (for those awarded by tender) to make progress payments on a monthly basis based on the amount of work done by us. Once our Group has submitted a monthly bill, our customers will certify the amount of work done. Our customers usually settle the bill, net of any agreed retention money within 30 days to 45 days after receipt of the payment certification. Our trade receivables amounted to approximately HK\$20.6 million, HK\$27.2 million and HK\$17.9 million, as at 31 March 2016, 2017 and 2018, respectively, and our average trade receivables turnover days were approximately 49.0 days, 54.0 days and 41.3 days for the years ended 31 March 2016, 2017 and 2018, respectively. During the Track Record Period, we did not provide allowance for bad and doubtful debts on trade receivables. Any difficulty in collecting a substantial portion of our trade receivables could materially and adversely affect our cash flows and financial positions.

Contract assets arise when our Group completes the steel and metal work under construction contracts but yet certified by architects, surveyors or other representatives appointed by our customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to our customer. Our Group recorded contract assets of approximately HK\$9.2 million, HK\$8.0 million and HK\$8.9 million as at 31 March 2016, 2017 and 2018, respectively. There is no assurance that we will be able to bill and receive the full amount of gross amount due from our customers for contract work as we may not be able to reach an agreement with our customers on the value of work done. Additionally, there is no assurance that our progress payments will always be certified and paid to us in full. Failure to bill and receive the full amount of gross amount due from our customers for contract work done and/or progress payments or failure by our customers to make remittance as a result of disputes over our works performed may have an adverse effect on our results of operations, financial positions and liquidity positions.

Furthermore, according to the construction contracts (for those awarded by tender), our customers are generally given the right to withhold a sum ranging from 5% to 10% of each progress payment due to us as retention monies, and the total amount of retention monies shall not exceed 5% of the total contract sum of the contracts. The retention monies are generally released to us in two instalments but the retention period could vary. The first half of the retention monies is generally released after practical completion or issuance of the certificate of completion under the main contracts, while the second half is generally released after the defect liability period (usually being 12 months to 24 months from completion date as set out in the main contract) or upon issuance of final completion certificate. As at 31 March 2018, the retention monies withheld by our customers presented as retention receivables amounted to approximately HK\$18.2 million. Any dispute between us and our customers as to the value of work properly done in a particular period, or failure by our customers to make retention money on time or in full, would have an adverse effect on our liquidity position and financial performance.

**Any failure to make accurate estimation for submitting tenders for new projects could materially affect our Group's profitability**

Our projects are generally awarded on a project-by-project basis through tender process and we have to go through competitive tender process to secure new projects. The profitability of our Group's project depends on the price of tender, which is determined based on the estimated costs to be incurred plus a mark-up. Therefore, cost management is usually critical in ensuring that the project meets its

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## **RISK FACTORS**

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budgeted profit margin. In the preparation of the tender, our Group will carry out internal costing and budgeting estimation of construction materials and labour to determine tender price. After a project is awarded to our Group, if the actual time and costs involved in completing such project exceed its estimation at the time when the tender was submitted as a result of factors beyond our control, our Group's profitability may be materially and adversely affected.

Furthermore, variation order, provisional items or optional works are also the key factors which could affect our results of operation. Variation order will be issued when there is any alteration to the original scope of contracted work such as addition or cancellation of work, increase or decrease of work quantity and changes of the character of quality of material or work etc., and also our customers will confirm the provisional items and/or optional works as specified in the construction contracts during the construction period. It could either have a positive and negative impact on time, revenue and costs incurred.

### **We face the risk of obsolescence for our inventory**

Our operation involves storage of raw materials, work-in-progress and finished goods. As at 31 March 2016, 31 March 2017 and 31 March 2018, the total value of our inventory were approximately HK\$20.7 million, HK\$26.4 million and HK\$18.7 million, respectively. For the years ended 31 March 2016, 2017 and 2018, our inventory turnover days were approximately 91.5 days, 79.8 days and 65.9 days, respectively. No provision on inventories was made for each of the years ended 31 March 2016, 2017 and 2018. Nevertheless, our inventory faces obsolescence risks in the event of any raw materials damaged during storage or otherwise, or where there are sudden and material changes in our customers' product requirements and specifications, decreased demand and overstocking of particular products may be resulted. In such events, our results of operations would be adversely affected.

### **We may not be able to maintain our competitiveness in the Hong Kong steel and metal engineering services market**

According to the Frost & Sullivan Report, we were the largest steel and metal engineering company in overall public sector in Hong Kong in terms of revenue with a market share of approximately 31.9%, and an estimated market share of approximately 8.6% in the overall steel and engineering services market in Hong Kong, in 2017. However, there is no assurance that we can maintain our competitiveness in the market. According to the Frost & Sullivan Report, the overall steel and metal engineering services market in Hong Kong is fragmented in terms of number of market participants, and there were an estimate of approximately 400 steel and metal works contractors registered with the Construction Industry Council and approximately 50 contractors were engaged in steel and metal works engineering services in public sector in 2017. In addition, new participants may wish to enter the industry provided that they have the appropriate skills, local experience, necessary machinery and equipment, capital and they are registered under the relevant body corporate. Increased competition may result in lower operating margins and loss of market share, which may adversely affect our profitability and operating results.

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## **RISK FACTORS**

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### **We rely on key management personnel and experienced employees**

Our success depends on our ability to retain the continuing service of our key management personnel including Mr. PS Lee and Ms. LC Lau, our executive Directors who have more than 35 and 25 years of experience respectively in the steel and metal works industry, and the senior management. See “Directors and Senior Management” for further details. Our success also depends on our ability to attract, identify, hire, train and retain experienced employees with the requisite industry expertise.

We cannot assure you that we will be able to retain our management personnel and employees or find suitable or comparable replacements on a timely basis or at all. We also cannot assure you that we will be able to recruit additional suitable employees with adequate industry experiences and capabilities to support our future operations and growth. The loss of any of our management personnel and experienced employees may have a material adverse effect on our business, results of operations and financial condition.

### **We depend on our suppliers for materials, and any shortage or delay of supply or deterioration in quality may materially and adversely affect our operations**

We rely on our suppliers for stable and timely delivery of materials and components on commercially acceptable terms to enable us to manufacture our products. Our major raw materials include stainless steel, metal, galvanised coil and accessories. If there is any shortage of such materials or supplies, a material delay in delivery by our suppliers, we may fail to complete our projects or fulfill our customers’ purchase orders for our steel and metal products on time or at all. There is no guarantee that we would be able to identify suitable alternative sources of supply with acceptable quality and price. Further, there is no assurance that we would not encounter any other problems with our suppliers in the future. In the event we are unable to identify suitable alternative sources of supply, our reputation, business operations, and financial results may be adversely affected. If there is any deterioration in the quality of construction materials and supplies from our suppliers, and we are unable to identify suitable alternative sources or detect the defective materials, the progress and quality of our works may be materially and adversely affected, thereby damaging our reputation and adversely affecting our financial results.

### **Our historical revenue and profit margin may not be indicative of our financial performance in the future**

Our Group’s revenue for the years ended 31 March 2016, 2017 and 2018 was approximately HK\$122.7 million, HK\$161.5 million and HK\$199.2 million, respectively. Our Group’s gross profit was approximately HK\$40.1 million, HK\$53.8 million and HK\$74.4 million, respectively, for the years ended 31 March 2016, 2017 and 2018, and the gross profit margin was approximately 32.7%, 33.3% and 37.3%, respectively, for the corresponding years. We recorded an increasing trend on our revenue during the Track Record Period. Nevertheless, our future performance will depend on, among others, our ability to secure new projects and control costs and will be subject to the risks set out in this section. Therefore, our historical performance does not have any positive implication or may not necessarily reflect our financial performance in the future. Further, our profit margin may fluctuate between projects due to a number of factors such as the type of products required for the project, the accuracy of our estimate of costs when determining the tender price, the complexity and size of the

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## RISK FACTORS

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project as well as our pricing strategy. There is no guarantee that we will be able to maintain profit margin in the future as some of the factors affecting our profitability are beyond our control. We also cannot guarantee that we will be able to secure sufficient projects of favourable size and quantity, maintain our current turnover and profit levels in the future or attain growth rates similar to that achieved during the Track Record Period.

**We make estimation of our project costs in our tenders and any failure to accurately estimate the costs involved may lead to cost overruns or even result in losses**

Whether we are able to submit tender proposal at a competitive price with adequate profit margin and maintain our profitability depends on various factors. We generally prepare the tender submission or quotation proposal based on the scope and specifications of the projects. Our pricing is usually determined based on cost-plus basis which we consider to be competitive and acceptable to us. In determining the pricing, we also take into account various factors, among others, the specifications and complexity of the project, availability and costs of necessary construction materials, production capacity of our production facilities, our labour force, profitability of similar projects and potential competition of the project. See “Business — Tender process — Preparation of tender submission” for further details. If the actual time and costs involved in completing projects exceed our estimation at the time when the tender as a result of factors beyond our control, our Group’s profitability may be materially and adversely affected.

**Material fluctuations in the labour costs and material costs may adversely affect our financial performance**

Labour costs and material costs represent a significant portion of our direct costs. For the years ended 31 March 2016, 2017 and 2018, our direct material costs amounted to approximately HK\$44.9 million, HK\$65.4 million and HK\$67.8 million, respectively, representing approximately 54.4%, 60.8% and 54.4% of our direct costs, respectively, for the corresponding years; and our direct labour costs amounted to approximately HK\$23.5 million, HK\$30.1 million and HK\$45.4 million, respectively, representing approximately 28.5%, 28.0% and 36.3% of our direct costs, respectively, for the corresponding years.

According to the Frost & Sullivan Report, the average wages of employed persons in the urban areas in manufacturing industry in the PRC and metal workers in Hong Kong are expected to increase during 2018 to 2022. Regarding the material costs, despite the overall decline in the price of steel during 2012 to 2015, there was a recovery during 2016 to 2017. See “Industry Overview — Price trend of raw materials/ Labour cost of steel and metal works manufacturing in the PRC/ Labour cost of metal workers in Hong Kong” for further details. If there were any material fluctuations in the labour costs and material costs, our actual costs will be increased significantly which may in turn adversely affect our profitability and financial performance.

**If we fail to maintain an effective quality control system for our business operations**

The quality of our steel and metal engineering services and products is critical to the success of our business. In order to achieve success, we need to maintain an effective quality control system for our business operations. The effectiveness of our quality control system depends on a number of

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## **RISK FACTORS**

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factors, such as the design of the system, related training programs and our ability to ensure that our employees adhere to the policies and guidelines implemented. Any negligence or mistake during the implementation of our quality control systems could result in defects of our products, which may result in contractual, product liability and/or other claims against us. Any such claims, regardless of the results, may lead to incurring significant costs, harming our business reputation and resulting in significant disruption to our operations.

In addition, our Group has marketed our business in Hong Kong by using the trademark and “Hang Yick” as our brand name. We believe that the reputation and brand name that we have built up over the years play a significant role in enabling us to attract customers and secure projects. The promotion and enhancement of our reputation and brand name depend largely on our ability to provide quality and timely services to our customers. If we fail to do so or our customers no longer perceive our services and products to be of high quality, our brand name and reputation could be adversely affected which will in turn materially and adversely affect our business, financial condition and results of operations. Furthermore, any such claims against our services and products, regardless of whether they are ultimately valid, could cause us to incur significant costs, harm our reputation and/or result in significant disruption to our operations.

### **Personal injuries, property damages or fatal accidents may occur at work sites or during production**

Notwithstanding that we require our employees to strictly adhere to and implement all the safety measures and procedures as stipulated in our work and safety manuals provided in the course of our operations, there is an inherent risk of accidents resulting in personal injuries, property damages and/or fatalities in work or production sites. We generally supervise and monitor closely our employees or our installation services providers in the implementation of all such safety measures and procedures during execution of works. However, we cannot guarantee that our employees or our installation service providers will follow our safety measures and/or will not breach any applicable rules, laws or regulations. If any such employees or our installation service providers fail to follow safety measures at our construction sites, personal injuries or fatal accidents may be resulted. Any personal injuries and/or fatal accidents to the employees of our Group or our installation service providers may lead to claims or other legal proceedings against our Group. As at the Latest Practicable Date, our Group was subject to one claim in relation to personal injuries and such proceedings were still on going.

Such claims may expose us to the risk of bearing higher insurance premiums in the future. They may also harm the reputation of our Group if they turn into high profile cases and become widely reported in the media or within the industry. If such incidents occur, our business projects, reputation and results of operations may be materially and adversely affected.

### **We are exposed to disputes, claims or litigation**

We may be in disputes with our customers, suppliers, service providers, workers and other parties in connection with our projects or production from time to time for various reasons. Such disputes may relate to late completion of works or delivery of substandard works or products. See ‘Business — Litigation and claims’ for further information on disputes or litigation we encountered during the Track Record Period.

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## RISK FACTORS

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We cannot assure you that we can resolve all these disputes by way of negotiation and/or mediation with the relevant parties. If we fail to resolve the disputes, it may result in legal and other proceedings against us, which may lead to heavy legal costs and significant damages or liquidated damages if we fail to obtain favourable outcome in such proceedings. The costs incurred and the compensation or fine payable in these claims, disputes or legal proceedings may not be covered by our insurance policies. These proceedings can be time consuming, expensive and may divert the attention of our Group's management and other human resources in dealing with these proceedings which may adversely affect our operations and financial results.

### **Our Group may be liable for any defects in our projects**

Our Group generally provides a defect liability period typically ranging from 12 months to 24 months for the steel and metal engineering services projects from the completion date as set out in the main contract. See "Business — Key contract terms with our customers" for further details. If any aspects of the projects completed by our Group are found to be defective during the defect liability period, our Group would be responsible to rectify the defects, which might result in substantial costs being borne by our Group, and thus our business, financial position, results of operations and prospects may be materially and adversely affected.

### **We are liable to pay the amount of tax undercharged and may be subject to penalty or surcharge imposed by the IRD**

We had appointed a chief financial officer, Mr. Leung Wing Lun, in July 2017, who is a certified public accountant, to oversee and closely monitor the accounting and financial matters of Hang Yick, and also to revisit the accounting policy and application of the relevant accounting principles in the financial statements of Hang Yick. During the review of financial statements of Hang Yick for the year ended 31 March 2016, it was noted that there were accounting errors in the financial statements in prior years. To rectify these accounting errors, we had made relevant prior year adjustments to the financial statements for the years ended 31 March 2015 and 2016 and appointed a new local accounting firm to perform the audit on Hang Yick's financial statements for the year ended 31 March 2017 and to restate the financial statements for the year ended 31 March 2016 (as comparative figures in the financial statements for the year ended 31 March 2017). Hang Yick further engaged an international professional accounting firm to act as its tax representatives to prepare and submit the revised tax computations for the years of assessment 2014/15 and 2015/16 ("**2017 Filings**") so as to inform the IRD voluntarily about the revised profits for these two years. The 2017 Filings were submitted to the IRD in November 2017. Subsequently, the IRD issued additional profits tax assessments to Hang Yick for the years of assessment 2014/15 and 2015/16 in accordance with the 2017 Filings and the additional tax demanded was settled before the payment due date. See "Financial Information — Tax re-filing" for further details.

While the IRD has issued additional tax assessments for the tax undercharged without any penalty or surcharge in respect of the 2017 Filings, there is no assurance that the relevant authorities would not take any enforcement action against our Group in relation to the tax undercharged. In the event that any enforcement action is taken and the amount of tax undercharged after the final assessment of the IRD and tax penalty imposed substantially exceeds what we expect, our reputation and cash flow may be adversely affected.

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## RISK FACTORS

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**We plan to expand our capacity by acquiring machines and equipment, delivery trucks and information technology systems and equipment and expanding manpower which may result in an increase in depreciation expenses and staff costs which may adversely affect our operating results and financial position**

It is a part of our business strategy to acquire machines and equipment, delivery trucks and information technology systems and equipment and expanding manpower by utilising a portion of the net proceeds from the Global Offering. The acquisition of new machines and equipment, delivery trucks and information technology systems and equipment will result an increase in depreciation and amortisation expenses which is in line with the expansion plan. The depreciation charges for new machines and delivery trucks is estimated to be approximately HK\$1.3 million, HK\$4.5 million, and HK\$6.6 million, respectively, and the staff costs of additional staff to expand our manpower is estimated to be approximately HK\$3.5 million, HK\$15.1 million and HK\$15.1 million, respectively, for the three years ending 31 March 2019, 2020 and 2021. See “Business — Business strategies” and “Future Plans and Use of Proceeds” for further details. As a result, there could be potential increase of our depreciation and staff costs going forward, bringing impacts on our business and results of operations.

Given our planned investments in machines and equipment, delivery trucks, and information technology systems and equipment and expanding our manpower will increase our costs, any material adverse change in the steel and metal work industry and material decrease in demand for our services and products may lead to overcapacity of machinery and manpower, or if we fail to secure new projects, we may have to take measures to reduce our costs or may reduce our workforce. As a result, our profitability will be adversely affected. Furthermore, the estimated increase in costs without a corresponding increase in revenue will also adversely affect our financial positions be adversely affected.

**Negative publicity or damage to our business reputation may have potential adverse impact on our business**

Our Group relies heavily on our reputation and the reputation of our team as we generally obtain our contracts through customers who have experience and understanding in our quality of steel and metal products engineering services and products. Our Directors believe that within the steel and metal work industry, our Group has a good reputation of completing projects on time and to the satisfaction of our customers. Negative publicity associated with our Group and/or our team could lead to a loss of customers or increasing difficulty in securing new projects based on our reputation. If any customer who is not satisfied with our work, whether justified or not, raises any complaint regarding our Group which comes to the attention of the public, our existing or potential customers, our business, brand and reputation may be adversely affected, which will adversely affect our growth prospects and financial condition.



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## **RISK FACTORS**

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### **Industrial actions or strikes may affect our business**

During the Track Record Period, we did not encounter any strike action or other material labour disputes that have materially disrupted our operation in Hong Kong or the PRC. However, there is no assurance that industrial actions or strikes will not be launched in the future. Such industrial actions or strikes may adversely impact our business performance and hence the profitability and results of our operation. Any delay in completing our projects or meeting the production schedule caused by such actions or strikes may also be taken into consideration by our customers and thus will impact our likelihood of winning future tenders.

### **Our prospects may be adversely affected by natural disasters, act of terrorism, acts of God, and occurrence of epidemics**

Our business is subject to general economic and social conditions around the world, in particular in Hong Kong and the PRC. Natural disasters, epidemics, act of terrorism and other acts of God which are beyond our control, may adversely affect economies, infrastructure and livelihoods. Some regions in the PRC, including the city we operate, and Hong Kong, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics such as Severe Acute Respiratory Syndrome (“SARS”), Middle East Respiratory Syndrome (“MERS”), H5N1 avian flu, Ebola, as well as influenza caused by H7N9 and H3N2 or the human swine flu, also known as influenza A (H1N1) virus. In addition, previous occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in Hong Kong and the PRC. A recurrence of SARS or an outbreak of any other epidemics in Hong Kong and the PRC, such as the H5N1 avian flu, MERS or the human swine flu, could interrupt our operations or the services or operations of our suppliers and customers, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

### **Risk of uncertainties of our future plan**

Our Group’s future plans as described in “Future Plans and Use of Proceeds” are based on current intentions and assumptions. The future execution may be subject to capital investment and human resources constraints. Furthermore, our expansion plan may be affected by other factors beyond our control, such as the general market conditions and the economic and political environment of Hong Kong, the PRC and the world. Therefore, our expansion plan may not materialise in accordance with the timetable or at all.

## **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

### **Our performance depends on market conditions and trends in the overall economy**

All our steel and metal engineering services projects have been and is expected to be located in Hong Kong. The future growth and level of profitability of the construction industry, in particular steel and metal works, in Hong Kong depend primarily upon the continued availability of large development or construction projects. The nature, extent and timing of such projects depend on a variety of factors. These factors include, the Hong Kong Government’s spending patterns on the construction industry in Hong Kong and its land supply and public housing and public facilities

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## RISK FACTORS

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policies, speed of approval of the relevant budgets and/or projects, the investment of property developers and the general conditions and prospects of the Hong Kong economy. These may affect the availability of construction projects from the public sector or institutional bodies. Apart from the fluctuations in the public spending of the Hong Kong Government, other factors also affect the construction industry. These factors include cyclical trends in the economy as a whole and fluctuations in interest rates. If there is any recurrence of recession in Hong Kong, deflation or any changes in Hong Kong's current policy, or if the demand for construction works in Hong Kong deteriorates, our operations and profitability could be adversely affected.

### **The Hong Kong Government's budget and funding for civil engineering works projects may be adversely affected by lawmakers' filibustering in the Legislative Council**

During the Track Record Period, most of our revenue was derived from public sector projects. However, in recent years, filibustering by Hong Kong lawmakers has in certain cases led to the failure of or delay in the funding approval for certain Hong Kong Government projects by the committees of the Legislative Council. Therefore, there is a risk that the Hong Kong Government's budget and funding for construction projects (and/or for infrastructure or other public projects) may be delayed, reduced or otherwise adversely affected as a result of lawmakers' filibustering in the Legislative Council. Any delay or reduction in the Hong Kong Government's budget and funding may affect the timeliness of the settlement of our charge for completed works. In addition, there is also a risk that after being awarded with a government contract, the commencement date may be delayed and the scope of works may be reduced, or otherwise adversely affected as a result of lawmakers' filibustering in the Legislative Council. In such cases, our business and financial position and prospect could be materially and adversely affected.

### **Our operation may be affected by changes in existing laws**

Our operation is subject to certain laws and regulations of Hong Kong and the PRC. See "Regulatory Overview" for further details. Such laws and regulations may change from time to time to reflect the latest requirements and any changes may increase the cost incurred by us for due compliance. Failure to comply with and satisfy such laws and regulations may adversely affect our business and financial conditions and operating results.

## **RISKS RELATING TO DOING BUSINESS IN THE PRC**

### **Changes in the PRC's economic, political and social conditions as well as government policies, could adversely affect our business, financial condition, results of operations and prospects**

We have operations on manufacturing steel and metal products in the PRC and derive most of our raw materials from our suppliers in the PRC. Accordingly, our business, financial condition, results of operations and prospects are materially affected by the economic, political and social conditions in the PRC.

The PRC economy differs from most developed economies in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC economy has grown significantly in the recent decade, we

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## RISK FACTORS

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cannot assure you that such growth will continue. In response to the global economic downturn and market volatility, the PRC Government has lowered interest rates and announced large fiscal stimulus packages to boost the domestic economy. Recently, the PRC Government has taken measures to tighten the control over bank lending. Any adverse change in the economic, political and social conditions or government policies in the PRC could have a material adverse effect on overall economic growth, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

### **We are exposed to foreign exchange rate fluctuations and subject to the PRC Government's policies in currency conversion**

For the years ended 31 March 2016, 2017 and 2018, our Renminbi denominated costs, including direct costs and administrative expenses, amounted to approximately HK\$50.5 million, HK\$74.1 million and HK\$79.9 million, representing approximately 57.4%, 64.2% and 57.9% of our Group's total direct cost and administrative expenses, respectively. We currently plan to retain approximately 50% of the net proceeds from the Global Offering for our PRC operations. Our Renminbi denominated assets and liabilities are expected to significantly increase as we further expand our operations and machinery in the PRC. Therefore, we are subject to risks associated with foreign exchange rate fluctuations.

The value of Renminbi is subject to changes in the PRC's governmental policies and to international economic and political developments. There can be no assurance that the exchange rate of Renminbi will remain stable against the Hong Kong dollars. While the international reaction of Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further, and more significant, fluctuation in Renminbi against Hong Kong dollars or other foreign currencies. Further appreciation of Renminbi against these currencies may lead to an increase in costs of our PRC operations. Fluctuations in exchange rates may adversely affect the value, translated into Hong Kong dollars, of our net assets and earnings.

### **The PRC regulations of investment and loans by offshore holding companies to the PRC entities may delay or prevent our Company from using the proceeds of the Global Offering to make additional capital contributions or loans to members of our Group**

Any capital contributions or loans our Company, as an offshore entity, makes to our PRC subsidiary, including from the proceeds of the Global Offering, are subject to the PRC regulations. Furthermore, our Group's capital contributions to our PRC subsidiary must be registered at the State Administration of Industry and Commerce or its local counterpart and filed at the Ministry of Commerce of the PRC or its local counterpart. There is no assurance that we can complete these government registrations or the filings on a timely basis, if at all, with respect to future loans or capital contributions by our Company to finance our PRC subsidiary. If we fail to complete the filings or receive relevant registrations or approvals, its ability to capitalise our PRC subsidiary or fund their operation or to utilise the proceeds of the Global Offering in the manner described in "Future Plans and Use of Proceeds" may be adversely affected, which could adversely affect the liquidity of our PRC subsidiary, our Group's ability to grow through its subsidiaries' operation and its financial condition and results of operations.

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## RISK FACTORS

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### RISKS RELATING TO THE GLOBAL OFFERING

**As there has been no prior public market for our Shares before the Listing, the liquidity and market price of our Shares following the Listing may be volatile**

Before the Listing, there has not been a public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, which may differ from the market prices of our Shares after the Listing. There is no assurance that the Listing will result in the development of an active and liquid public trading market for our Shares following the Listing or in the future or, if it does develop, that it will be sustained after the Listing or that the market price of our Shares will not decline below the Offer Price. The market price, liquidity, and trading volume of our Shares may be volatile due to variations of our Group's revenue, earnings and cash flows or any developments and may result in substantial losses for investors purchasing the Offer Shares in the Global Offering. Factors that may affect the volume and price at which our Shares will be traded include:

- variations in our Group's results of operations;
- success or failure of our Group's management team in implementing stated business and growth strategies;
- gain or loss of an important business relationship(s) with our customers and/or suppliers;
- changes in securities analysts' recommendations, perceptions or estimates of our Group's financial performance;
- changes in conditions affecting the industry, the general economic conditions or stock market sentiment or other events and factors;
- changes in market valuations and share prices of companies that may be listed in Hong Kong;
- additions or departures of key personnel of our Group;
- fluctuations in market prices for our products and services;
- fluctuations in stock market prices and volume; or
- involvement in litigation.

We can give no assurance that these developments will not occur in the future.

**Investors for the Shares will incur immediate and substantial dilution and may experience further dilution in the future**

Investors may incur immediate and substantial dilution and may experience further dilution in the future. As the Offer Price of our Shares is higher than the net tangible assets per Share of our

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## RISK FACTORS

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Shares immediately prior to the Global Offering, investors of our Shares in the Global Offering could experience an immediate dilution in unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company of HK\$0.30 per Share (assuming an Offer Price of HK\$0.80 per Share, being the low-end of the indicative range of the Offer Share) and HK\$0.32 per Share (assuming an Offer Price of HK\$0.90 per Share, being the high-end of the indicative range of the Offer Price). If we issue additional Shares in the future, investors of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

**Further sales by our existing Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares**

We cannot assure investors that our existing Shareholders will not dispose of our Shares that they own following the expiration of their respective lock-up periods after completion of the Global Offering. We cannot predict the effect, if any, that any future sales of our Shares by any of our Controlling Shareholder, or the availability of our Shares for sale by our Controlling Shareholder may have on the market price of our Shares. Sales of substantial amounts of our Shares by our Controlling Shareholder or the market perception that such sales may occur, could materially and adversely affect the prevailing market price of our Shares.

**There can be no assurance that we will declare or distribute dividends in the future**

We declared nil, HK\$24.0 million and HK\$24.0 million for the years ended 31 March 2016, 2017 and 2018, respectively. See “Financial Information — Dividend and dividend policy” and “Appendix I — Accountants’ Report — Notes to the Historical Financial Information — Dividends” for further details. The declaration, payment and amount of any future dividends are subject to the discretion of our Board mainly depending on our Group’s results of operations, working capital and cash position, future business and earnings, capital requirements and contractual restrictions. We cannot assure investors when or whether we will pay dividends in the future.

**There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme and an impact on future earnings.**

We conditionally adopted the Share Option Scheme under which options to acquire Shares may be granted after completion of the Global Offering. See “Appendix IV — Statutory and General Information — D. Share Option Scheme” for principal terms of the Share Option Scheme.

The issue of Shares upon the exercise of any options which may be granted under the Share Option Scheme will result in an increase in the number of Shares in issue and may result in the dilution of the percentage of ownership of our Shareholders, the earnings per Share and net asset value per Share.

**Investors may face difficulties in protecting your interests because we are incorporated under Cayman Islands laws, and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions**

Our corporate affairs are governed by the Memorandum of Association, the Articles of Association and by the Cayman Companies Law and common law of the Cayman Islands. The laws

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## **RISK FACTORS**

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of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. These differences may mean that the remedies available to the minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. See “Appendix III — Summary of the Constitution of the Company and the Cayman Islands Companies Law” for details.

### **RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS**

#### **Investors should read the entire prospectus and should not rely on any information contained in press articles, websites or other media coverage regarding us and the Global Offering**

We strongly caution our investors not to rely on any information contained in press articles, websites or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there may be press, website and media coverage regarding the Global Offering and us. Such press, website and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press, website or media and do not accept any responsibility for any such press, website or media coverage or the accuracy or completeness of any such information or publication. We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media coverage, and such information that was not sourced from or authorised by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and our investors should not rely on such information. Accordingly, in all cases, prospective investors should give consideration as to how much weight or importance they should attach to, or place on, such press articles or other media coverage.

#### **We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to certain information obtained from official governmental and other sources contained in this prospectus**

Facts, statistical and forecast information relating to the respective economies and markets contained in this prospectus have been compiled from various publicly available official governmental sources and the independent industry report prepared by Frost & Sullivan. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. Although we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective affiliates or advisers or any other parties involved in this prospectus. Therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics. Such facts, forecasts and statistics include the facts, forecasts and statistics used in “Summary”, “Risk Factors”, “Industry Overview” and “Business”. Due to the possibility of flawed or ineffective collection

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## RISK FACTORS

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methods or discrepancies between published information and market practice and other problems, the statistics in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts or statistics.

No person is authorised to give any information in connection with this prospectus or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, our Controlling Shareholder, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters, any of our or their respective directors, officers, agents, employees, or advisers or any other party involved in this prospectus.

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

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters. The words “anticipate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, “shall”, “will” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward looking statements, including those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgement of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in “Risk Factors”. Accordingly, such statements are not a guarantee of future performance and investors should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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*The following information is provided for guidance only. Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable laws in the countries of their respective citizenship, residence and domicile.*

### 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 about our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

The Global Offering is made solely on the basis of the information contained and the representation made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein should not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or affiliates of any of them or any other person or party involved in the Global Offering.

### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is solely sponsored by Fortune Financial Capital. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Placing is expected to be fully underwritten by the International Underwriters. The Global Offering is subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed among our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), the Global Offering will not proceed and will lapse. For further information, see "Underwriting".



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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### RESTRICTIONS ON SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom.

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

**Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of the Offer Shares, to confirm, that he is aware of the restrictions on offer and sale of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.**

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of option which may be granted under the Share Option Scheme).

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

### REGISTER OF MEMBERS AND STAMP DUTY

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands, Conyers Trust Company (Cayman) Limited of Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Shares are freely transferable. Only securities registered on the branch register of member of our Company kept in Hong Kong may be traded on Main Board unless the Stock Exchange otherwise agrees.

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

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

Dealings in our Shares registered in the register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the value of our Shares being sold or transferred.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in our Offer Shares. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of the Offer Shares.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedure for applying for the Hong Kong Offer Shares is set out in "How to apply for the Hong Kong Offer Shares" in this prospectus and on the related Application Forms.

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in "Structure and Conditions of the Global Offering" in this prospectus.

### **COMMENCEMENT OF DEALINGS IN OUR SHARES**

Dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, 12 October 2018. Our Shares will be traded in board lots of 5,000 Shares each.

The stock code of the Shares is 1894.

### **CURRENCY TRANSLATIONS**

Unless the context requires otherwise, translation of RMB into HK\$ and MOP into HK\$ is made in this prospectus, for illustration purpose only, at the rates of RMB1.00 = HK\$1.25 and MOP1.00 = HK\$0.97. No representation is made that any amount in HK\$ or RMB could have been or could be converted at the above rate or at any other rate or at all.

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

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### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

### **ROUNDING**

Certain monetary amounts and percentage figures included in this prospectus have been subject to rounding adjustments or have been rounded to one or two decimal places; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, our Offer 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.

All necessary arrangements have been made for our Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

### **STABILISATION AND OVER-ALLOTMENT**

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the Underwriters may over-allot Shares or effect any other transactions with a view to stabilising and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the date of Listing. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action.

In connection with the Global Offering, our Company is expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Global Coordinators (on behalf of the International Underwriters) up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to issue at the Offer Price up to an aggregate of 28,500,000 Shares, representing 15% of the total number of Offer Shares initially available under the Global Offering, to cover over-allocations in the International Placing, if any.

For further details with respect to the Over-allotment Option and stabilisation, see “Structure and Conditions of the Global Offering — The International Placing — Over-allotment Option” and “Structure and Conditions of the Global Offering — Stabilisation”.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Lee Pui Sun (李沛新)	G-2/F 101 Shek Wu Wai San Tin, Yuen Long New Territories Hong Kong	Chinese
Lau Lai Ching (劉麗菁)	G-2/F 101 Shek Wu Wai San Tin, Yuen Long New Territories Hong Kong	Chinese
<i>Non-executive Director</i>		
Lee Ka Chun Benny (李嘉俊)	G-2/F 101 Shek Wu Wai San Tin, Yuen Long New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Au Yeung Wai Key (歐陽偉基)	Flat C, 29/F, Block 5 East Point City Tseung Kwan O Kowloon Hong Kong	Chinese
Hon Cheung Kwok Kwan, JP (張國鈞, 太平紳士)	Flat E, 11/F One Island Place 51 Tanner Road North Point Hong Kong	Chinese
Tse Ka Ching Justin (謝嘉政)	Flat A, 9/F Supernova 28 Mercury Street North Point Hong Kong	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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For further information on the profile and background of our Directors, see “Directors and Senior Management”.

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Sole Sponsor

#### **Fortune Financial Capital Limited**

*(A corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO)*

Units 4301-08 & 13  
43/F, COSCO Tower  
183 Queen’s Road Central  
Hong Kong

#### **Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

#### **China Industrial Securities International Capital Limited**

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

#### **Fortune (HK) Securities Limited**

Units 4301-08 & 13  
43/F, COSCO Tower  
183 Queen’s Road Central  
Hong Kong

#### **Promising Securities Company Limited**

22/F Chun Wo Commercial Centre  
23-27 Wing Wo Street  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Legal advisers to our Company

*As to Hong Kong law:*

**Khoo & Co.**

2/F, 5/F & 16/F, Tern Centre Tower 2  
251 Queen's Road Central  
Hong Kong

*As to the PRC law:*

**Deheng Law Offices (Shenzhen)**

11/F, Section B Anlian Plaza  
No. 4018 Jintian Road, Futian District  
Shenzhen 518026  
PRC

*As to the Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*As to the Inland Revenue Ordinance:*

**Ms. Sabrina S.Y. Ho**

(Barrister-at-law in Hong Kong)  
38/F Gloucester Tower  
The Landmark  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<b>Legal advisers to the Sole Sponsor and the Underwriters</b>	<p><i>As to Hong Kong law:</i> <b>Stephenson Harwood</b> 18/F, United Centre 95 Queensway Hong Kong</p> <p><i>As to the PRC law:</i> <b>China Commercial Law Firm</b> 21-23/F Hongkong China Travel Service Building No. 4011, Shennan Road Futian District Shenzhen PRC</p>
<b>Auditor and reporting accountants</b>	<p><b>Deloitte Touche Tohmatsu</b> <i>Certified Public Accountants</i> 35/F One Pacific Place 88 Queensway Hong Kong</p>
<b>Independent industry consultant</b>	<p><b>Frost &amp; Sullivan Limited</b> 1706, One Exchange Square 8 Connaught Place Central Hong Kong</p>
<b>Internal control consultant</b>	<p><b>Baker Tilly Hong Kong Risk Assurance Limited</b> 2/F 625 King's Road North Point Hong Kong</p>
<b>Receiving bank</b>	<p><b>DBS Bank (Hong Kong) Limited</b> 11/F, The Center 99 Queen's Road Central Central Hong Kong</p>

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## CORPORATE INFORMATION

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<b>Registered Office in the Cayman Islands</b>	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters and principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance</b>	Unit B, Upper G/F Stage 4 Yau Tong Industrial Building 18-20 Sze Shan Street Yau Tong Kowloon Hong Kong
<b>Company secretary</b>	Leung Wing Lun (梁穎麟), <i>HKICPA</i> Unit B, Upper G/F Stage 4 Yau Tong Industrial Building 18-20 Sze Shan Street Yau Tong Kowloon Hong Kong
<b>Authorised representatives (for the purpose of the Listing Rules)</b>	Lee Pui Sun (李沛新) G-2/F 101 Shek Wu Wai San Tin, Yuen Long New Territories Hong Kong  Leung Wing Lun (梁穎麟), <i>HKICPA</i> Unit B, Upper G/F Stage 4 Yau Tong Industrial Building 18-20 Sze Shan Street Yau Tong Kowloon Hong Kong
<b>Audit committee</b>	Tse Ka Ching Justin ( <i>Chairman</i> ) Au Yeung Wai Key Hon Cheung Kwok Kwan, <i>JP</i>
<b>Remuneration committee</b>	Au Yeung Wai Key ( <i>Chairman</i> ) Hon Cheung Kwok Kwan, <i>JP</i> Tse Ka Ching Justin
<b>Nomination committee</b>	Hon Cheung Kwok Kwan, <i>JP</i> ( <i>Chairman</i> ) Au Yeung Wai Key Tse Ka Ching Justin



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## CORPORATE INFORMATION

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<b>Compliance adviser</b>	<b>Fortune Financial Capital Limited</b> Units 4301-08 &13 43/F, COSCO Tower 183 Queen's Road Central Hong Kong
<b>Principal share registrar and transfer office in the Cayman Islands</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>Bank of China (Hong Kong) Limited</b> Bank of China Tower 1 Garden Road Central Hong Kong  <b>Bank of China Huizhou Lilin Branch</b> No. 60 Huizhang Road Lilin Town, Huicheng District Huizhou PRC  <b>Agricultural Bank of China Huizhou Lilin Branch</b> Tangjiao Station, Huizhang Road Lilin Town, Huicheng District Huizhou PRC
<b>Company's website address</b>	<i>www.hy-engineering.com (the information contained in this website does not form part of this prospectus)</i>

## INDUSTRY OVERVIEW

*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering (other than Frost & Sullivan) nor is any representation given as to its accuracy or completeness.*

### SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent industry consultant, to conduct an analysis of, and to prepare a report on the Hong Kong steel and metal engineering services market. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We agreed to pay Frost & Sullivan a fee of HK\$430,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of steel and metal engineering services market in Hong Kong for the prospective investors. The Frost & Sullivan Report includes information on the Hong Kong steel and metal engineering services market as well as other economic data, which have been quoted in the prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of steel and metal engineering services market in Hong Kong. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

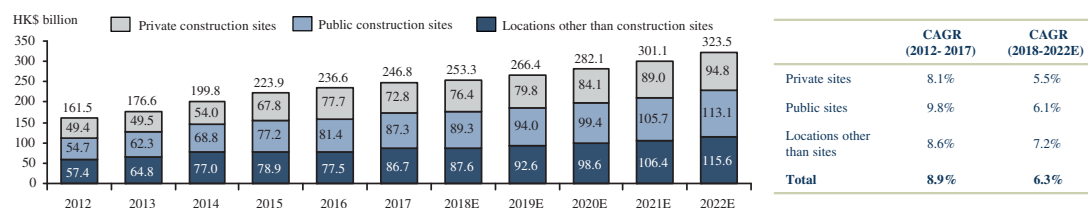
In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of steel and metal engineering services market in Hong Kong.

### OVERVIEW OF MACROECONOMIC ENVIRONMENT IN HONG KONG

#### Gross value of construction works performed

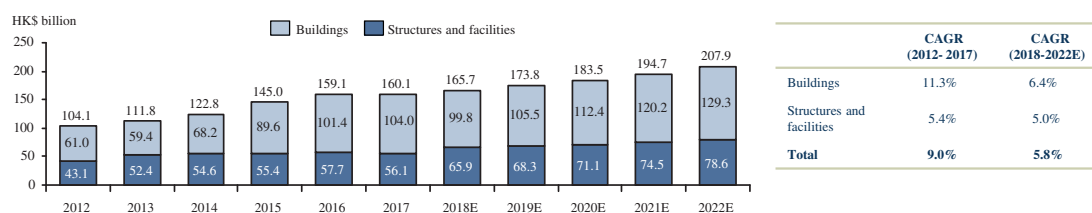
According to Census and Statistics Department, gross value of construction works performed by main contractors in Hong Kong demonstrated a steady growth from approximately HK\$161.5 billion in 2012 to approximately HK\$246.8 billion in 2017, representing a CAGR of 8.9%. The growth was primarily driven by the increase in construction activities for key infrastructure and property development projects. The gross value is expected to grow steadily at a CAGR of 6.3% during 2018 to 2022.

**Gross value of construction works performed by main contractors by broad trade group, 2012-2022E**



## INDUSTRY OVERVIEW

### Gross value of construction works performed by main contractors by end-user group under public and private sites, 2012-2022E



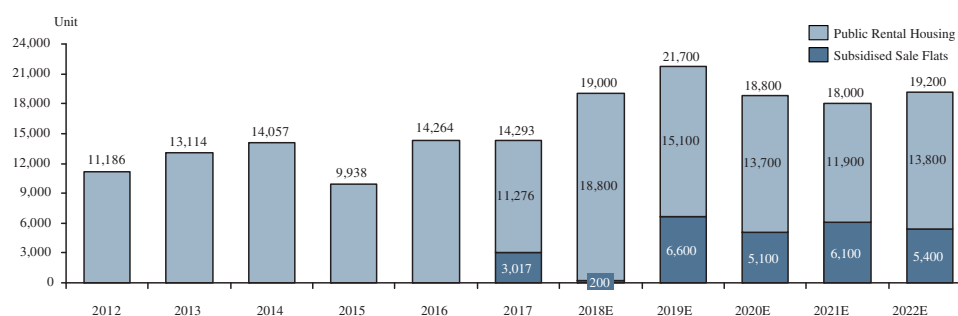
Source: Census and Statistics Department, Frost & Sullivan

### Public housing production

Following the announcement of Long Term Housing Strategy in December 2014, the supply of public rental housing units and subsidised sale flats is expected to increase. The total housing supply target for the ten-year period from 2017 to 2027 is approximately 460,000 units with a public/private split of 60:40, comprising 200,000 public rental housing units and 80,000 subsidised sale flats to cope with the growing demand from low-to-middle income families in Hong Kong. According to “Public Housing Construction Programme 2017-18 to 2021-22” released by Transport and Housing Bureau to Legislative Council Panel on Housing, the estimated housing production during 2018 to 2022 is approximately 96,800 units, comprising approximately 73,300 units of public rental housing and approximately 23,400 units of subsidised sale flats.

Furthermore, according to Frost & Sullivan Report, based on the estimation by Transport and Housing Bureau, the average annual public housing production under Housing Authority is expected to reach approximately 19,340 units during 2018 to 2022, which is higher than the average annual public housing production of approximately 12,809 units during 2012 to 2017. In addition, the average annual public housing production is expected to further increase to approximately 24,280 units during 2023 to 2027. As a result, the demand for steel and metal works engineering service in public housing is set to increase in the next five years.

### Actual public housing production under Hong Kong Housing Authority, 2012-2022E



Source: Hong Kong Housing Authority, Transport and Housing Bureau, Frost & Sullivan

## OVERVIEW OF STEEL AND METAL ENGINEERING SERVICES MARKET IN HONG KONG

### Definition and general categories of steel and metal works

Steel and metal works are generally defined as individual parts, large structures and assemblies specially designed and fabricated for buildings and facilities, which are made of metal (e.g. steel, stainless steel, cast iron, wrought iron and aluminium). Steel and metal works are generally rigid, well designed and even tailor-made to fit in the built structures based on certain specification. For illustration purpose, the steel and metal works referred herein exclude temporary steel and metal works such as temporary scaffolding, fencing, stands, temporary ladders and storage facilities in construction site, structural steels and steel and metal for infrastructures. Set out below are the major categories of steel and metal works for building and facilities. Steel and metal engineering services

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## INDUSTRY OVERVIEW

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generally cover (i) supply of materials, (ii) installation, (iii) testing, and (iv) repair and maintenance. According to Architectural Services Department, design, use of materials steel and metal works in Hong Kong shall comply with the British Standards published by the British Standards Institution and ISO standards by International Organisation for Standardisation.

Metal gates are considered as a key type of steel and metal works in Hong Kong, while roller shutters are generally categorised as a more specialised area of steel and metal works.

Steel and metal works are generally categorised as follows:

- (i) Metal gates: metal gates are generally installed at the entrance of premises, including residential flats, commercial buildings and institutional facilities such as schools. Particularly, collapsible gate is commonly installed in public rental housing in Hong Kong.
- (ii) Windows and doors: windows and doors are generally designed for security and decorative purposes. Steel and aluminium are key raw materials for windows and doors due to better resistance to corrosion and rigidity.
- (iii) Roller shutters: roller shutters refer to shutters consisting of a number of slats hinged on them, which serve as a protection against weather such as typhoon, wind, rain, fire and mechanical shock and protects the premises from vandalism and burglary attempts.
- (iv) Others: other common miscellaneous steel and metal works in Hong Kong include louvre frames, brackets, fencing, ceiling tiles, grates, post boxes, railing and posts, as well as metallic public facilities such as signages and poles.

Steel and metal works market in Hong Kong can be categorised into public and private sectors. Public sector projects for steel and metal works refer to projects commissioned by Hong Kong Government, MTR Corporation Limited and the Airport Authority, and construction works commissioning departments and statutory bodies of the Hong Kong Government include Hong Kong Housing Authority, Development Bureau, Civil Engineering and Development Department, Water Services Department and Hong Kong Housing Authority, as well as schools, educational institutions and universities, and properties owned and/or managed by Link Real Estate Investment Trust, excluding any infrastructures projects while private sector projects refer to construction works commissioned by individuals, privately owned property development companies and commercial enterprises.

### **Classification of roller shutters**

Roller shutters can be installed for a variety of premises such as garages, retail stores, schools, prisons and warehouses to offer protective functions. In Hong Kong, roller shutters can generally be divided into (i) fire-insulated shutters and (ii) security shutters, which are more commonly installed for exterior and interior applications in commercial properties. There are different forms of roller shutter based on mode of operation, including self-closing shutters, electrically operated shutters with tubular motors and shutters manually operated by an endless chain or counter-balancing spring. Set out below are the description of fire-insulated shutters and security shutters.

- (i) Fire-insulated shutters: fire-insulated shutters are specially designed and manufactured with metals (e.g. galvanised mild steel and aluminium) and fire and thermal insulation materials. Design, manufacturing and installation of fire-insulated shutters are required to comply with fire safety and building requirements. Generally, fire-insulated shutters in Hong Kong shall be tested and rated up to a maximum of 4 hours fire resistant level in compliance with the safety requirement specified in Codes of Practice for Minimum Fire Service Installations and Equipment and Inspection, Testing and Maintenance of Installations and Equipment issued by the Fire Services Department.
- (ii) Security shutters: security shutters can be installed in a variety of premises such as interior commercial stores, banks and showrooms, which are made of metals, plastics (e.g. polycarbonate) and fiber glass. Compared with fire-insulated shutters, security shutters are more diversified in terms of design and use of materials which give better appearance, and extended functionality such as fast closing and ultraviolet (UV) resistance as well as re-use and re-structure parts of shutter curtain in an environmental-friendly way.

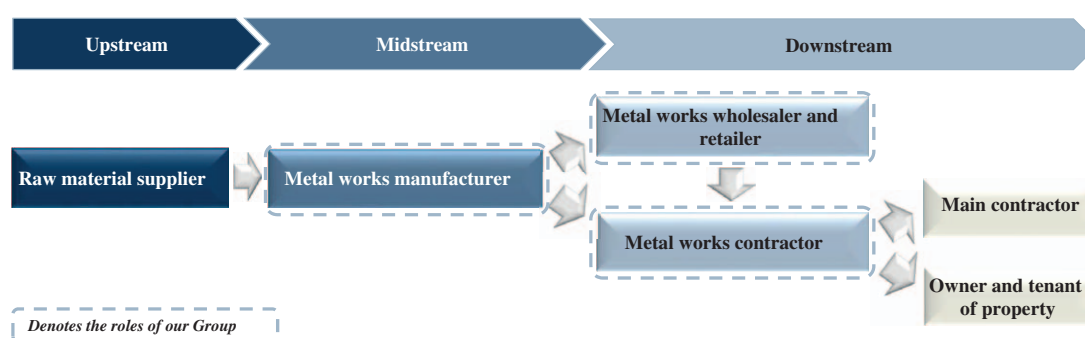
### **Value chain analysis**

Tendering is a common practice for selection of steel and metal works contractor in public sector in Hong Kong, while some steel and metal works contractors may undertake relevant specialised engineering services through main contractors in new construction projects. Upon tender award as

## INDUSTRY OVERVIEW

well as receiving the requirement and specification of steel and metal works from customers such as main contractors and property owners (e.g. Hong Kong Housing Authority or private property developers), steel and metal works manufacturer sources key raw materials including steel, iron and aluminium for fabrication and welding, and supply the finished products to (i) steel and metal works wholesalers and retailers for sales or (ii) steel and metal works contractors for installation. In general, a steel and metal works contractor is responsible for the subsequent testing and maintenance works for the installed steel and metal works. In particular, according to General Specification for Building issued by Architectural Services Department, steel and metal works contractors shall be responsible for defects or issues arising from defective materials, workmanship or design of the installed roller shutters.

Our Group mainly provides steel and metal engineering services for construction projects in Hong Kong and the sales of steel and metal products.



Source: Frost & Sullivan

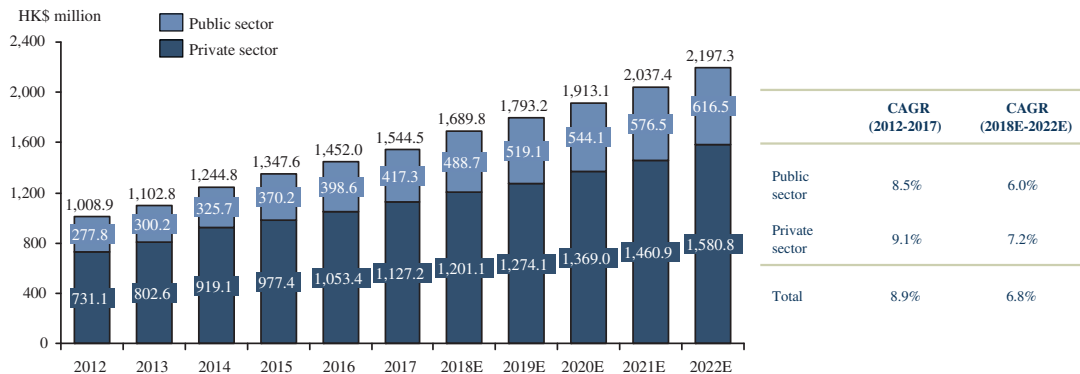
The gross profit margin of metal works engineering service in Hong Kong are considered relatively higher than the general construction work and engineering service (e.g. superstructure works, substructure works and building construction works) as metal works engineering service generally possess the requisite expertise and capabilities in product design and installation. In addition, metal works engineering service providers in Hong Kong generally provide one-stop service from material sourcing, design, fabrication to installation of metal works through their own manufacturing facilities. Furthermore, customers engaging metal works engineering service generally prefer established and renowned market participants in light of the concentrated nature of metal works engineering service market, hence with higher bargaining power and better control over production costs, metal works engineering service providers enjoy a relatively higher gross profit margin.

### Market size of Hong Kong steel and metal engineering services by revenue

The market size of steel and metal engineering services by revenue in Hong Kong witnessed a growth from approximately HK\$1.0 billion in 2012 to approximately HK\$1.5 billion in 2017, representing a CAGR of 8.9%. The growth was primarily driven by construction of new residential and commercial buildings, as well as demand for renovation works in public and private residential buildings. With the expected growth of building supply and maintenance works, the market size of steel and metal engineering services by revenue is expected to grow at a CAGR of 6.8% during 2018 to 2022, attaining approximately HK\$2.2 billion by 2022. The market size of steel and metal engineering services market by revenue in private sector, comprising residential and commercial buildings such as shopping malls, and public sector recorded a steady growth at a CAGR of 9.1% and 8.5% respectively during 2012 to 2017. In 2017, market size of steel and metal engineering services by revenue in residential properties accounted for approximately 65.6% in the overall public sector, representing a market value of approximately HK\$273.8 million.

## INDUSTRY OVERVIEW

### Market size of steel and metal engineering services by revenue, 2012-2022E



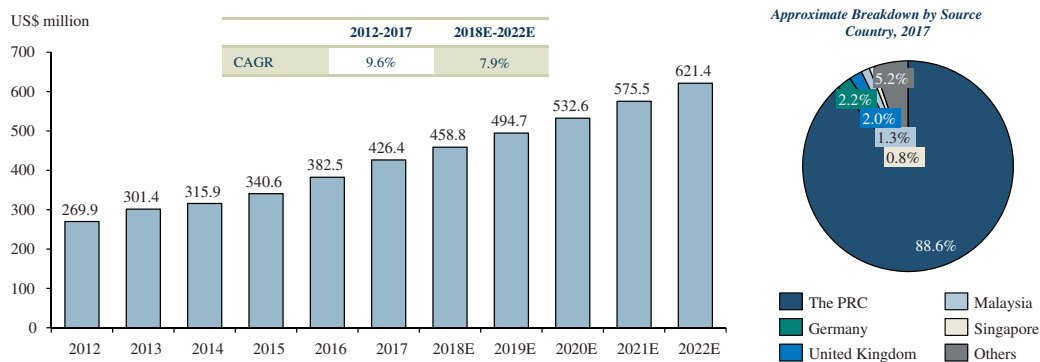
**Note:** Public sector projects for steel and metal works refer to projects commissioned by the Hong Kong government, such as Housing Authority, Architectural Services Department, Electrical and Mechanical Services Department, or other government-related organisations while private sector projects refer to non-governmental projects commissioned by individuals, private property developers, property owners and main contractors who are engaged in property development. According to Frost & Sullivan, the average annual public housing production under Housing Authority is expected to reach approximately 19,340 units during 2018 to 2022, which is higher than the average annual public housing production of approximately 12,809 units during 2012 to 2017. In addition, the average annual public housing production is expected to further increase to approximately 24,280 units during 2023 to 2027. As a result, the demand for steel and metal works engineering service in public housing is set to increase in the next five years.

Source: Frost & Sullivan

### Import value of steel and metal products in Hong Kong

Attributable to the increasing demand for steel and metal products from development and construction of buildings and facilities, the import value of steel and metal products in Hong Kong witnessed a steady growth from approximately US\$269.9 million in 2012 to approximately US\$426.4 million in 2017, representing a CAGR of 9.6%. The import value of steel and metal products in Hong Kong is expected to grow at a CAGR of 7.9% during 2018 to 2022. The PRC is the major source country for steel and metal products in Hong Kong, which accounted for approximately 88.6% of total import value of steel and metal products in Hong Kong in 2017.

### Import value of steel and metal products, 2012-2022E



**Notes:** Data are extracted from Trade Map under HS Code 7308 Structures and parts of structures.

Source: Trade Map, Frost & Sullivan

### Sales value of metal gates in Hong Kong

Attributable to increase in demand for metal gates from replacement scheme for metal gates and doors in public housing flats and construction of new residential buildings, the sales value of metal

## INDUSTRY OVERVIEW

gates in Hong Kong registered a significant growth from approximately HK\$397.5 million in 2012 to approximately HK\$650.0 million in 2017, representing a CAGR of 10.3%. With the continuous growing demand for metal gates from increasing supply of new buildings as well as regular renovation and maintenance works in old aged residential buildings such as the five-year replacement scheme of old type collapsible gate launched by the Hong Kong Housing Authority in public rental housing starting from 2015, the sales value of metal gates is expected to increase at a CAGR of 8.6% during 2018 to 2022.

**Sales value of metal gates (Hong Kong), 2012-2022E**



Source: Frost & Sullivan

### Market drivers

*Expediting land planning and development* — to address the rising needs of housing, Hong Kong Government has been formulating policies to build more public rental housing units and to ensure the effective use of land resources. The key measures include provision of more subsidised sale flats, expansion of the forms of subsidised home ownership and facilitating the market circulation of existing housing stock. In the long run, the Hong Kong Government plans to stabilise the residential property market through steady land supply, appropriate demand-side management measures, and promotion of good sales and tenancy practices for private residential properties. The Hong Kong Government has also adopted a housing supply target of approximately 480,000 units for the ten-year period from 2015-16 to 2024-25. Accordingly, the demand for metal gates, shutters and doors is expected to increase as provision of steel and metal engineering services are generally required for newly built housing units.

*Renovation needs underpinned by public housing maintenance and improvement* — in light of the ageing public housing units, the Hong Kong Housing Authority has introduced various maintenance and rejuvenation programmes, namely Comprehensive Structural Investigation Programme (“CSIP”), Estate Improvement Programme (“EIP”) and Total Maintenance Scheme to constantly upgrade the estate facilities to meet the residents’ needs. The CSIP ascertains the structural safety of public rental housing estates with around 40 years old while EIP features the provision of new facilities and upgrade of common areas. To enhance the sustainability of public housing estates and living standard of tenants, the Hong Kong Housing Authority launched a five-year programme to replace the old-type see-through collapsible gates of approximately 176,300 households in 101 public rental housing estates and unsold flat at Tenants Purchase Scheme estates starting from 2015 at an estimated cost of approximately HK\$607 million. According to 2017/2018 Corporate Plan of Hong Kong Housing Authority, replacement of collapsible gates for approximately 27,000 households, out of the 40,000 planned households under the replacement scheme during 2016/2017, had been completed under the replacement programme as of September 2016. The renovation and refurbishment project of public housing and facilities creates higher demand for steel and metal engineering services, particularly metal gates, shutters and doors, staircase handrails and structural frames.

*Sustainable development of commercial property amid increasing competition* — in Hong Kong, the property managers and property developers are operating a diversified portfolio of retail stores and commercial facilities such as offices and hotels to create a better experience for tenants and visitors. With the increasing competition among retailers, renovation works are regularly performed to improve the existing facilities and enhance the overall value of the commercial properties, which in turn bring immense business opportunities to commercial tenants while maximising the investment returns of

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## INDUSTRY OVERVIEW

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property developers. Shopping malls are no exception and saw the robust needs for renovation in recent years. Renovation and fitting out works are performed for common areas, new retail shops, food and beverage shops and the associated facilities, such as metal gates, doors, louvre frames, brackets, fencing and ceiling tiles. It is expected that the sustained development of commercial property would continue to drive the needs for design, manufacture, supply, installation and maintenance of steel and metal works in Hong Kong.

### **Market trend**

*Ageing buildings with mandatory inspection policies* — as set out in the Mandatory Building Inspection Scheme issued by Buildings Department, owners of buildings aged 30 years or above and served with statutory notices are required to appoint a Registered Inspector to carry out the prescribed inspection and supervise the prescribed repair works found necessary of the common parts, external walls and projections or signboards of the buildings. Under the Mandatory Window Inspection Scheme, owners of buildings aged ten years or above and served with statutory notices are required to appoint a Qualified Person to carry out the prescribed inspection and supervise the prescribed repair works found necessary of all windows of the building. As estimated, there are approximately 30,000 buildings aged 50 years or above in 2017, and the number is set to multiply in the future. To upgrade the fire safety standards and the living environment of the aged buildings, replacement and upgrade of steel and metal works are expected, which contribute to the growing demand for fire-insulated shutters, windows and metal doors.

*Rising trends in vertically-integrated engineering* — with the increasing competition and higher customer expectation, steel and metal works engineering companies are integrating the business model as one-stop solution providers in the overall project implementation, including design, materials supply, planning, coordination, monitoring and supervision for the whole construction period until completion. Provision of comprehensive engineering services becomes a rising trend in Hong Kong. The vertically-integrated engineering services not only reduce operational risks associated with each specific line of business but also enable the engineering company to capture business opportunities in a broader scope of business effectively and at a competitive pricing. Meanwhile, the vertically-integrated workflow and design of steel and metal works, such as electrically operated roller shutters with alert function, contribute to development of smart building in the aspect of electrical and mechanical engineering. This creates new growth opportunities for steel and metal works engineering companies with product innovation and product compatibility in new building design.

### **Future opportunities and challenges**

*Continued urban renewal and redevelopment* — the rising number of ageing buildings in Hong Kong has prompted the redevelopment of community by renovation and demolition of existing buildings and facilities. As the urban renewal would bring a number of redeveloped buildings to the market, engineering services would be in high demand. According to the Urban Renewal Authority, over 60 redevelopment projects had been implemented, providing about 26,000 square metres of open space, some 53,000 square metres of government/institution and community facilities as well as about 18,000 new residential units and approximately 400,000 square metres of commercial areas. Metal gates, shutters and doors are expected to be replaced, renovated and maintained in the redevelopment projects. Thus, the ongoing urban renewal serves as a good opportunity for steel and metal works manufacturers and engineering companies in Hong Kong.

*Rising cross-region development* — it is observed that there is a growing number of engineering services providers in Hong Kong are expanding their business into other regions, such as the PRC and Macau, by leveraging the long-established business networks and sound track record. In view of the sustained property development in the PRC and Macau, the growth of this region would serve as the potential business opportunity for the Hong Kong based engineering services providers, including construction, renovation, maintenance, alteration and addition works. The demand for steel and metal works is expected to rise accordingly.

*Reliance on property market* — the steel and metal works market in Hong Kong is highly associated with the development of the property market and government policies, especially in land supply, planning and building maintenance, as well as fire safety requirements. The tightening building safety standards and supportive renovation schemes in both public and private residential flats would drive the demand for steel and metal works. Urban renewal and building construction show a positive correlation with the needs for steel and metal works in the redevelopment and refurbishment of the buildings and associated facilities. As such, the over-reliance on the property market may impact the development of steel and metal works industry in Hong Kong.



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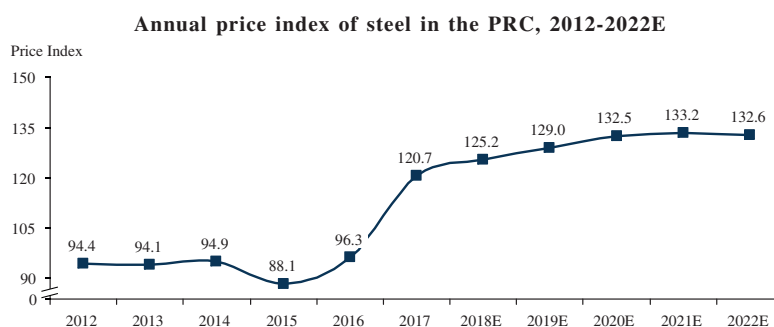
## INDUSTRY OVERVIEW

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*Rising cost of operation* — the urban renewal and rising land supply have increased the demand for construction works and labour. The average salary of employees in steel and metal works industry, including project managers, foremen and workers, recorded a significant growth from 2012 to 2017. Coupled with the surging demand for construction works in Hong Kong, the ageing and limited pool of workforce is likely to heighten the imbalance, which further increases the wage rate of the industry. As a result, higher cost of operation may impact on the profitability of steel and metal works engineering companies in Hong Kong.

### Price trend of raw materials

Steel is the key raw material for manufacturing steel and metal works. Due to higher availability and overcapacity of manufacturing industry in the PRC in recent years, the price of steel registered an overall decline during 2012 to 2015 with a recovery during 2016 to 2017. The price index of steel is expected to achieve a moderate growth during 2018 to 2022.



Source: Frost & Sullivan

### Labour cost of steel and metal works manufacturing in the PRC

The steel and metal works manufacturing industry is considered as labour intensive while the labour cost constitutes a key cost factor to manufacturers. According to National Bureau of Statistics of China, the average annual wage of employed persons in urban areas in manufacturing industry in the PRC registered a significant growth from approximately RMB41,650 in 2012 to approximately RMB64,346 in 2017, representing a CAGR of 9.1%. The average annual wage of employed persons in urban areas in manufacturing industry in the PRC is forecasted to maintain the growth at a CAGR of 8.0% from 2018 to 2022.

### Labour cost of steel and metal workers in Hong Kong

Benefited from the steady growth of steel and metal works industry in Hong Kong, the average daily salary of steel and metal workers in Hong Kong increased from approximately HK\$870.9 in 2012 to approximately HK\$1,194.2 in 2017, representing a CAGR of 6.5%. With the sustained development in the construction market and growing demand for steel and metal engineering services, the average daily salary of metal workers in Hong Kong is likely to increase at a CAGR of 5.4% during 2018 to 2022, reaching approximately HK\$1,544.8 by 2022.

### Average monthly salary of project manager and foreman in construction industry

The average monthly salary of project manager and foreman in construction industry increased from 2012 to 2017 at a CAGR of 3.2% and 5.7% respectively. The growth was attributable to the sustained new building construction, urban renewal and mandatory building inspections, which in turn increased the demand for management professionals in construction site.

## COMPETITIVE LANDSCAPE OF HONG KONG STEEL AND METAL ENGINEERING SERVICES MARKET

### Overview of market competition

The overall steel and metal engineering services market in Hong Kong is fragmented in terms of number of market participants. According to Frost & Sullivan, there were approximately 400 steel and metal works contractors registered with the Construction Industry Council and approximately 50 contractors were engaged in steel and metal works engineering service in public sector in 2017. Our Group ranked third in the overall steel and metal works engineering service market in Hong Kong in terms of revenue in 2017, with an estimated market share of approximately 8.6%.

## INDUSTRY OVERVIEW

### Leading Steel and Metal Works Engineering Services Providers (Hong Kong), 2017

Rank	Market player	Estimated revenue (in HK\$ million), 2017	Market share (%), 2017
1	Company C	213.5	13.8%
2	Company D	151.6	9.8%
<b>3</b>	<b>Our Group</b>	<b>133.1</b>	<b>8.6%</b>
	Subtotal	498.2	32.3%
	Others	1,046.3	67.7%
	Total	1,544.5	100.0%

*Note:*

- (i) Company C is a private company established in 2000 with main focus in provision of steel and metal works engineering service for private residential properties and commercial buildings. Company C also provides other construction works such as excavation, shoring, strutting, fire protection and spray work.
- (ii) Company D is a steel and metal works company established in 1991 in Hong Kong and is renowned for supply and installation of fire-rated stainless steel doors.

*Source: Frost & Sullivan*

The steel and metal engineering services market in public sector is relatively concentrated and the aggregate market share for the top three market participants reached approximately 57.1% in 2017. Our Group was the largest steel and metal engineering services provider in the overall public sector with a market share of approximately 31.9% in 2017. In addition, our Group had supplied approximately 24,500 sets of collapsible gates to the public rental housing estates under the collapsible gate replacement scheme launched by the Hong Kong Housing Authority for the year ended 31 March 2017, which accounted for a market share of approximately 61.3% of households under the replacement scheme in terms of number of collapsible gates supplied for the year ended 31 March 2017.

### Leading Steel and Metal Works Engineering Services Providers in Public Sector (Hong Kong), 2017

Rank	Market player	Estimated revenue (in HK\$ million), 2017	Market share (%), 2017
<b>1</b>	<b>Our Group</b>	<b>133.1</b>	<b>31.9%</b>
2	Company A	76.0	18.2%
3	Company B	29.3	7.0%
	Subtotal	238.4	57.1%
	Others	178.9	42.9%
	Total	417.3	100.0%

*Note:*

- (i) The revenue of our Group is based on year ended 31 March 2018. According to Frost & Sullivan, our Group, Company A and Company B are the notable steel and metal engineering service providers in the public sector, while the market share of other market participants are relatively small or without strong presence in provision of steel and metal engineering service in public sector.
- (ii) Company A was established in 2006 and principally provides steel and metal engineering services in public and private sectors.
- (iii) Company B was established in 1997 and principally provides concrete precast units, steel moulds, metal products and office partition with production facilities established in Shenzhen, the PRC. Company B is an operating subsidiary of a listed construction company in Hong Kong with presence in public housing development projects.

*Source: Frost & Sullivan*

### **Factors of market competition**

*Service level* — steel and metal works manufacturers are required to achieve timely delivery and installation of finished products in order to facilitate the completion of interior construction of new buildings and facilities. In particular, fire safety and integrity testing by third party (e.g. Hong Kong Laboratory Accreditation Scheme (HOKLAS) accredited laboratory) is mandatory prior to installation of roller shutters while any delay in service delivery may result in potential delay of construction projects due to the fact that specific inspection period is required before hand-over of finished buildings from contractors to property owners.

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## INDUSTRY OVERVIEW

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*Product design* — a variety of steel and metal works such as windows, doors, gates, fences and security shutters are considered as decorative items in residential units and commercial stores, which are often tailor made with diversified specifications, materials and appearance to meet the demand from various customers. Some of the specialised steel and metal works, such as fire-insulated shutters, required in-house research and development effort by manufacturers and patented. Generally, given that patents for certain developed products may expire, continuous effort on product development is required by manufacturers to enrich the product portfolio and maintain competitiveness in market, particularly for those market participants focusing on wholesale and retail market of steel and metal works.

*Product quality* — steel and metal works are characterised with durability and serve as protection to premises. Customers generally expect steel and metal works to be in high quality without the need of frequent additional repair and maintenance works. Customers of roller shutters (e.g. garages and commercial store operators) put high emphasis on quality and integrity of shutters against external shock and impact while high quality product contribute to long term protective function and minimize the cost of remediation and even loss of property resulted from product defects.

*Price* — competitive pricing is generally preferred by customers such as retail customers and main contractors. Particularly, lower price of procurement for construction materials is favourable for upper level contractors to minimise construction cost and contributes to higher profit level. For steel and metal works wholesalers and retailers, price becomes a key considering factor for individual consumers due to the fact that the market is highly fragmented and options of steel and metal works are easily accessible in different steel and metal works retailers in Hong Kong.

### ***Entry barrier***

*High capital investment and operation cost* — steel and metal works manufacturing requires substantial upfront cost for establishing production facilities, recruitment of workers, purchasing and installation of equipment, machineries as well as operation cost such as procurement and transportation cost. As a specialised area of engineering services, steel and metal engineering services providers are required to hire sufficient number of relevant management professionals (e.g. project managers and foreman), quality specialists and on-site specialised workers (e.g. metal workers) prior to commencement of business, which may incur additional labour cost.

*Industry knowledge and compliance with regulations* — steel and metal works are often tailor made and designed based on actual structure of buildings while assembly and installation are usually taken place in on-site environment, which require specific industry know-how on product design, manufacturing and installation. Specifically, certain common steel and metal works including metal window, doors and roller shutters shall be designed to comply with regulations issues by authorities and departments, such as Code of Practice on Wind Effects, Code of Practice for Installation of Electrically Operated Sliding Gates, Sliding Glass Doors and Rolling Shutters published by the Electrical and Mechanical Services Department, as well as Code of Practice for Fire Safety in Buildings issued by Buildings Department. The Architectural Services Department also issued stringent regulations covering design, drawings, samples, manufacturing and materials for steel and metal works. Hence, new entrants without industry knowledge and competency are unable to deliver quality service in compliance with regulations.

*Reputation and relationship with key customers* — sizeable customers of steel and metal works manufacturers and engineering services providers, such as main contractors and property owners, generally show a strong preference towards established and renowned market participants with proven track record projects for supplying steel and metal works. In addition, maintaining a good business relationship with key customers serves as a key competency for established market participants with better access to market information, potential source of projects and tendering requirements. Particularly, main contractors or developers from private sector may have their own tender lists for sourcing suitable steel and metal works contractors. Hence, new entrants without proven track record or established business relationship may be hindered from access to potential projects.

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## **REGULATORY OVERVIEW**

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This section sets forth a summary of the principal laws and regulations which are relevant to our business in Hong Kong and the PRC.

### **HONG KONG LAWS AND REGULATIONS**

The following sets forth Hong Kong laws which have a material impact on our businesses conducted in Hong Kong.

#### **LABOUR, HEALTH AND SAFETY**

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

Section 43C of the Employment Ordinance provides that if any wages become due to an employee who is employed by a subcontractor on any work which the subcontractor has contracted to perform, and such wages are not paid within the period specified in the Employment Ordinance, such wages shall be payable by the principal contractor and/or every superior subcontractor jointly and severally. However, a principal contractor's liability shall be limited to (i) the wages of an employee whose employment relates wholly to the work which the principal contractor has contracted to perform and whose place of employment is wholly on the site of such work; and (ii) the wages due to such employee for two months without any deductions (being the first two months of the period in respect of which the wages are due).

Any employee who has outstanding wage payments from a subcontractor must serve a notice in writing on the principal contractor generally within 60 days after the wage due date. A principal contractor and superior subcontractor (where applicable) shall not be liable to pay any wages to the employee of its subcontractor if that employee fails to serve such notice.

Where applicable, within 14 days of receipt of such notice, the principal contractor shall serve a copy of the notice on every superior subcontractor to that subcontractor of whom it is aware. A principal contractor who without reasonable excuse fails to serve such notice on every superior subcontractor to that subcontractor shall be liable on conviction to a fine of HK\$50,000.

Additionally, under section 43F of the Employment Ordinance, if a principal contractor or superior contractor pays to an employee any wages under section 43C of the Employment Ordinance, such wages shall be a debt due by the employer of that employee to the principal contractor or superior contractor, as the case may be. The principal contractor or superior contractor may either (i) claim contribution from every superior subcontractor to the indebted employer or from the principal contractor and every superior subcontractor to the indebted employer, as the case may be; or (ii) deduct by way of set-off the amount paid by it from any sum due or may become due to the indebted employer in respect of the work to whom it has been subcontracted.

##### **Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong)**

The Construction Workers Registration Ordinance provides for the registration of construction workers and the regulation of construction workers personally carrying out construction works. Under the Construction Workers Registration Ordinance, a person shall not personally carry out on a construction site construction works unless the person is a registered construction worker of the Register of Construction Workers.

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Likewise, principal contractors/subcontractors/employers/controllers of the construction site are required to employ only registered construction workers. Any person who employs a person who is not a registered construction worker to personally carry out construction works on a construction site shall be guilty of an offence and shall be liable on conviction to a maximum fine of HK\$50,000. Likewise, subcontractors, among others, of the construction site are required to employ only registered construction workers.

As subcontractors, we may be a controller of a construction site. Pursuant to section 58(7), a controller of a construction site is required to:

- (a) establish and maintain a daily record that is in the specified form and contains information of the registered construction workers who (i) are employed by the controller or, if the controller is the principal contractor, by the subcontractor of the controller, and (ii) personally carry out on the site construction works; and
- (b) furnish the Registrar of Construction Workers in such manner as directed by the Registrar of Construction Workers with a copy of the record (i) for the period of seven days after any construction works begins on the site; and (ii) for each successive period of seven days within two business days following the last day of the period concerned, or within such further time as the Registrar may in any case below.

The Construction Workers Registration Ordinance also contains a “designated workers for designated skills” provision, which provides that only registered skilled or semi-skilled workers of designated trade divisions are permitted to carry out construction works on construction sites relating to those trade divisions independently. Unregistered skilled or semi-skilled workers are only allowed to carry out construction works of designated trade divisions (i) under the instruction and supervision of registered skilled or semi-skilled workers of relevant designated trade division(s); (ii) in proposed emergency works (i.e. construction works which are made or maintained consequential upon the occurrence of emergency incidents); or (iii) in small-scale construction works (e.g. value of works not exceeding HK\$100,000).

Stage 1 of the “designated workers for designated skills” provision, of which “designated works” will include construction, re-construction, addition, alternation and building services works, shall be implemented with immediate effect from 1 April 2017. Upon implementation of Stage 1 of the “designated workers for designated skills” provision pursuant to the Construction Workers Registration Ordinance, registered skilled and semi-skilled workers for designated trade divisions shall be included as registered construction workers of the Register of Construction Workers, and accordingly, subcontractors of construction sites are required to employ only registered skilled and semi-skilled workers for designated trade divisions to carry out construction works on construction sites relating to those trade divisions independently.

### **Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)**

Under the Employees’ Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of employment, the employer is generally liable

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to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. If an employee suffers incapacity or dies as a result of an occupational disease arising out of and in the course of employment, the employee is entitled to receive the same compensation as that payable to an employee injured in an occupation accident.

According to section 15 of the Employees' Compensation Ordinance, an employer must notify the Commissioner for Labour (as defined under the Occupational Safety and Health Ordinance) of a work accident by submitting a Form 2 within 14 days for general work accidents or within 7 days for fatal accidents. The employer must submit a Form 2 irrespective of whether the accident gives rise to any liability for the employer to pay compensation. If the occurrence of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of 7 and 14 days respectively, the Form 2 must be submitted not later than 7 and 14 days respectively, as the case may be, after the occurrence of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

Additionally, pursuant to section 24 of the Employees' Compensation Ordinance, a principal contractor shall be liable to pay compensation to the employees of its subcontractors who are injured in accidents arising out of and in the course of employment with the subcontractor. However, a principal contractor is entitled to be indemnified for such compensation by any person who would have been liable to pay compensation to the injured employee.

Under section 40 of the Employees' Compensation Ordinance, all employers, including contractors and subcontractors, are required to take out insurance policies to cover their liabilities in respect of injuries of all employees, including full-time and part-time, from accidents arising out of and in the course of employment. An employer who fails to secure an insurance cover shall be liable on conviction to a fine of HK\$100,000 and to imprisonment for two years.

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

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

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by: (i) providing and maintaining plant and work systems that do not endanger safety or health; (ii) making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances; (iii) providing all necessary information, instruction, training, and supervision for ensuring safety and health; (iv) providing and maintaining safe access to and egress from the workplaces; and (v) providing and maintaining a safe and healthy work environment.

Failure to comply with the above provisions constitutes an offence of which the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

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The Commissioner for Labour may also issue improvement notices against non-compliance of this Ordinance or the Factories and Industrial Undertakings Ordinance or suspension notice against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000, respectively and imprisonment of up to 12 months.

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

We have leased an office and is considered to be the occupier of such property under the Occupiers Liability Ordinance. As such, we are required to comply with the Occupiers Liability Ordinance, which regulates the obligations of a person or business occupying or having control of the premises on which injury resulting to persons or damage has been caused to goods or other property lawfully on the premises.

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

## **ENVIRONMENTAL PROTECTION**

### **Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)**

The Noise Control Ordinance controls the noise from construction, industrial and commercial activities. As a contractor, we are required to comply with the Noise Control Ordinance in carrying out general construction works. For construction activities that are to be carried out during restricted hours, construction noise permits are required from the Environmental Protection Department in advance.

Under the Noise Control Ordinance, noisy construction work and the use of powered mechanical equipment in populated areas are not permitted between 7 p.m. and 7 a.m. or at any time on general holidays, unless with a construction noise permit and the prior approval of the Noise Control Authority.

Any person who carries out noisy construction works without a construction noise permit commits an offence and shall be liable to a fine of HK\$100,000 on the first conviction and to a fine of HK\$200,000 on a second or subsequent conviction and in any case to a fine of HK\$20,000 for each day during which the offence continues.

### **Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)**

The nature of our business operations creates significant solid and chemical waste, and as a construction waste producer we are subject to the Waste Disposal Ordinance.

Section 16B of the Waste Disposal Ordinance strictly prohibits depositing construction waste disposal on private lots, unless (i) the total area on which the construction waste has been deposited within the lot does not exceed 20 m<sup>2</sup>; or (ii) the sole owner or all of the owners of the private lot has

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given valid permission for the depositing of construction waste on the private lot. Such permission must be in the specified form for the depositing of construction waste on a private lot under section 16C and must bear an acknowledgement by the Director of the Environmental Protection Department. The acknowledgement must be submitted at least 21 days before the intended date on which the depositing activity is to commence.

Any person who, except under and in accordance with an authorisation, does, causes or allows another person to do anything for which such authorisation is required, commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months for the first offence, and to a fine of HK\$500,000 and to imprisonment for 6 months for a second or subsequent offence.

The Construction Waste Disposal Charging Scheme has been established by the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, pursuant to which all construction waste to be disposed of in Government waste disposal facilities carry respective construction waste disposal charges. As a construction waste producer, we are required to, prior to using Government waste disposal facilities, pay applicable charges for such disposal. Construction waste is defined as any substance, matter or thing that is generated from construction works and abandoned, whether or not it has been processed or stockpiled before being abandoned.

For contracts with a value of HK\$1 million or above, it is the duty of the main contractor who undertakes construction works under a particular contract, within 21 days of the award of the contract, to establish a billing account with the Environmental Protection Department in respect of that contract and pay the prescribed charges for construction waste generated from works thereunder. For contracts with a value less than HK\$1 million, any person, including a subcontractor, may establish the account and make arrangements for the disposal of construction waste.

Under the Waste Disposal (Chemical Waste) (General) Regulation, any waste producer who produces or causes chemical waste to be produced is required to register as a chemical waste producer with the Environmental Protection Department. Chemical waste must be properly packaged, labelled and stored by chemical waste producers before transportation to designated disposal facilities by a licensed chemical waste collector.

Prior notification must be given to the Environmental Protection Department by us as a waste producer of the chemical waste, and the disposal must be in accordance with the directions issued by the Environmental Protection Department specifying the appropriate disposal facility for the waste and the date and time when the delivery of such waste should be made. Any person authorised to be the applicant on our behalf as a body corporate who fails to register as a chemical waste producer commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

Any person by reason of whose act, default or sufferance the nuisance arose or continues, or, if that person cannot be found, the occupier or owner of the premises on which the nuisance exists, who does not observe and comply with the nuisance notice could be held liable, where the premises are found to be in such a state so as to be a nuisance and injurious to health, or where the emission of dust from any building under construction or demolition is found to be in such a manner so as to be a nuisance, to a fine of up to HK\$10,000 and a daily fine of HK\$200.



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Additionally, any accumulation of water on any premises found to contain mosquito larvae or pupae is actionable under the Public Health and Municipal Services Ordinance, with a maximum penalty of HK\$25,000 upon conviction and a daily fine of HK\$450. Any accumulation of refuse which is a nuisance or injurious to health is actionable under the Public Health and Municipal Services Ordinance, with a maximum penalty of HK\$10,000 upon conviction and a daily fine of HK\$200.

Discharge of muddy water from a construction site is actionable under the Public Health and Municipal Services Ordinance. Maximum fine is HK\$50,000 (level 5) upon conviction.

It is the responsibility of the contractor of construction works to observe and comply with the Public Health and Municipal Services Ordinance.

### CONTRACTOR LICENSING REGIME AND OPERATION

#### Subcontractor Registration Scheme

Subcontractors in Hong Kong may apply for registration under the Subcontractor Registration Scheme managed by the Construction Industry Council. The Subcontractor Registration Scheme was formerly known as the Voluntary Subcontractor Registration Scheme.

Pursuant to a technical circular issued by the Works Branch of the Development Bureau on 14 June 2004 requires that all public works contractors with tenders to be invited on or after 15 August 2004 to employ all subcontractors registered from the respective trades available under the Voluntary Subcontractor Registration Scheme.

The Voluntary Subcontractor Registration Scheme was subsequently renamed to the Subcontractor Registration Scheme. All subcontractors registered under the Voluntary Subcontractor Scheme have automatically become registered subcontractors under the Subcontractor Registration Scheme. Subcontractors which are involved in, among others, structural and civil works in Hong Kong including foundation and piling, may apply for registration as a subcontractor under the Subcontractors Registration Scheme.

Where a contractor is to sub-contract/sub-let part of the public sector works involving trades available under the Primary Register (a list of companies registered in accordance with the Rules and Procedures for the Primary Register of the Subcontractor Registration Scheme), all subcontractors engaged shall be registered under the relevant trades in the Primary Register of the Subcontractor Registration Scheme.

Should the subcontractors further sub-contract any part of the public sector works subcontracted to them involving trades available under the Primary Register of the Subcontractor Registration Scheme, the contractor shall ensure that all such subcontractors are registered under the relevant trades in the Primary Register of the Subcontractor Registration Scheme.

### PRODUCT LIABILITY AND CONSUMER PROTECTION

#### Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)

There are several pieces of legislation dealing with general product safety requirements in Hong Kong, one of which being the Consumer Goods Safety Ordinance (the “CGS Ordinance”). Under the

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CGS Ordinance. all consumer goods (except those listed in the schedule of the CGS Ordinance) must comply with the general safety requirements or the safety standards and specifications approved by the Secretary for Commerce and Economic Development of Hong Kong.

The CGS Ordinance imposes a statutory duty on manufacturers, importers and suppliers to ensure that the consumer goods they supply are reasonably safe, having regard to all the circumstances, including (a) the manner in which, and the purpose for which, the consumer goods are presented, promoted or marketed; (b) the use of any mark in relation to the consumer goods and instructions or warnings given for the keeping, use or consumption of the consumer goods; (c) reasonable safety standards published by a standards institute or similar body for consumer goods of the description which applies to the consumer goods or for matters relating to consumer goods of that description; and (d) the existence of any reasonable means to make the consumer goods safer. The CGS Ordinance also provides a defence of due diligence.

Any person who supplies, manufactures or imports into Hong Kong unsafe goods commits an offence and is liable to a fine of HK\$100,000 and an imprisonment of one year on first conviction, and HK\$500,000 and two-year imprisonment on subsequent conviction. Those unsafe goods shall be liable to be destroyed.

The Consumer Goods Safety Regulation (Chapter 456A of the Laws of Hong Kong) requires that any warning or caution with respect to the safe keeping use, consumption or disposal of any consumer goods must be given in both Chinese and English. Further, the warning or caution must be legible and placed in a conspicuous position on the consumer goods themselves, on any package of the consumer goods on a label securely affixed to the package or on a document enclosed within the package.

### **Contractual obligations and the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)**

In Hong Kong, contracts for the sale of goods are mainly governed by the Sale of Goods Ordinance. The quality or fitness requirements of the goods supplied are often treated as an implied term of the sale contract; and that ordinance governs the meaning of certain implied conditions and warranties. The Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) regulates civil liability and has an impact on the effectiveness of any terms in the contract which seeks to avoid civil liability for breach of contract, negligence or other breaches of duty. Both of these statutes seek to supplement and codify the common law position and provide further protection to consumers or users as contracting parties,

### **Tortious obligations**

Besides contractual duties, there may also be duties of care owed by suppliers, manufacturers and importer of goods under the common law and in particular, under the law of negligence. For example, there is a duty of care owed by the importer and supplier of products and that duty is owed to consumers of such products. If a manufacturer, importer or supplier discovers or has reasons to believe that its product may be unsafe, he may have to cease to supply the product in its unsafe form. Where the risk of injury is high the required standard of care will also be high. Any person who undertakes to manufacture, import or supply a product, and who negligently performs his work and causes damage

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to other person or property, will be liable as a result. Some products may carry inevitable risk upon use. A dangerous product can be safe if sufficient precaution is taken in handling or use. hence there may be a duty to provide proper labelling, and adequate and clear instructions for handling and use of the product so as to warn the users of their products against a foreseeable danger.

### COMPETITION

#### Competition Ordinance (Chapter 619 of the Laws of Hong Kong)

The Competition Ordinance came into force on 14 December 2015. The Competition Ordinance prohibits certain restrictions on competition in Hong Kong by taking the form of two “conduct rules”: (i) first conduct rule: prohibits anti-competitive agreements if the object or effect of the agreement, concerted practice or decision is to prevent, restrict or distort competition in Hong Kong; and (ii) second conduct rule: prohibits a business with substantial market power to abuse the power if the object or effect of the conduct is to prevent, restrict or distort competition in Hong Kong. Furthermore, the Competition Ordinance has a merger rule which prohibits anti-competitive mergers and acquisitions that have or are likely to have the effect of substantially lessening competition in Hong Kong. Currently, the merger rule only applies to mergers involving carrier licence holders within the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

Although an exemption is available under the first conduct rule, where the combined turnover does not exceed HK\$200 million in a calendar year, this exemption does not apply if the conduct involves serious anti-competitive conduct such as price fixing.

Under the exemptions to the second conduct rule, if the conduct engaged in by an undertaking does not exceed HK\$40 million for the turnover period, it is exempted from the second conduct rule. Penalties for infringement that may be imposed by the competition tribunal includes, among others, pecuniary penalty (up to 10% of the turnover of the companies involved for up to three years in which the contravention occurs), financial penalty, disqualification order against a director and prohibition order.

### TRANSFER PRICING

#### Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

The Inland Revenue Ordinance (the “**IRO**”) contains the provisions relevant to pricing for intra-group transactions. It contains provisions which require the adoption of the arm’s length principle for pricing in transactions between associated enterprises.

Section 20(2) of the IRO provides that where a non-resident person conducts transactions with a “closely connected” resident person in such a way that if the profits arising in Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or her connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-resident person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person.

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Pursuant to section 20A of the IRO, a non-resident person shall be chargeable to tax in respect of such profits. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

In December 2009, the IRD released Departmental Interpretation and Practice Notes No. 46 (“DIPN 46”). DIPN 46 provides clarifications and guidance on the IRD’s views on transfer pricing and how it intends to apply the existing provisions of the IRO to establish whether related parties are transacting at arm’s length prices. In general the practices followed by the IRD would not differ from the transfer pricing methodologies recommended by the Organisation for Economic Cooperation and Development Transfer Pricing Guidelines.

Furthermore, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Amendment Ordinance**”) was passed on 4 July 2018. The main objectives of the Amendment Ordinance are to codify the transfer pricing principles and implement certain measures under the Base Erosion and Profit Shifting (“**BEPS**”) package promulgated by the Organisation for Economic Co-operation and Development such as the transfer pricing documentation requirements. The BEPS package seeks to counter the exploitation of gaps and mismatches in tax rules by multinational enterprises to artificially shift profits to low or no-tax location where there is little or no economic activity.

In particular, section 50AAF of the Amendment Ordinance codifies the arm’s-length principle and allows for an adjustment of a taxpayer’s profits upwards/losses downwards if the taxpayer has entered into transaction(s) with an associated person, and the pricing of such transaction(s) differs from that between independent persons and has created a Hong Kong tax advantage. Section 82A of the Amendment Ordinance stipulated that a person is liable to be assessed for penalties to additional tax of the amount of tax undercharged resulting from transfer pricing adjustments, unless it is proved that reasonable efforts have been made to determine the arm’s length price for the transaction(s). Pursuant to section 58C of the Amendment Ordinance Hong Kong entity engaged in transactions with associated enterprises will be required to prepare master and local files for accounting periods beginning on or after 1 April 2018, except where they meet either one of the following exemptions in respect of business size or relevant transaction volume:

Exemption based on size of business: Taxpayers meeting any two of the following conditions are not required to prepare the master file and local files:

- (i) Total revenue for the accounting period not exceeding HK\$400 million;
- (ii) Total assets at the end of the accounting period not exceeding HK\$300 million; or
- (iii) No more than 100 employees in average.

Exemption based on related party transactions: If the amount of a category of controlled transaction for the relevant accounting period is below the proposed threshold, an enterprise will not be required to prepare a local file for that particular category of transactions:

- (i) Transfer of properties (other than financial assets and intangibles): HK\$220 million;

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- (ii) Transaction of financial assets: HK\$110 million;
- (iii) Transfer of intangibles: HK\$110 million;
- (iv) Any other transaction (e.g., service income and royalty income): HK\$44 million.

### PRC LAWS AND REGULATIONS

Our business activities are partially based in the PRC. We are therefore required to comply with a number of PRC laws and regulations to carry out our operating activities. The relevant PRC laws and regulations applicable to the business of our Company and our PRC subsidiary are set out below.

### FOREIGN INVESTMENT

The establishment and registration of corporate entities in the PRC are governed by such applicable laws in the PRC as the Company Law of the PRC (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress of the PRC (the “**SCNPC**”) on 29 December 1993 and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, and the Regulations of the PRC on the Administration of Company Registration (中華人民共和國公司登記管理條例) (the “**Regulations on Company Registration**”), which was promulgated on 24 June 1994 and amended on 18 December 2005, 19 February 2014 and 6 February 2016. According to the PRC Company Law and the Regulations on Company Registration, except where laws on foreign investment stipulate otherwise, the PRC Company Law and the Regulations on Company Registration also apply to foreign-invested limited liability companies.

The establishment, alternation and approval procedures, and the registered capital requirements, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Foreign-invested Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, the Implementation Rules to the foreign-invested enterprise Law of the PRC (中華人民共和國外資企業法實施細則實施細則) (the “**Implementation Rules**”), which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014. The incorporation and change of a foreign-invested enterprise which does not involve the implementation of special access administrative measures prescribed by the state are regulated by the Provisional Administrative Measures on Filing for Establishment and Modifications of Foreign Investment Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by the Ministry of Commerce of the PRC (the “**MOFCOM**”) on 8 October 2016, being effective at the same day and subsequently amended on 30 July 2017.

Any investment in the PRC by foreign investors and foreign-owned enterprises (the “**Foreign Party**”) is governed by the Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) (the “**Provisions**”), which was promulgated on 11 February 2002 and came into effect on 1 April 2002, and the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Catalogue**”), which was promulgated and implemented on 28 June 1995, respectively amended in 1997, 2002, 2004, 2007, 2011, 2015 and 2017. The version of the Catalogue currently in effect was jointly promulgated by the MOFCOM and the National Development and Reform Commission (the “**NDRC**”) on 28 June 2017, effective from 28 July 2017.

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The Provisions and the Catalogue divide foreign investment industries into three categories: the encouraged industries, the restricted industries, and the prohibited industries, the latter two of which are subject to the special administrative measures on access to foreign investment. Industries listed in the encouraged category are opened to the foreign party who usually can further enjoy supportive policies of the local government. Investment in the restricted industries can only be conducted by the Foreign Party within the scope of the relevant regulatory authority's approval or in the form of Sino-foreign equity or contractual joint ventures (usually with Chinese investors as the majority shareholder required). Prohibited industries are closed to foreign investment. Industries which are not listed in the Catalogue are generally classified as the permitted category. As confirmed by our Group, our PRC subsidiary does not engage in any restricted or prohibited industries for foreign investment.

### IMPORTATION AND EXPORTATION OF GOODS

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), which was promulgated on 12 May 1994, amended on 6 April 2004 and 7 November 2016, and the Measures for the Record-keeping and Registration by Foreign Trade Dealers (對外貿易經營者備案登記辦法) (the “**Record-keeping and Registration Measures**”), which was promulgated on 25 June 2004 and came into effect on 1 July 2004 and subsequently revised on 18 August 2016, foreign trade dealers who are engaged in the import or export of goods or technologies shall register with the MOFCOM or its authorized bodies unless such registration is not required under the laws and administrative regulations and/or by the MOFCOM.

According to the Circular of the MOFCOM on Relevant Issues Concerning the Record Keeping and Registration of the Foreign Trade Right by Foreign-funded Enterprises (商務部關於外商投資企業外貿權備案登記有關問題的通知), which was promulgated and came into effect on 17 August 2004, when foreign-funded enterprises which were duly established before 1 July 2004 apply for the addition of any import/export business to its approved scope of business, they must, in accordance with the Record-keeping and Registration Measures, complete the formalities of business addition to the enterprises' business licenses and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration on the strength of the approval certificate for its establishment, business license with the business addition made, and any other document as required under the Record-keeping and Registration Measures.

Pursuant to the Customs Law of the PRC (中華人民共和國海關法) promulgated by the SCNPC on 22 January 1987, and subsequently amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted PRC Customs brokers that have registered with the PRC Customs. The consignees and consignors for import or export goods and the customs declaration enterprise shall register with the PRC Customs themselves for declaration activities at customs, and anyone who is not registered at the customs shall not conduct declaration activities.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (中華人民共和國海關報關單位註冊登記管理規定), which was promulgated and came into effect on 13 March 2014 and subsequently revised on 20 December 2017 and come into effect on 1 February 2018, “consignor or consignee of export or import goods” means

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any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import or export goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After completing the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. And a PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of two years.

Principal regulations on the inspection of import and export commodities are set out in the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法), which was promulgated by the SCNPC on 21 February 1989, amended on 28 April 2002, 29 June 2013 and 27 April 2018, and its implementation rules. According to the aforesaid law and its implementation rules, the Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) (the “**AQSIQ**”) shall be in charge of the inspection of import and export commodities throughout the country. The local inspection and quarantine authorities set up by AQSIQ shall be responsible for the inspection of import and export commodities within areas under their jurisdiction. The import and export commodities which are subject to compulsory inspection are listed in the catalogue compiled and readjusted by the State administration for commodity inspection. The inspection of the import and export commodities which are listed in such catalogue shall be conducted in accordance with the compulsory requirements of the technical regulations of the State by the commodity inspection authorities.

## TAXATION

### Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**EIT Law**”), which became effective on 1 January 2008 and amended on 24 February 2017, and its implementation rules, tax payers are divided into resident enterprise and non-resident enterprise. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC. A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not inside the PRC, but has offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has income originating from the PRC. A non-resident enterprise having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC as well as on incomes derived from outside the PRC but which has real connection with the said offices or establishments at the rate of 25%. A non-resident enterprise having no office or establishment inside the PRC, or whose incomes have no actual connection to its institution or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

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### 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) (the “**Provisional Regulations**”), last amended on 19 November 2017 and effective on the same day, and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, providing labour services of processing, repairs or maintenance, or selling services, intangible assets or real property in PRC or importing goods to PRC are required to pay value-added tax (the “**VAT**”). The tax rate of VAT under the Provisional Regulations is:

- (i) 17% for the sales of goods, labour services or tangible personal property leasing services or import goods other than disclosed as below;
- (ii) 11% for the sales of the service of transportation, posting, basic telecommunications, construction and leasing real estate, the sale of real estate and the transfer of land use right, or sell or import the goods listed below:
  - (a) such agricultural products as grain, edible vegetable oil, and common salt;
  - (b) tap water, heat supply, air-conditioning, hot water, gas, liquefied petroleum gas, natural gas, dimethyl ether, methane and civil-use coal products;
  - (c) books, newspapers, magazines, audio-visual products, and electronic publications;
  - (d) feeds, chemical fertilizers, pesticides, agricultural machineries and mulching films; and
  - (e) other goods specified by the State Council;
- (iii) nil for exporting good, unless otherwise specified by the State Council;
- (iv) nil for selling services or intangible assets by domestic entities and individuals under the scope specified by the State Council across borders; and
- (v) 6% for selling services or intangible assets other than disclosed above.

The Ministry of Finance and State Administration of Taxation (the “**SAT**”) published a Circular on Adjusting Value-added Tax Rates (財政部、稅務總局關於調整增值稅稅率的通知) on 4 April 2018 to announce that a taxpayer engages in a taxable sales activity for the VAT purpose or imports goods, the previous applicable tax rates 17% and 11% will be adjusted to 16% and 10% respectively. This Circular has come into force since 1 May 2018.

### Income tax on indirect property transfer by non-resident enterprise

Pursuant to the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (國家稅務總局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) (the “**Announcement No. 7**”)



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promulgated and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in the PRC resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in the PRC resident enterprise in accordance with Article 47 of the EIT Law. Section Two, Article Eight of the Announcement No.7 was later abolished by the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source (國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告), which was promulgated on 17 October 2017 and became effective on 1 December 2017. Article Thirteen of the Announcement No.7 was also abolished by the State Administration of Taxation on 29 December 2017.

### **Withholding tax on dividends**

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

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied for a party to a tax agreement to be entitled to the tax rate specified in the tax agreement for dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be the company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatments under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法) (the “**Administrative Measures**”), which was promulgated on 27 August 2015 and came into force on 1 November 2015, if the non-resident taxpayers are qualified for enjoying the favorable tax benefits under the tax arrangements, they could enjoy such benefits of themselves from the tax authority when they or their withholding agents make declarations to the relevant tax authority. Under the Administrative Measures, when the non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up management of the tax authority.

### **Export tax rebate**

According to the Provisional Regulations on VAT and the Notice of the Ministry of Finance and the SAT on the Policies of Value-added Tax and Consumption Tax Applicable to Exported Goods and Services (財務部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通知) which partially

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came into effect since 1 January 2011 and partially came into effect since 1 July 2012, goods and services exported by export-oriented enterprises shall be eligible for VAT exemption and rebate policies. In accordance with the Regulations on the export tax rebate rate, export commodities have different tax rebate rates depending on the different types, respectively 5%, 6%, 9%, 11%, 13%, 15% and 17%.

The Ministry of Finance and the SAT jointly published a Notice on Increasing the Export Tax Rebate Rates of Value Added Tax on Labor-intensive Commodities (財政部、國家稅務總局關於提高勞動密集型產品等商品增值稅出口退稅率的通知) on 17 November 2008, which increases the tax refund rate of mechanical and electrical products from 9% to 11%, 11% to 13%, and 13% to 14%.

### Transfer pricing

Pursuant to the Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation (國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告) which was promulgated by the SAT and became effective on 29 June 2016, any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in China and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any related party and attach thereto the Annual Report on the Related-party Transactions of Enterprises of the People's Republic of China (2016 version). Enterprises shall prepare contemporaneous documentation based on a tax year, and submit contemporaneous documentation for the related-party transactions according to the requirements of tax authorities.

The SAT have published an announcement on issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures (特別納稅調查調整及相互協商程序管理辦法) (the “**STA Measures**”) which came into effect from 1 May 2017. According to the STA Measures, the tax authorities exercise special tax adjustment monitoring and management of enterprises via review of the reporting of connected transactions, management of contemporaneous documentation, profit level monitoring and other means. When any enterprises are found to have special tax adjustment risks, they will send a Notice of Tax Matters to the enterprise, suggesting the existence of a tax risk. An enterprise may adjust and pay taxes at its own discretion when it receives a special tax adjustment risk warning or identifies its own special tax adjustment risks. The tax authorities may also carry out special tax investigation and adjustment in accordance with the relevant provisions in regard to enterprises that adjust and pay taxes at their own discretion.

## FOREIGN EXCHANGE

### Foreign currency exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “**Foreign Exchange Administration Rules**”), which was promulgated on 29 January 1996 and amended on 14 January 1997 and 1 August 2008. Under Foreign Exchange Administration Rules, the Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign

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exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfers, direct investment, investment in securities, derivative products or loans, unless prior approval of the State Administration of Foreign Exchange (the “SAFE”) or of its branches was obtained.

On 30 March 2015, SAFE promulgated Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment 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) to reform the management approach regarding the settlement of the foreign exchange capital of foreign-invested enterprises. The notice implemented a discretionary foreign exchange settlement where the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises.

On 9 June 2016, the SAFE further promulgated the Circular on Relevant Issues Concerning the Reform and Regulation of the Administrative Policies of the Conversion under Capital Items (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the “Circular No. 16”). The Circular No. 16 allows all enterprises including foreign invested enterprises to convert 100 percent (subject to future adjustment at discretion of SAFE) of the foreign currency capital in their capital accounts into RMB at their own discretion without providing various supporting documents. However, to use the converted RMB, an enterprise still needs to provide supporting documents and goes through the review process with the banks for each withdrawal. A negative list with respect to the usage of the capital and the RMB proceeds through the aforementioned settlement procedure is set forth under the Circular No. 16.

### Overseas investment by domestic residents

Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment and Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies (國家外匯管理局關於境內居民通過特殊目的公司境外投資融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular No. 37”), which was promulgated and effective on 4 July 2014, replaces Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular No. 75”). According to SAFE Circular No. 37, prior to making contribution to a Special-Purpose Company with legitimate holdings of domestic or overseas assets or interests, a Mainland resident shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. After a SPC has completed overseas financing, if the funds raised are repatriated to the Mainland for use, relevant Chinese provisions on foreign investment and external debt management shall be complied with.

Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the

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relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also incur penalties under PRC foreign exchange administration regulations to relevant domestic resident.

On 13 February 2015, SAFE promulgated the Circular on Further Simplifying and Improving Direct Investment-related Foreign Exchange Administration Policies (Huifa [2015] No. 13) (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**Circular No. 13**”), which went into effect on 1 June 2015. Circular No. 13 simplifies the foreign exchange registration procedures for foreign direct investment and overseas direct investment, enables enterprises to handle it in a designated foreign exchange bank, and abolishes the capital contribution confirmation registration procedures. The foreign exchange registration procedure for direct investment is delegated to local banks which, after reviewing the documents a foreign-invested enterprise submits, will complete the registration through the online Capital Account Information System managed by SAFE.

### MARKET COMPETITION AND PRODUCT QUALITY

#### Anti-Unfair market competition

Competitions among the business operators in the PRC are generally governed by the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) (the “**Anti-Unfair Competition Law**”), which was last amended on 4 November 2017 and effective as of 1 January 2018.

According to the Anti-Unfair Competition Law, corporations, other economic organisations and individuals who are carrying out production or business activities shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognized business ethics. Operators shall not conduct acts that damage the lawful rights and interests of other operators or that disrupt the competition order in the market. Such acts include, but do not limit to, counterfeit, libel, commercial bribery and secret infringement.

#### Product quality

Product quality supervision in the PRC is generally governed by the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and subsequently amended on 8 July 2000 and 27 August 2009. Producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

Under the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the producer as well as the seller. The producer and the seller shall be jointly liable for the compensation. In case of violations of the Product Quality Law, the responsible authorities have the right to impose fines on the violators, order them to suspend operation, and revoke their business licenses. In serious cases, even criminal liability may be incurred.

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### ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”) was promulgated on 26 December 1989 and subsequently amended on 24 April 2014 and became effective on 1 January 2015. The Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (the “**Administration Regulations**”) was promulgated and became effective on 29 November 1998, and subsequently amended on 27 February 2003 and 16 July 2017. According to the Environmental Protection Law and the Administration Regulations:

- (a) enterprises, public institutions and other producers and business operators that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation, etc. generated during production, construction or other activities.
- (b) a statement on environmental impact should be compiled for a construction project that may cause light impact on the environment, giving analysis or special-purpose evaluation of the pollution generated and environmental impact caused by the construction project; and a registration form should be filled out and submitted for a construction project that has slight impact on the environment and necessitates no environmental impact evaluation; and
- (c) the enterprises, public institutions and other producers and business operators shall discharge pollutants according to pollutant emission license and shall not discharge pollutants without obtaining the pollutant emission license.

Where an enterprise, public institution or other producer or business operator is fined and ordered to make correction due to illegal discharge of pollutants but refuses to make correction, the administrative organ that makes the punishment decision pursuant to the law may impose the fine thereon consecutively on a daily basis according to the original amount of the fine commencing from the date immediately following the date when it is ordered to make correction. Where an enterprise, public institution or other producer or business operators discharges pollutants in excess of the pollutant emission standards or the control targets for total emission volume of major pollutants, the competent departments for environmental protection of the people’s governments at or above the county level may order it to restrict production, stop production for rectification or take any other measures, or, if the circumstances are serious, may order it to stop operations or close down after such an order has been reported to the people’s government with approval authority for approval.

According to the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法) and Regulation on the Implementation of the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法實施條例) which became effective from 1 January 2018, within the territory of the PRC and other sea areas under the jurisdiction of the PRC, the enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment are taxpayers of environmental pollution tax, and shall pay environmental pollution tax in accordance with the provisions of them.

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### LAWS AND REGULATIONS RELATING TO FIRE SAFETY AND PRODUCTION SAFETY

#### Fire safety

According to the Fire Control Law of the PRC (中華人民共和國消防法), which was promulgated on 29 April 1998 and amended on 28 October 2008, the fire safety facility design and construction of a construction project shall conform to the state technical standards on fire control. The construction, design, contractor and the supervision units shall be legally liable for the quality of the fire safety design and construction of the project. Upon the completion of a construction project containing a fire control design conducted in accordance with requirements of the State Technical Standards on Fire Control for Engineering Construction, the project must go through acceptance check or filing on fire control in accordance with the relevant provisions.

#### Production safety

According to the Production Safety Law of the PRC (中華人民共和國安全生產法), which was promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, production units shall comply with this law and other laws and regulations relevant to production safety, strengthen production safety management, establish and optimize the production safety responsibility system, improve the production safety conditions and ensure the safety of production. The major persons in charge of the production unit shall be fully responsible for the production safety of the unit. Employees in the production unit are entitled to be secured of production safety and shall carry out its own obligations with respect to the production safety. For those do not comply with the laws, the regulatory authorities have the right to impose fines, order them to suspend operations and revoke their business licenses. Criminal liability may be incurred in serious cases.

### LABOUR AND SOCIAL INSURANCE

#### Labour and employment

Enterprises in China are mainly subject to the following PRC labour laws and regulations: Labour Law of the PRC (中華人民共和國勞動法), PRC Labour Contracts Law (中華人民共和國勞動合同法), the Social Insurance Law of the PRC (中華人民共和國社會保險法), the Regulation of Insurance for Work-Related Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Administrative Regulation on Housing Fund (住房公積金管理條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

According to the Labour Law of the PRC which was promulgated on 5 July 1994 and amended on 27 August 2009, and the PRC Labour Contract Law which was promulgated on 29 June 2007 and amended on 28 December 2012, to establish a labour relationship, a written labour contract should be concluded. The wages paid by the employer to the employee shall not be less than the minimum wage rate in the place where the employer is located. In certain circumstances, financial compensation shall

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be paid to the employee if the employer terminates its employment relationship with the employee. The employer shall provide relevant education and training to the employee. Employers are also required to provide healthy and safe working conditions in conformity with the relevant national rules and standards and provide regular healthy checks for the employees who are engaged in hazardous work.

As required under the Social Insurance Law of the PRC, the Regulation of Insurance for Work-Related Injury, the Regulations on Unemployment Insurance, the Provisional Measures on Insurance for Maternity of Employees, the Interim Provisions on Registration of Social Insurance and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

The regulatory authorities of government at the provincial, municipality and district level have also issued relevant policies from time to time to regulate the payment for housing provident fund.

### LAWS AND REGULATIONS RELATING TO M&A RULES AND OVERSEAS LISTINGS

Regulations on Merger and Acquisition 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**”), issued by six PRC governmental and regulatory agencies, including the MOFCOM and the State Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, China Securities Regulatory Commission and the SAFE, effective from September 8, 2006 and amended on June 22, 2009, provide that a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### BUSINESS AND CORPORATE DEVELOPMENT

#### Overview

Our history can be traced back to January 1993 when Mr. PS Lee and Ms. LC Lau established Hang Yick and we provided steel and metal engineering services on and sold steel and metal products. In May 1997, we were being awarded our first steel and metal works project in public sector for a public rental housing estate. Since then, we participated in various kinds of steel and metal engineering projects in Hong Kong including, among others, residential building construction projects and public utility construction projects.

In August 2010, Huizhou Hengyi was established as a wholly owned foreign enterprise by Hang Yick in the PRC. Our production facilities have gross floor area of approximately 17,273.7 sq. m. and we are able to produce a variety of steel and metal products. Our Group leased the existing production facilities from an independent third party in December 2000, and Huizhou Hengyi purchased the production facilities from the independent third party in September 2010.

Over the years, our Group had received certificates, awards and recognitions from various organisations. In January 2009 and November 2017, we were awarded the “Certificate of Commendation for the outstanding achievements in the Completion Contract for the Construction of Fanling Area 36 Phase 1” and “Quality public housing — Construction and maintenance awards 2017 — New works projects — Outstanding building project (special mention) for Conversion of Chai Wan Factory Estate to public rental housing estate and Demolition of Blocks 1, 2, 3, 12 and a School in Pak Tin Estate — Domestic sub-contractor — Metal works”, respectively issued by the Hong Kong Housing Authority. In June 2009 and March 2010, our production facilities achieved the standard required under Quality Management System Certificate ISO9001:2008 (production of steel gates, roller shutters and steel and metal products) and Certificate of Registration in relation to ISO14001:2004 (environment management for production and processing of steel gates, roller shutters and steel and metal products for construction), respectively. In June 2018, our production facilities further achieved the updated standard required under Quality Management System Certificate ISO9001:2015 (production of steel gates, portcullis, volume gates, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products) and Certificate of Registration in relation to ISO14001:2015 (environment management for production of steel gates, portcullis, volume gate, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products). See “Business — Awards and recognitions” for details. Since April 2004, Hang Yick has been a registered subcontractor under the Subcontractor Registration Scheme of the Construction Industry Council in Hong Kong for structural steelwork, shutters/doors fabrication and installation, and metal works. On 14 December 2015, Huizhou Hengyi was being awarded the Authorised Economic Operator (AEO) Certificate (認證企業證書) as a general certified enterprise by Shenzhen General Administration of Customs in PRC. See “Business — Qualifications and Certifications” for details.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 6 March 2018. Immediately following the completion of the Global Offering and the Capitalisation Issue, the subsidiaries of our Company comprise Hang Yick, Huizhou Hengyi and HY Metal. For details of the subsidiaries of our Company and the corporate structure of our Group, see “Corporate history” below.



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Prior to the Listing, our Group underwent the Reorganisation and as a result of which, immediately following the completion of the Reorganisation, the entire issued share capital of our Company is owned by HY Steel, which is owned as to 70% by Mr. PS Lee and 30% by Ms. LC Lau. Immediately following the completion of the Global Offering and the Capitalisation Issue, our Controlling Shareholders will own in aggregate 75.0% of the voting rights in our Company (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of options to be granted under the Share Option Scheme).

### Business milestone

The key milestones in our Group's development to date are set below:

Year	Event/Milestone
1982	Mr. PS Lee founded Hang Yick Co as a sole proprietor in Hong Kong on 1 June 1982.
1993	Hang Yick was incorporated in Hong Kong on 20 January 1993.
1997	Being awarded our first steel and metal works project for a public rental housing estate located at Clear Water Bay Road, Wong Tai Sin.  Being awarded our first steel and metal works project for a home ownership scheme estate located at 15 Tong Ming Street, Tseung Kwan O.
2003	Ms. LC Lau founded Hang Yick Metal Products as a sole proprietor in Hong Kong on 15 March 2003.
2004	Registered as a registered subcontractor under the Subcontractor Registration Scheme of the Construction Industry Council.
2009	Being awarded the Quality Management System Certificate ISO9001:2008 (production of steel gates, roller shutters and steel and metal products).
2010	Huizhou Hengyi was established on 27 August 2010 as a wholly owned foreign enterprise in the PRC manufacturing and selling stents, steel gates, roller shutters, al-alloy doors and windows.  Being awarded the Certificate of Registration in relation to ISO14001:2004 (environment management for production and processing of steel gates, roller shutters and steel and metal products for construction).
2015	Being awarded the Authorised Economic Operator (AEO) Certificate (認證企業證書) as a general certified enterprise (一般認證企業) by Shenzhen General Administration of Customs in the PRC.
2016	Commencing the production and supply of collapsible gates for the gate replacement projects implemented by the Hong Kong Housing Authority.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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2018      Being awarded the Quality Management System Certificate ISO9001:2015 (production of steel gates, portcullis, volume gates, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products(no electroplating)(excluding products that require national qualification permits)).

Being awarded the Certificate of Registration in relation to ISO14001:2015 (production of steel gates, portcullis, volume gate, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products(no electroplating)(excluding products that require national qualification permits) and related environmental management activities)).

*Note:* For further details on our completed and ongoing projects during the Track Record Period, see “Business — Our projects”.

### Corporate history

The following is a brief corporate history of the establishment and major changes to the shareholders of our Company and our subsidiaries:

#### *Our Company*

Our Company is an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2018. Our Company has an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One Share, representing the then entire issued share capital of our Company, was allotted and issued nil-paid to the initial subscriber of our Company, an Independent Third Party, and was subsequently transferred to Mr. PS Lee on the incorporation date. On the same date, one nil-paid Share was allotted and issued at par to Ms. LC Lau. As such, Mr. PS Lee and Ms. LC Lau each held one Share (representing the entire issued share capital of our Company) on the incorporation date.

Our Company has become the ultimate holding company of our Group as a result of the Reorganisation.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 April 2018.

#### *Hang Yick*

Hang Yick was incorporated in Hong Kong with limited liability on 20 January 1993. It principally provides steel and metal engineering services and sells steel and metal products. At the time of its incorporation, Hang Yick had an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Upon its incorporation, 7,000 shares and 3,000 shares were allotted and issued to Mr. PS Lee and Ms. LC Lau respectively.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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As part of the Reorganisation, on 28 March 2018, HY Metal acquired from Mr. PS Lee and Ms. LC Lau all of their shares in Hang Yick. In consideration thereof, our Company (i) allotted and issued 98 new Shares, credited as fully paid, to HY Steel, and (ii) credited one nil-paid Share owned by Mr. PS Lee and one nil-paid Share owned by Ms. LC Lau as fully paid. After the said transfer, Hang Yick becomes a wholly-owned subsidiary of HY Metal.

### *Huizhou Hengyi*

Huizhou Hengyi was established in the PRC as a limited liability company on 27 August 2010 with a registered capital of HK\$1,300,000. It principally manufactures and sells stents, steel gates, roller shutters, al-alloy doors and windows. As at the date of its establishment and immediately before the Reorganisation, Huizhou Hengyi was a wholly owned subsidiary of Hang Yick.

Due to continuous expansion of our business, Huizhou Hengyi increased its registered capital in 2015. According to the approval of Huizhou Zhongkai Gaoxin District Economic Development Bureau\* (惠州仲愷高新區經濟發展局) dated 4 November 2015, the registered capital of Huizhou Hengyi was increased by HK\$8,700,000 from HK\$1,300,000 to HK\$10,000,000. The increase in registered capital was fully settled on 7 April 2016.

As at the Latest Practicable Date, the business scope of Huizhou Hengyi includes the manufacture and sales (domestic and export sales) of steel and metal products such as all kinds of stents, steel structural frames, steel gates, iron gates, roller shutters, al-alloy doors, windows and locks.

### *HY Metal*

HY Metal is a company limited by shares incorporated in the BVI on 15 March 2018. HY Metal is authorised to issue a maximum of 50,000 shares each with a par value of US\$1.00, of which one share (representing the entire issued capital of HY Metal) was allotted and issued fully paid to our Company at par. The shareholding structure of HY Metal remained the same since then.

### **Cessation of our sole proprietorship business and other subsidiary**

#### *(i) Hang Yick Co*

Hang Yick Co was a sole proprietorship established in Hong Kong by Mr. PS Lee in June 1982 and filed the Notification of Cessation of Business to the IRD in March 2018 in order to streamline our Group's business operation. Prior to its cessation, it principally provided gate engineering services. During the years ended 31 March 2016, 2017 and 2018, the unaudited net profits of Hang Yick Co amounted to approximately HK\$12,822, HK\$4,261 and nil, respectively.

#### *(ii) Hang Yick Metal Products*

Hang Yick Metal Products was a sole proprietorship established in Hong Kong by Ms. LC Lau in March 2003 and filed the Notification of Cessation of Business to the IRD in March 2018 in order

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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to streamline our Group's business operation. Prior to its cessation, it principally provided retail sales and engineering services. During the years ended 31 March 2016, 2017 and 2018, the unaudited net profits of Hang Yick Metal Products amounted to approximately HK\$150, HK\$495 and nil, respectively.

### *Latest status of Hang Yick Co and Hang Yick Metal Products*

On 23 March 2018, both Hang Yick Co and Hang Yick Metal Products ceased all operations. The Business Registration Office of the IRD had been notified of the cessation of all operations of Hang Yick Co and Hang Yick Metal Products, and their respective business registration were cancelled on 23 March 2018 accordingly. As at the date of cessation of their operations, no business conducted by Hang Yick Co or Hang Yick Metal Products was or have been transferred to our Group nor was there any tax non-compliant incidents prior to or during the Track Record Period.

### *Business delineation between Hang Yick Co, Hang Yick Metal Products and our Group*

Before the cessation of Hang Yick Co and Hang Yick Metal Products, their businesses were different from our Group's business as follows:

1. Hang Yick Co and Hang Yick Metal Products focused on selling metal products to retail customers at the Tai Kok Tsui showroom, such as renovation companies and individuals, and the sales of metal products were generally of relatively small amounts.

Our Group has been providing steel and metal engineering services and selling steel and metal products to customers since the incorporation of Hang Yick, and our customers generally include well-known construction companies, and small and medium size contractors and engineering companies.

2. Hang Yick Co and Hang Yick Metal Products did not involve any product design and production process. They purchased all metal products from Hang Yick during the Track Record Period. On the contrary, our Group involves product design and production with Huizhou Hengyi as our own manufacturing arm. See "Financial Information — Related parties transactions" for details of the transactions between Hang Yick Co and Hang Yick Metal Products and our Group.
3. Since Hang Yick Co and Hang Yick Metal Products only engaged in the sales of metal products, their business operation required fewer resources and a lower level of industry expertise. On the contrary, the Group has to devote more time and resources to provide a full range of engineering services (including design, manufacture, supply, installation and maintenance of steel and metal products) in projects, which generally range from a period of four months to 48 months. The services provided by the Group require a higher level of industry knowledge and expertise.
4. Hang Yick Co and Hang Yick Metal Products only followed the customers' product specifications to supply metal products. On the contrary, the business of the Group is project-oriented where it provides engineering services on a project-by-project basis in accordance with the need of each project.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### *(iii) Hang Yick Macau*

Hang Yick Macau was incorporated under the law of Macau. Its operation commenced on 21 December 2005, and was wholly owned by Mr. PS Lee and Ms. LC Lau since its incorporation. Since Hang Yick Macau did not operate any business, it was dissolved on 11 April 2017. During the years ended 31 December 2015 and 2016 and the three months ended 31 March 2017, the audited net loss of Hang Yick Macau amounted to approximately MOP6,695, MOP6,695 and MOP21,085, respectively.

### **Reorganisation**

As at the Latest Practicable Date, our Group comprised our Company, HY Metal, Hang Yick and Huizhou Hengyi.

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange. The Reorganisation involved the following steps:

#### *(i) Incorporation of our Company*

See "Business and corporate development — Corporate history — Our Company" above for further details of our Company.

#### *(ii) Incorporation of HY Metal*

See "Business and corporate development — Corporate history — HY Metal" above for further details of HY Metal.

#### *(iii) Acquisition of our Company by HY Steel*

On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of our Company to HY Steel at nominal consideration.

#### *(iv) Acquisition of Hang Yick by HY Metal*

On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of Hang Yick to HY Metal. In consideration of the acquisition, our Company (i) allotted and issued 98 new Shares, credited as fully paid, to HY Steel, and (ii) credited one nil-paid Share owned by Mr. PS Lee and one nil-paid Share owned by Ms. LC Lau as fully paid. On the same date, Mr. PS Lee and Ms. LC Lau transferred the aforesaid two fully paid Shares to HY Steel at nominal consideration.

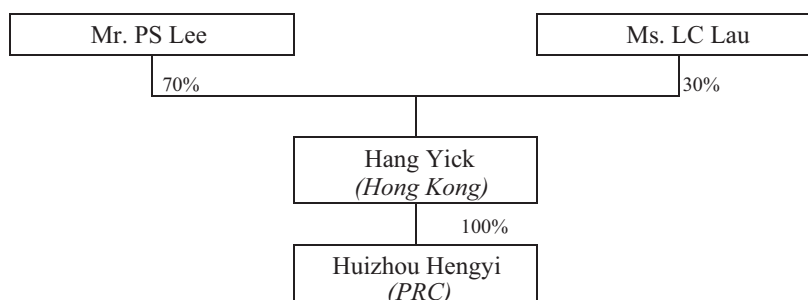
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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

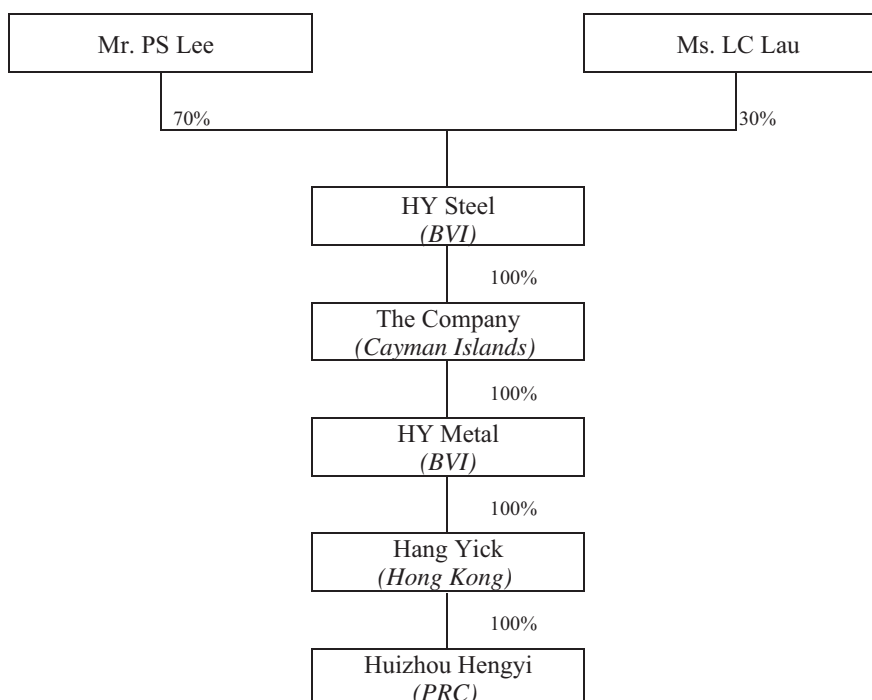
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### CORPORATE STRUCTURE

The following chart sets out the corporate structure of our Group immediately prior to the Reorganisation:



The following chart sets out the corporate structure of our Group immediately following the Reorganisation but before the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of options to be granted under the Share Option Scheme):

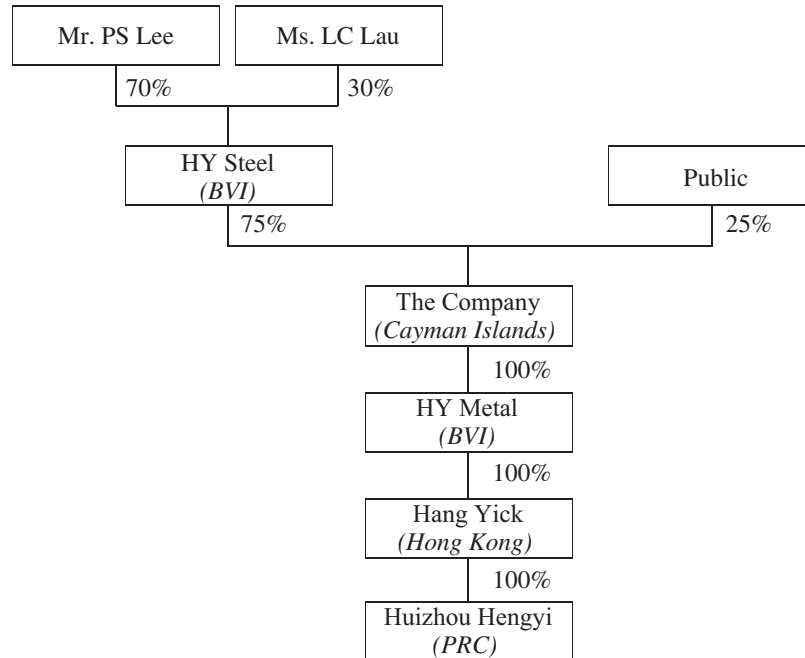


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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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



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### OVERVIEW

We are a leading and well-established steel and metal engineering company, specialising in design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong, and our Group has been operating for over 25 years. According to the Frost & Sullivan Report, in 2017, we were the largest steel and metal engineering company in overall public sector in Hong Kong in terms of revenue with a market share of approximately 31.9%, and ranked third in the overall steel and metal works engineering service market in Hong Kong in terms of revenue with an estimated market share of approximately 8.6%. Apart from provision of engineering services, we also sell steel and metal products, including metal gates, collapsible gates, fire-insulated shutters, rolling shutters, metal doors and other steel and metal products, to our customers based on their requirements and specifications.

As a leading steel and metal engineering company in Hong Kong, we are capable to offer a full range of engineering services from design, manufacture, supply and installation of steel and metal products. We generally provide our engineering services on a project-by-project basis, and participate in a variety of projects, including residential properties, office buildings, shopping malls and other public facilities. For our steel and metal engineering services, our major customers are primarily main contractors of different types of construction projects. The majority of our revenue during the Track Record Period was derived from public sector projects. Our Group has maintained stable business relationships with most of our five largest customers during the Track Record Period. For the years ended 31 March 2016, 2017 and 2018, our steel and metal engineering services contributed approximately HK\$96.1 million, HK\$103.3 million and HK\$140.6 million, representing approximately 78.3%, 64.0% and 70.6% of our total revenue, and significant amount of our revenue in respect of engineering services was generated from the public sector, which amounted to approximately 74.3%, 62.5% and 66.8% of our total revenue, respectively. During the Track Record Period, our Group completed 31 projects by tender, of which 26 projects were in public sector. As at the Latest Practicable Date, we had 45 on-going projects (either in progress or yet to commence) with a total contract sum of HK\$430.4 million, nine of which were awarded after Track Record Period with an aggregate contract sum of approximately HK\$75.7 million. See “Our projects” below for further details.

We sell our steel and metal products to customers, which we are not required to provide installation works and after-sale services. For the years ended 31 March 2016, 2017 and 2018, our revenue generated from sales of steel and metal products were approximately HK\$26.6 million, HK\$58.2 million and HK\$58.6 million, representing approximately 21.7%, 36.0% and 29.4% of our total revenue. Our steel and metal products include metal gates, collapsible gates, fire-insulated shutters, sliding shutters, rolling shutters, metal doors and other steel and metal products. In 2015, the Hong Kong Housing Authority has implemented the policy in respect of replacing the old-type see-through collapsible gates at public rental housing estates and unsold flats at the Tenants Purchase Scheme estates, which involved 101 estates in Hong Kong. Our revenue generated from sales of standardised collapsible gates amounted to HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, respectively, for the years ended 31 March 2016, 2017 and 2018.

Our Group, through Huizhou Hengyi, our PRC operating subsidiary, owns the production facilities located in Huizhou, the PRC, which manufactures steel and metal products required by our



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customers. Our production facilities have achieved the standard required under ISO 9001:2015 (production of steel gates, portcullis, volume gates, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products) and ISO 14001:2015 (environmental management). See “Award and recognitions” in this section for details. We consider that our ability to manufacture steel and metal products at our own production facilities enables us to provide full range services to our customers and to control quality, as well as to achieve cost efficiency and offer competitive prices as compared to our competitors. In addition, Huizhou Hengyi obtained the AEO certificate in December 2015 which is an internationally recognised quality mark indicating that our role in the international supply chain is secure, and that the customs controls and procedures are efficient and compliant, and such certification is generally awarded to participants who fully meet AEO requirements, such as customs compliance, appropriate record keeping, financial solvency and, where relevant, security and safety standards.

With the leading of our executive Directors, Mr. PS Lee and Ms. LC Lau, we have our own team of experienced staff and workers to handle various steel and metal works projects. See “Directors and Senior Management” for detailed background of our executive Directors and senior management.

### COMPETITIVE STRENGTHS

Our Group provides full range engineering services to our customers, from design, manufacture, supply and installation of steel and metal products. Our Directors believe that several competitive strengths set our Group apart from our competitors and enable our Group to continue the growth and enhance our profitability. Such competitive strengths include:

#### **We are a leading steel and metal engineering company in Hong Kong with proven track record**

With an operating history of over 25 years in Hong Kong since Hang Yick was incorporated in Hong Kong in January 1993, our Group has accumulated extensive experience in engineering services of metal and steel works. According to Frost & Sullivan, there were approximately 400 steel and metal works contractors registered with the Construction Industry Council and approximately 50 contractors were engaged in steel and metal works engineering service in public sector in 2017, and our Group is one of these contractors. Hang Yick has been registered with the Construction Industry Council as steel and metal works contractor since 2004. In addition, according to the Frost & Sullivan Report, in 2017, we ranked the largest steel and metal engineering company in overall public sector in Hong Kong in terms of revenue with a market share of approximately 31.9%, and an estimated market share of approximately 8.6% in the overall steel and engineering services market in Hong Kong.

Our Group is capable of undertaking the projects with a wide range of buildings and facilities types, including residential, commercial buildings and various facilities for construction projects in Hong Kong. During the Track Record Period, we had completed 31 projects by tender, of which 26 projects were in public sector. As at the Latest Practicable Date, we had 45 on-going projects by tender (whether in progress or yet to commence), of which nine projects with an aggregate contract sum of approximately HK\$75.7 million were awarded after the Track Record Period. Also, see “History, Reorganisation and Corporate Structure — Business and corporate development — Business milestone” for some of our projects undertaken before the Track Record Period.

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We have maintained stable and long-term business relationships with most of our major customers which included well-known construction contractors in Hong Kong. Most of our major customers invite us to tender their projects from time to time. Our Directors believe that our outstanding performance and our leading market position in the steel and metal works industry in Hong Kong allows us to gain trust of our existing customers and give us a competition edge when tendering for construction contracts, which are crucial to our future business development.

### **We are capable to provide vertically integrated services in relation to steel and metal works to our customers**

We provide comprehensive and vertically integrated services to our customers from design, manufacture, supply and install steel and metal products pursuant to their needs and requirements. In particular, Huizhou Hengyi, our subsidiary, owns and operates the production facilities located in Huizhou, the PRC. We are committed to providing products and services of consistent quality to our customers. We believe that our ability to manufacture steel and metal products at our own production facilities enables us to ensure our product quality, achieve cost competitiveness and offer competitive prices for our engineering services and sales of products.

Furthermore, our comprehensive engineering capacity enables us to reduce operational risks and capture business opportunities. In particular, our Directors consider that our design and manufacture services place us in an advantageous position to bid for the construction contract, and also benefit from the integration of resources and processes throughout the business chain to generate synergy, increase efficiency, reduce costs and improve profitability. As a result, we are able to provide one-stop services to our customers with lower operational risks, higher efficiency and more competitive prices.

### **We have maintained stable and long-term relationships with our suppliers**

Our Directors believe that we have built up reputation in the industry which helps us in developing a stable network of quality suppliers. Over the years, we have maintained a good relationship with a list of suppliers which enables our Group to have more flexibility in negotiating prices, resources allocation and project execution compared with competitors. Our close relationship also enables us to procure the necessary services and supplies when we require them, reducing the risk of shortage or delay in delivery of materials or services causing material disruption to our works. Our Directors consider that partnering with these suppliers is one of the key success factors for us to deliver timely and high quality services to our customers.

### **We have an experienced and dedicated management team and direct workforce**

Our management team has extensive experience and technical knowledge in the steel and metal works industry in Hong Kong, which is led by Mr. PS Lee, our Chairman, chief executive officer and executive Director with more than 35 years in the industry. Other members of the management team possess expertise and relevant qualifications on project management, who also contributed to our success. The experience of our management team facilitates the formulation of competitive tenders, which are essential in securing new business opportunities, and in carrying out efficient and timely execution and management of our projects. See “Directors and Senior Management” for working experience of our executive Directors and senior management. As at 31 March 2018, we had 335 staff

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in Hong Kong and the PRC, of which 142 were our site workers. We did not rely on installation service providers. We believe that attributed to the experience and technical skills of our executive Directors and members of our management team, as well as direct workforce, our Group is able to maintain competitiveness and is well-positioned in competing for, and securing the contracts in the future.

### **Our commitment to maintaining safety standard, quality control and environmental protection**

We place considerable emphasis to maintain safety standard and quality control as they can directly affect our reputation, our service quality and our profitability. The safety standard and quality control are also among our customers' key assessment criteria in selecting engineering service providers. Our efforts in up-keeping the safe working environment is well-recognised as demonstrated by various awards we have received for our quality and safety and environmental compliance management over the years. Our production facilities are located in Huizhou, the PRC which is certified to be in accordance with the standard required under ISO 9001:2015 (production and service of steel gate, iron gate, volume gate, al-alloy door & window, all kinds of stents, hardware door lock etc.) and ISO 14001:2015 (environmental management). Also, Huizhou Hengyi obtained AEO certificate in December 2015 which is a top accreditation. See "Qualifications and certifications" for details. Our Directors believe that our effective occupational health, safety and environment management systems as well as good compliance track record would help to reduce our exposure to these claims and improve our overall service quality and profitability.

### **BUSINESS STRATEGIES**

Our Group aims to further strengthen our position and overall competitiveness of steel and metal works industry in Hong Kong. Our Directors intend to pursue the following key strategies to achieve our Group's future expansion plans:

#### **To maintain our leading position in the steel and metal works industry, strengthen our capacity and expand our market share in order to capture the business opportunities**

Our Directors consider that it is crucial to maintain our leading position in the steel and metal works industry, as well as to strengthen our capacity and expand market share in order to capture business opportunities, having considered the followings:

- (1) According to the Frost & Sullivan Report, we were the largest steel and metal engineering company in overall public sector in Hong Kong in terms of revenue with a market share of approximately 31.9%, and ranked third in the overall steel and metal works engineering service market in Hong Kong in terms of revenue with an estimated market share of approximately 8.6% in 2017. As at the Latest Practicable Date, we had 45 on-going projects which were awarded by tender with a total contract sum of approximately HK\$430.4 million, of which 28 projects with total contract sum of approximately HK\$205.0 million are at preliminary stage, i.e. we had not commenced production for these projects, and our construction workers have not commenced any works at the construction sites. As at the Latest Practicable Date, there were 19 tenders of which the results were still pending, and the estimated aggregate contract sum is approximately HK\$95.3 million. Among these 19 tenders, five of which were submitted after the Track Record Period. Having considered our

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proven track record in providing steel and metal engineering services and our strong management capability, as well as our increasing trend of tender success rate during the Track Record Period, our Directors expect that our Group will be awarded with several projects from the tenders. We will continue to actively participate in tender submissions from our existing and potential customers from time to time. Our Directors also consider that with the listing status, more customers with large-scale projects will invite us for tendering steel and metal engineering services.

- (2) According to Frost & Sullivan Report, the Hong Kong Government planned to increase public rental housing units and subsidised sale flats, which can be referred in “Public Housing Construction Programme 2017-18 to 2021-22” released by Transport and Housing Bureau to Legislative Council Panel on Housing, the estimated housing production during 2018 to 2022 is approximately 96,800 units, comprising approximately 73,300 units of public rental housing and approximately 23,400 units of subsidised sale flats. Furthermore, according to Frost & Sullivan Report, based on the estimation by Transport and Housing Bureau, the average annual public housing production under Housing Authority is expected to reach approximately 19,340 units during 2018 to 2022, which is higher than the average annual public housing production of approximately 12,809 units during 2012 to 2017. In addition, the average annual public housing production is expected to further increase to approximately 24,280 units during 2023 to 2027. As a result, the demand for steel and metal works engineering services in public housing is expected to increase in the next five years. It is also expected that the building supply and maintenance works continues to grow, with the overall market size of steel and metal engineering services (both public and private sectors) by revenue is expected to grow at a CAGR of 6.8% during 2018 to 2022, attaining approximately HK\$2.2 billion by 2022. We expect that the CAGR for steel and metal engineering services for public housing will be higher than that of the overall market in the near future. Our Directors believe that the demand for steel and metal engineering services for public housing continues to grow steadily, and our Group will continue to receive tender invitations from our existing and potential customers for steel and metal engineering services. As such, maintaining the business relationship with our existing customers, as well as attracting potential customers would enable us to capture the expected increase of market demand for steel and metal works engineering services in public housing.
- (3) In view of the steady increase in housing supply and demand for metal gates in residential projects in Hong Kong, we plan to promote our steel and metal products to the contractors which do not produce steel and metal products themselves or have limited production capacity in producing the steel and metal products. Furthermore, the demand for metal gates will grow steadily which will create opportunities for our Group to expand our market share if we are able to enhance our production capacity.
- (4) We sold steel and metal products, which contributed HK\$26.6 million, HK\$58.2 million and HK\$58.6 million, representing approximately 21.7%, 36.0% and 29.4% of our total revenue for the years ended 31 March 2016, 2017 and 2018. According to Frost & Sullivan Report, with the continuous growing demand for metal gates from increasing supply of new

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buildings as well as regular renovation and maintenance works in old aged residential buildings such as the five-year replacement scheme of old type collapsible gate launched by Hong Kong Housing Authority in public rental housing starting from 2015, the sales value of metal gates is expected to increase at a CAGR of 8.6% during 2018 to 2022.

Having considered the above reasons, our Directors believe that it is important to expand our project management team and production capacity to maintain our leading position and capture opportunities in the anticipated growing market demand for steel and metal works industry, as follows:

(a) To expand our workforce in Hong Kong and the PRC

(i) *Additional staff in Hong Kong*

Our Directors believe that a strong project management team equipped with extensive knowledge and experience in the steel and metal works industry is crucial to our continuing success. Our Directors consider that it is important to enhance our project management manpower for the following reasons: (1) as at the Latest Practicable Date, we had only three project managers, four designers and eight safety officers and foremen. With the increasing number of projects, our existing project management team may not be sufficient to manage and supervise our on-going projects and any potential projects to be awarded in the near future; (2) providing good quality of services is one of the key factors to maintain our competitiveness and the leading position in the industry, and the number of large-scale projects we are able to undertake is directly affected by the availability of our manpower resources as they are critical to ensure quality execution of a construction projects of larger scale and higher complexity; and (3) due to our limited project management manpower, we could be restricted to undertake a certain number of large-scale construction projects if our project management manpower does not catch up with our business growth. As such, we plan to recruit and retain high calibre talents in areas such as project management, design, legal and finance so as to further improve our project management capabilities and to handle our existing and future projects, as well as to cater for our business expansion in the future including the projects to be tendered by us. Our Group intends to use the net proceeds from the Global Offering to recruit additional staff after the Listing Date, in particular, we plan to recruit project managers and drawing staff during the year ending 31 March 2019 and retain these additional staff to assist during the year ending 31 March 2020 to assist our on-going projects, and also to procure and handle any potential projects during and after the year ending 31 March 2019.

Our Directors further consider that going forward, it is beneficial for us to recruit a legal counsel and accounting staff to deal with legal and corporate governance matters and financial reporting requirements which we expect to encounter as we capture more business opportunities and also following the Listing. Our Group will organise internal trainings and seminars for our existing and new staff from time to time with a focus on project management and design, so to improve our quality of services and our technical know-hows. We intend to utilise approximately HK\$27.4 million, representing approximately 21.0% of the net proceeds from the Global Offering for recruiting and retaining additional staff to strengthen our project management team and administrative staff in the next three years ending 31 March 2021.

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The below table sets out a breakdown of additional staff by positions that we plan to recruit after the Listing and for the three years ending 31 March 2021 in Hong Kong:

For the year ending 31 March	Additional staff to be recruited by positions	Experience and qualifications	Number of additional staff to be recruited during the year	Amount allocated for recruiting and retaining the additional staff (HK\$ million)
2019	Project manager	At least ten years of related experience and having at least a degree or above at university	2	3.0
	Project manager (Designer)	At least ten years of related experience and having at least a degree or above at university	1	
	Drawing officer	At least three years of related experience and having at least a diploma or above	2	
	Sales officer	At least three years to five years of related experience and having at least completed secondary education	1	
	Legal counsel	At least five years of related experience and having at least a degree or above at university	1	
	Accounting officer	At least five years of related experience and having accounting qualifications	1	
2020	Tender manager	At least ten years of related experience and having at least a degree or above at university	1	5.2
	Foreman	At least seven years of related experience	3	
	Procurement manager	At least five years of related experience and having at least a diploma or above	1	
	Procurement officer	At least two years of related experience and having at least completed secondary education	1	
	Lorry driver	At least five years of related experience	4	
	To retain the additional staff to be recruited during the year ending 31 March 2019			7.0
2021	To retain the additional staff to be recruited during the years ending 31 March 2019 and 2020			12.2
	Total:		18	27.4

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(ii) *Additional staff in the PRC*

To cope with our business development with the increasing number of projects and our plan to acquire and replace our machines and equipment in our production facilities. We will seek to expand our workforce in our production team by recruiting production workers in the PRC. We intend to hire more production workers for the year ending 31 March 2020 to operate new machines as we expect that the renovation and re-design of our production facilities will be completed in 2020. We will also provide training to our existing and newly recruited staff at the production facilities on works operation, occupational health and safety and environmental protection to be conducted either through internal training or by external training institutions. We plan to utilise approximately HK\$6.3 million, representing approximately 4.8% of the net proceeds from the Global Offering.

The below table sets out a breakdown of additional staff by functions that we plan to recruit after the Listing for the three years ending 31 March 2021 in the PRC:

<b>For the year ending 31 March</b>	<b>Additional production workers to be recruited by functions</b>	<b>Number of additional staff to be recruited during the year</b>	<b>Amount allocated for recruiting and retaining the additional staff (HK\$ million)</b>
2019	- Cutting and forming	4	0.5
	- Dimension inspection and assembling	4	
	- Welding	2	
2020	- Cutting and forming	8	1.9
	- Dimension inspection and assembling	7	
	- Welding	5	
	- To retain the additional production workers to be recruited during the year ending 31 March 2019		1.0
2021	- To retain the additional production workers to be recruited during the years ending 31 March 2019 and 2020		2.9
	Total:	30	6.3

(b) To acquire and replace machines to enhance our production capacity at our production facilities in Huizhou, the PRC

Our Directors consider that it is imperative for us to enhance our production capacity in order to stay competitive in the steel and metal works industry as well as to support the business opportunities for sizeable and more projects, so that we would be able to accommodate the estimated increase in demands for our existing and potential customers in the future.

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Having considered the following reasons that:

- (1) many of our major machines had been used for more than ten years which were more than the expected useful life;
- (2) our daily operation went up to 12 hours in average during the Track Record Period and our production capacity was almost saturated;
- (3) as at the Latest Practicable Date, we had 28 on-going projects which were at the preliminary stage, and we had not commenced the production for these projects. In the event that we are required to produce the steel and metal products at the same time and or if we have received purchase orders for bulk production of our steel and metal products, our production capacity may not be able to meet the production schedule and hence there will be delay in the completing the projects and we may be in breach of the contracts. See “Production capacity” for details; and
- (4) We will continue to actively participate in the tender submissions from our existing and potential customers from time to time, enhancing our production capacity would enable us for tendering large-scale projects.

It is important to maintain the functionality of the existing machines which can still be used and at the same time we plan to replace and enhance our machines by acquiring the more advanced machines in the PRC and European countries as compared to our existing machine.

The below table sets out the machines we plan to acquire and replace some of our existing machines:

Types of machinery	Functions	Expected useful life	Units	Estimated acquisition costs (HK\$'000)
Hydraulic shears	— shearing metal sheets	10 years	9	2,817
CNC Hydraulic shears	— shearing and notching metal sheets	10 years	9	2,155
Fiber laser shearing tables	— cutting metal by fiber laser	10 years	1	5,373
Fiber laser molding machines	— mold metal	10 years	1	5,725
Laser CNC sheet metal laser shearing machines	— cutting complicated metal sheets	10 years	2	7,897
CNC laser cutting machines	— cutting and changing thickness and different shapes	10 years	4	14,500
CNC laser tube fiber laser machines	— cutting metal tube	10 years	3	7,183



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Types of machinery	Functions	Expected useful life	Units	Estimated acquisition costs <i>(HK\$'000)</i>
CNC bending machines	— bending metal sheets	10 years	4	2,675
Welding robots	— welding	10 years	7	<u>2,844</u>
			<b>Total:</b>	<b><u>51,169</u></b>

As disclosed in “Production capacity” in this section, our steel and metal products are generally in different structures, sizes, styles, complexity and production duration which is subject to our customers’ need. As a result, it is not feasible for us to illustrate the production capacity and utilisation rate accurately. For illustration purpose, we use the cutting process which is considered the bottleneck of the production process and the key procedure during the production of our major products, such as steel or metal plates and bars. For each of the years ended 31 March 2016, 2017 and 2018, our annual utilisation rate was approximately 87.9%, 89.0% and 90.3%, respectively. It is expected that upon acquiring and replacing the machines used during the cutting process, and the hiring additional recruitment of 12 workers for the process for the year ending 31 March 2020, our production capacity will be increased by approximately 80% of our existing production capacity, and is able to cope with the expected demand of our steel and metal products from the increasing number of projects and to ease our production pressure. Furthermore, as we will continue to actively participate in tendering submissions from our existing customers from time to time, and attract potential customers requiring the steel and metal engineering services for large-scale projects, which includes promoting our steel and metal products to other steel and metal works contractors who do not produce steel and metal products themselves or with limited production capacity in producing the steel and metal products, our Directors consider that it is crucial for us to enhance our production capacity in order to pursue our strategies.

We expect that with these more-advanced machines, we can strengthen our production capacity and efficiency, and we can also rearrange our production workers to other tasks or functions which require more labour to handle. Our staff have the sufficient experience and expertise to operate the more advanced new machines, further, we will also provide training courses from time to time for our production workers to explain the functions of and how to use the new machines safely and effectively. These training courses include seminars and courses organised by external parties, such as the manufacturers or suppliers of the machines that we plan to purchase to ensure our production workers are capable in operating the new machines that are more advanced. Such new machines are not acquired for any specific projects in the pipeline. Based on the above, we intend to utilise approximately HK\$51.2 million, representing approximately 39.2% of the net proceeds from the Global Offering, to purchase the new machines for the year ending 31 March 2019.

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- (c) To renovate, develop and re-design our production facilities at Huizhou, the PRC

Our production facilities had been used for over 18 years and many of our major machines have been used for over ten years which were longer than their corresponding expected useful lives. Furthermore, our production facilities produced all steel and metal products for our projects during the Track Record Period, and the daily operating hours of our existing production facilities were approximately 12 hours in average which our production capacity was almost saturated. Our Directors consider that in the long run, we have to increase the production area to accommodate new machines to increase the production capacity for meeting the demand for our steel and metal products in view of the increasing number of engineering services projects. Our Directors also consider that our business, financial condition and operating results are dependent on the smooth and continuous operations of our existing production facilities. As such, we plan to renovate and re-design our production facilities in Huizhou, the PRC, in order to customise our production flow with new machines and to provide safety and good working environment to our employees. Hence, we plan to utilise approximately HK\$24.1 million, representing approximately 18.5% of the net proceeds from the Global Offering to improve and renovate our existing production facilities, as well as to expand our warehouse.

To renovate, development and re-designing of our production facilities, our Directors consider the following plans:

- (1) The gross area of our production facilities will increase from approximately 17,273.7 sq. m. to approximately 23,800.0 sq. m., of which the production area will increase from approximately 7,483.6 sq. m. to approximately 13,009.9 sq. m. and the warehouse will increase from 4,020.0 sq. m. to approximately 5,020.0 sq. m., by developing our current single floor production workshop to a two-floor production workshop. Our Directors consider that as the area of production facilities increases, we will be able to optimise the layout of our workspace. For example, machines with the same production function will be grouped together and placed in an order according to our general production flow as set out in “Production process” below. Hence, the time required for transferring the raw materials and semi-finished products from one process to the next can be reduced and our production efficiency would be enhanced. Furthermore, we will install more ventilation equipment at the production facilities to help expelling dusts, bacteria and other pollutants for a more comfortable and better working environment. We will also carry out better delineation among our working area, raw materials, and products loading and unloading area. Our Directors believe that all such improvements will create a safer and better working environment for our employees.
- (2) Huizhou Hengyi has leased the premises from Huizhou Jiantai, which are located at Xilong Factory, Lilin Village, Lilin Town, Zhongkai District, Huizhou, the PRC for use as our factory for a gross area of 3,627 sq.m. (the “**Leased Factory**”) for a term up to 31 December 2020. See “Connected Transactions — Exempted continuing connected transactions — 3. PRC Lease Agreement” for details. The Leased Factory is located just opposite to our existing production facilities, and we plan to relocate the machines and production workers to the Leased Factory during the course of re-design and renovation of our existing production facilities in order to minimise any disruption to our production.

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- (3) As disclosed in “(b) To acquire and replace machines to enhance our production capacity at our production facilities in Huizhou, the PRC”, our Directors consider it is necessary to acquire new machines and replace certain existing machines aged over ten years to enhance our production capacity.
- (4) As disclosed in “(a) To expand our workforce in Hong Kong and the PRC”, we plan to hire 30 production workers during the two years ending 31 March 2020 to operate the new machines.
- (5) We target to commence the renovation and re-design of our production facilities in the fourth quarter of 2018, and are currently exploring and will engage a contractor to design the production facilities and to prepare the feasibility report and applications for obtaining the approvals from the relevant government authorities, including the Planning Bureau and Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality.
- (6) We will carry out the actual physical relocation when the renovation and re-design of our production facilities is substantially completed and has passed inspections of all relevant standards and safety regulations such that they are ready for operation to minimise any adverse effect to the production operations. We target to finish the relocation and fully resume our production operations with new facilities by December 2020.

The below table sets out the implementation steps with estimated time frame for renovation and re-design of our production facilities:

<b>Implementation steps</b>	<b>Estimated time frame</b>
1. To engage a contractor for assessing and preparing the renovation and re-design plan, and to design the production flow after the completion of renovation works	2 to 3 months
2. To prepare the applications to and obtain the preliminary approvals for commencing the renovation works from the relevant government authorities, such as the Planning Bureau, Bureau of Housing, Urban and Rural Planning and Construction of Huizhou Municipality, Environmental Protection Administration Bureau, National Development and Reform Commission, and Water Affairs Bureau	6 to 9 months
3. To prepare and implement the relocation plan, including to work with our project management team for production schedule during the course of renovation and to move the machines and production workers from the existing production facilities to the Leased Factory	2 weeks

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Implementation steps	Estimated time frame
4. To commence the renovation works	2 weeks
5. To acquire new machines and provide relevant training to production workers	2 to 18 months
6. To complete the installation and perform testing of newly acquired machines	1 to 2 months
7. To implement and complete the renovation works	12 to 18 months
8. To relocate the machines and to install the machines at the renovated production facilities	2 weeks
9. To evaluate the performance of the newly acquired machines and the production workflow after installation	2 to 4 weeks
10. To complete the inspection in relation to the relevant standards and safety regulations, such as fire safety and environmental protection, and to obtain the final approvals for completion of renovation	3 to 6 months

Our Directors consider there will not be any material disruption of our production during the course of renovation of our production facilities with the following reasons:

- We leased the Leased Factory which is just next to our existing production facilities, and with the proximity between our existing production facilities and the Rented Factory, the physical relocation of our production facilities to the Leased Factory and back to our production facilities will be done within a month, which is a short period of time. Furthermore, the Leased Factory has sufficient space for our machinery and equipment.
- We will relocate by stages and therefore machinery and equipment will be operating in parallel run during the time of relocation.
- Transfer of staff in our existing production facilities will be based on the progress of the relocation of the production machines to ensure smooth operations simultaneously.

(d) To purchase delivery trucks

Generally, our logistic team arranges delivery of our products from our production facilities to construction sites or our customers through our delivery trucks or engaging other delivery services companies. As at the Latest Practicable Date, we had three 30 tons and one 16 tons delivery vehicles for delivery of our products. Having considered that our Group has undertaken more large-scale projects and our Group is also required to produce more structural steel and metal products which are larger in volume and surface area and non-detachable, our Group's existing delivery trucks could not be used to deliver these types of products and we had to rent flatbed delivery trucks from third party service providers for certain delivery during the Track Record Period. In order to be more efficient to arrange the delivery of various types of products to the required delivery points, we plan to

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purchase three flatbed delivery trucks which are approximately 35 to 40 feet long and are different from our existing delivery vehicles as flatbed delivery trucks are able to carry large and long structural steel and metal products. As such, our Group intends to utilise approximately HK\$5.0 million, representing 3.8% of net proceeds from the Global Offering.

### **To increase our operational efficiency and enhance our quality of service**

With our continuous growth in business scale and scope, we will further enhance our competitiveness by further enhancing our quality of services, tighten our controls over quality safety and environmental compliance and provide quality customer service for our expanded customer base, and continuously providing training to our staff in respect of, among other things, workplace safety, operational skills and management and supervisory skills over our service providers so as to raise our standard and quality of service. Furthermore, we plan to upgrade our management systems which will enable us to analyse information and records of our financial, human resources, sales and customer relationship management and enhance our operational efficiency.

### **To enhance our information management systems**

We plan to improve our information management systems to cope with the increasing complexity of our business. Our management believe that the improvement of information management system will enable us to higher efficiency, flexibility, accuracy and timeliness in budgeting and financial reporting. We plan to purchase new computer systems to accommodate our information technology needs. To pursue this strategy, we intend to utilise approximately HK\$3.5 million, representing approximately 2.7% of the net proceeds from the Global Offering.

## BUSINESS MODEL

Our Group principally provides the following services and products:

(a) **Provision of steel and metal engineering services for construction projects in Hong Kong**

Depending on our customers' needs and requirements, we provide a full range of engineering services including design, manufacture, supply and installation of steel and metal works for construction projects in Hong Kong. Our customers are mainly the well known construction companies in Hong Kong, as well as, small and medium size contractors and engineering companies, which usually invite us to participate in the steel and metal engineering projects by way of tender or quotation and on a project-by-project basis. We are generally required to design and manufacture steel and metal products, install our products at the construction sites.

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### (b) Sales of steel and metal products

Generally, our customers require us to provide quotations based on their specifications and requirements for the products before placing orders. Our products include metal gates, collapsible gates, fire-insulated shutters, sliding shutters, rolling shutters and metal doors, which are manufactured at our production facilities in Huizhou, the PRC.

The below table sets forth our revenue by business segments during the Track Record Period:

	<b>For the year ended 31 March</b>					
	<b>2016</b>		<b>2017</b>		<b>2018</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Provision of steel and metal engineering services	96,130	78.3	103,291	64.0	140,620	70.6
Sales of steel and metal products	<u>26,568</u>	<u>21.7</u>	<u>58,192</u>	<u>36.0</u>	<u>58,579</u>	<u>29.4</u>
<b>Total</b>	<u><u>122,698</u></u>	<u><u>100.0</u></u>	<u><u>161,483</u></u>	<u><u>100.0</u></u>	<u><u>199,199</u></u>	<u><u>100.0</u></u>

### PROVISION OF STEEL AND METAL ENGINEERING SERVICES

During the Track Record Period, over 60% of our total revenue was generated from our provision of steel and metal engineering services. Generally, we are invited to tender the engineering services as a subcontractor or to provide quotations for full range of steel and metal engineering services from design, manufacture, supply and installation of steel and metal products.

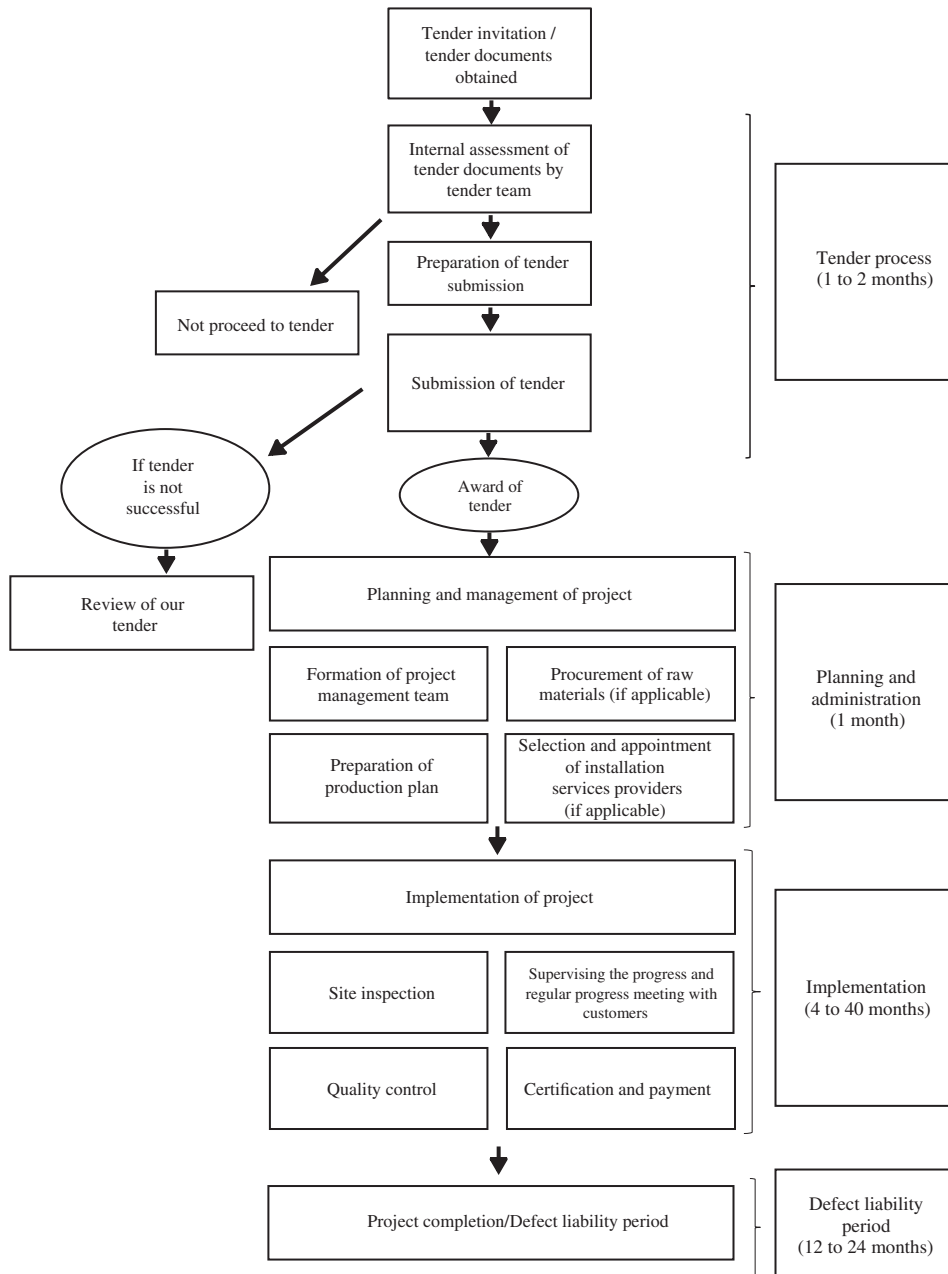
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### Operating procedures

The below chart sets out the major steps involved in provision of steel and metal engineering services:



*Note:* The time frame may vary for different contracts depending on various factors such as the size and complexity of projects, presence of variation orders and/or agreement with our customers on the timeframe for the principal steps to be undertaken as well as other unforeseeable circumstances.

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### 1. *Tender process*

We generally receive tender invitation for steel and metal engineering services in both public and private sectors from our major customers who are mainly main contractors. When we receive the tender invitation, we are normally provided with the site information, work specifications, drawings and relevant information for preparing the tender submission. During the Track Record Period, most of our revenue was generated from the projects in public sector, and such projects were awarded through the main contractors who obtained the construction contracts from the Hong Kong Government directly.

#### *Internal assessment of tender documents by tender team*

Our tender team, which consists of Mr. PS Lee, our executive Director, and a tender manager, is responsible for assessing the viability of the potential projects according to the tender documents. Generally, the tender invitations provide project size, requirements and specifications and our tender team will estimate the contract value based on the information provided. In determining whether to proceed with the tender submission, our tender team will review and evaluate the potential projects with respect to the scope, complexity, technicality and particular specifications of the projects, site conditions, achievability of the specified timetable, prior experience, labour force and expertise, estimated costs of the project and financial conditions. When we decide that a potential project is commercially viable, and also we consider that our Group has sufficient manpower and machinery capacity to meet the expected construction schedule, our tender team will proceed to prepare the tender submission. To the best knowledge of our Directors, based on the information available, due to insufficient manpower and machinery capacity, our Group did not proceed with the tenders of the estimated contract value of at least HK\$52.0 million, HK\$51.6 million and HK\$63.1 million, during the years ended 31 March 2016, 2017 and 2018, respectively.

#### *Preparation of tender submission, submission of tender and award of tender*

We prepare the tender submission based on the scope and specifications of the projects, and in some occasions, we conduct site inspection where necessary to assess the site conditions. Our pricing is usually determined on a cost-plus basis which we consider to be competitive and acceptable to us. In determining the pricing, we also take into account various factors, among others, the specifications and complexity of the project, availability and costs of necessary raw materials for production, our production capacity, our labour force, profitability of similar projects and potential competition of the project.

Our tender team prepares the bill of quantities or schedule of rates which sets out a breakdown of quotation by items based on the scope of works and specifications set out in the tender submission. Upon finalising the bill of quantities or schedule of rates and other documents according to the tender requirements, our Group will submit the tender documents to the potential customers. After tender submission, our tender team, and if necessary together with our project manager and chief financial officer, will follow up with the potential customers on our tender submission. Customers may invite us to attend interview to discuss our tender and clarify the scope of works and specifications. In general, our tender team will make adjustment to the specifications or price after the interview and then provide an amendment of submission.



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Generally, when we are successful in the tender, our customers will inform us verbally or by email or by issue of a letter of acceptance, and then a formal contract will be entered between us and our customers once the contract terms are finalised. Depending on the complexity and scale of the potential projects, it generally takes us approximately one month to two months to prepare and submit our tender to our customers and attend interview (where applicable) after we receive the tender invitation until the award of contract.

### *Tender submission made during the Track Record Period and up to the Latest Practicable Date*

The below table sets out the tender submission made and success rate<sup>(1)</sup> during the Track Record Period and up to the Latest Practicable Date:

	For the year ended 31 March			From 1 April 2018
	2016	2017	2018	to the Latest Practicable Date
Number of tenders submitted	54	61	53	35
Number of successful tenders	12	15	21	7
Success rate <sup>(2)</sup>	22.2%	24.6%	39.6%	20.0%

#### *Notes:*

- (1) In calculating the tender success rate, we did not count the projects awarded by quotations which we were not required to prepare the tender submission and go through the tender process. Such quotations were generally prepared by our chief project manager and approved by Mr. PS Lee, our executive Director.
- (2) Tender success rate is calculated by dividing the number of contracts awarded in respect of the tenders submitted during a financial year by the number of tenders submitted during such financial year.

Generally, our tender team would submit the tenders after assessing the viability of the projects and the likelihood of being awarded. Our tender strategy is to maintain a reasonable profit margin on each project and also to tender for projects with larger contract sum (generally over HK\$20 million) in order to better to achieve economies of scale. Our Directors consider that it is important for us to enhance the market presences and market share in the steel and metal works industry from time to time, and our tender strategy allows us to plan our future development ahead by tendering different scales projects, as a large contract sum project would generally last for a considerable period of time while a small scale project would generally take a shorter time span than those large scale projects which enables us to be more flexible in deploying and allocating our project management team and site workers.

During the Track Record Period, the number of tenders submitted and number of successful tenders increased from approximately 22.2% for the year ended 31 March 2016 to approximately 39.6% for the year ended 31 March 2018. Our historical success rates may not be reflective to our future success. See “Risk Factors — Risks relating to our business — Our revenue relies on successful quotation or tenders of engineering services projects which are not recurrent in nature, and there is no guarantee that our customers will provide us with new business or that we will secure new

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customers” for further details of our risks in relation to our historical success rates. As at Latest Practicable Date, we had submitted 19 tenders for engineering services which we were yet to be notified of the tender results and among these 19 tenders, five of which were submitted after the Track Record Period.

During the Track Record Period, there were certain numbers of customers engaging us to provide engineering services by quotation only which we did not go through the tender process, and the amounts of quotation were generally less than HK\$1.0 million. For the steel and metal engineering services by quotation, we had an aggregate revenue of approximately HK\$7.1 million, HK\$7.2 million and HK\$12.6 million, respectively, for the years ended 31 March 2016, 2017 and 2018.

### 2. *Planning and management of project*

As soon as we are informed of our success in the tender, we will form a project management team to execute the projects. At the same time, our production team will prepare a production plan in respect of steel and metal engineering projects required for the projects, and we will also plan and arrange for required equipment and appoint installation services providers, where required.

#### *Formation of project management team*

Our project management team generally includes the following key members: project manager, designer, safety supervisor and foreman, which is responsible for (i) formulating detailed work programmes, (ii) design of products and solutions, (iii) liaising with our production team on steel and metal products required, (iv) coordinating with our customers to confirm the solutions and design of works and to complete the projects according to the work schedules, (v) managing our site workers, (vi) identifying any issues that need to be resolved, and (vii) ensuring work quality. Our project management team usually reports to our chief project manager, Mr. Sin Kwok Chi Stephen, in respect of the project progress on a weekly basis. See “Directors and Senior Management — Senior management” for details of Mr. Sin Kwok Chi Stephen.

Set out below are the respective responsibilities of the key members of a typical project management team:

<b>Position</b>	<b>Responsibilities</b>
Project manager	Assurance of project works quality and operation in accordance with quality management system, staff training, monitor and control works progress, liaise with customers, provide supervision, attend progress meeting and prepare progress report
Designer	Responsible for the design matters, providing technical supports, approving on design preparation and submission, coordinating with customer’s consultants in preparation of design submission

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Safety supervisor	Responsible for initiating, coordinating and managing all safety related tasks and duties, conducting full training and induction procedures, to ensure our Group's policies and safety guidelines are issued and adhered to and all documentation is up to date
Foreman	Responsible for the operations at construction site, supervising and reporting daily operations

### *Preparation of production plan*

Majority of the projects are required to provide solutions and design of works to our customers, which are based on the scope of works and specifications specified in the tender submission. Our project management team will coordinate with our customers on the design of products and works, and obtain the approval for such design from our customers. Once the design of products is confirmed, our project management team will coordinate with our production team to prepare the production plan. The production plan generally includes the procurement of raw materials, production schedule and delivery time.

### *Procurement of raw materials*

The construction materials that we use for our projects consist mainly of steel and metal materials. As at the Latest Practicable Date, we source raw materials from suppliers on our own in Hong Kong and the PRC, unless otherwise specified by our customers. See “Suppliers and service providers — Suppliers” below for further details.

### *Selection and appointment of installation service providers*

We usually carry out the works by our employees. Taking into account our capability, resources level, cost effectiveness and complexity of the project, we may subcontract specific parts of the projects to our service providers for installation of steel and metal products. We only appoint installation service providers for our projects in private sector. See “Suppliers and service providers — Installation service providers” below for further details.

## **3. Implementation of project**

### *Supervising the progress and regular progress meetings with customers*

Our project manager, together with other members of project management team, will prepare a budget plan for each construction project. Our Group will review and approve the budget plan and the following factors will be taken into account: (i) the scope and complexity of the steel and metal works to be carried out; (ii) the duration of the construction contract; (iii) the quotation obtained from our suppliers and installation service providers, taking into account future inflation and escalation in prices; and (iv) the resources of our Group, such as manpower, to be allocated to the project.

We review and monitor the budget plan for each of our projects with actual incurred costs. To mitigate the risk of delay in completing our projects, our project manager will review on the progress

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of the projects and discuss with our customers regularly on project progress and identify any issues found. To ensure the progress of work, our customers usually prepare a master programme for us as a reference of project timetable for the purpose of monitoring the progress and cost control. They discuss about any sites that fall behind the construction schedule to seek possible remedial actions such as allocating more manpower and machinery.

Upon completion of our tasks, we perform various tests to confirm that the specified standards have been met. Our customers may require additional or modification works. All works executed by us as a result of such variations shall be valued between customers and us in accordance with the principle that, among other things, any additional work carried out which is similar in character to and executed under similar conditions to any item of work priced in the original contract shall be valued at the rate set out in the original contract for such item of work.

### *Site inspection and quality control*

Before our steel and metal products are delivered to the construction sites, our production team will carry out quality inspection. Once our steel and metal products are delivered to the construction sites, our foreman will inspect the products. In addition, our project management team will carry out inspection or test on works during various stage of project implementation. Our project manager decides the appropriate control to be exercised on such works at various project stages to ensure conformance with customers' specification and contract requirements.

### *Certification and payment*

According to the construction contracts, our customers are generally required to make progress payments on a monthly basis based on the amount of work done by us. Once our Group has submitted a monthly bill, our customers will certify the amount of work done. Our customers usually settles the bill, net of any agreed retention money which is normally 10% of the value of work done (subject to a maximum retention of 5% of the total contract sum), within 30 days after receipt of our customer's certification.

#### **4. *Project completion/defect liability period***

Generally, once we have substantially completed the works under the construction contracts, and we permanently retreat our site workers from the construction sites, we consider our construction contracts with our customers are completed. As our steel and metal works only form part of the construction project, according to the construction contracts, generally, our customer will prepare and agree on the final account with us and the final account will set out the final outstanding balance due to us when the construction project as a whole is practically completed and certificate is issued by the person(s) authorised by our customers. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material delay in our projects and there was no material liquidated damages claims against us by our customers and also we had not encountered any loss making projects. In order to ensure due completion of the entire works under our construction contracts, our customers usually give the right to withhold ranges from 5% to 10% of each progress payment due to us as retention monies. Generally, the construction contracts will specify that the total amount of retention monies shall not exceed 5% of the total contract sum of the construction contracts.

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The retention monies are generally released to us in two instalments but the retention period could vary. The first half of the retention monies is generally released after the practical completion or the issuance of completion of certificate under the main contract, while the second half is generally released from 12 to 24 months after the expiry of defect liability period (usually being 12 months to 24 months from completion date as set out in the main contract) respectively. As at 31 March 2018, the retention monies withheld by our customers for completed works presented as retention receivables in the consolidated statements of financial position amounted to approximately HK\$18.2 million.

Generally, our customers require us to provide a defect liability period, during which we will remain responsible for remedying any defects or imperfections discovered in relation to our works done. Our defect liability period will usually be 12 to 24 months after completion of the main contract or a period until the expiry of the defect liability period of our customers as the main contractors, depending on the terms and conditions of the contracts. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims from our customers in relation to defects or imperfections discovered during the defect liability period.

### OUR PROJECTS

#### *Public and private sectors*

Our projects are generally categorised into public sector projects and private sector projects. The majority of our revenue during the Track Record Period was derived from public sector projects.

The below table sets out a breakdown of our revenue during the Track Record Period attributable to public and private sector for provision of steel and metal engineering services:

	<b>Year ended 31 March</b>					
	<b>2016</b>		<b>2017</b>		<b>2018</b>	
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>
- Public sector	91,230	74.3	100,944	62.5	133,129	66.8
- Private sector	<u>4,900</u>	<u>4.0</u>	<u>2,347</u>	<u>1.5</u>	<u>7,491</u>	<u>3.8</u>
	<u>96,130</u>	<u>78.3</u>	<u>103,291</u>	<u>64.0</u>	<u>140,620</u>	<u>70.6</u>

#### *Completed projects during Track Record Period*

During the Track Record Period, we had completed 31 projects which were awarded by tender. For the years ended 31 March 2016, 2017 and 2018, we completed 11, ten and five public sector projects and one, two and two private sector projects, respectively. The duration of these projects ranged from four months to 48 months.

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The below table sets forth details of the major completed projects which were awarded by tender (with contract sum of more than HK\$10.0 million) during the Track Record Period:

No.	Type of building development	Location	Contract date	Completion date (Note 1)	Contract sum (Note 2) HK\$'000	Revenue recognised (Note 4)		
						Year ended 31 March 2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
A1	Steel and metal works for public rental housing	Tung Chung	28 November 2014	October 2017	47,047	16,510	26,231	11,576
A2	Steel and metal works for public rental housing	Tsing Yi	5 June 2013	September 2015	40,706	1,659	Nil	Nil
A3	Steel and metal works for public rental housing	Yuen Long	21 January 2014	October 2015	36,573	7,346	220	Nil
A4	Steel and metal works for public rental housing	Kwun Tong	2 September 2013	October 2016	27,083	18,918	14,390	Nil
A5	Steel and metal works for public housing	Tseung Kwan O	12 October 2011	September 2015	15,851	1,479	Nil	Nil
A6	Design, supply and installation of metal gates for public rental housing	Tuen Mun	2 June 2015	July 2017	11,858	Nil	10,781	1,055
A7	Steel and metal works for public rental housing	Chai Wan	17 March 2015	August 2016	11,499	7,716	1,993	Nil
A8	Design, supply and installation of metal gates for public rental housing	Kwun Tong	5 August 2013	May 2016	11,091	8,491	216	Nil
A9	Steel and metal works for public rental housing	Sheung Shui	27 May 2013	May 2015	10,215	1,705	Nil	Nil

*Note:*

1. Completion date means the date when we substantially completed our works under the construction contracts and we permanently retreat our site works from the construction sites before the completion of the entire construction project under the main contract.
2. The aggregate contract sum is based on a total of all contract sums stated in the initial contracts between our customers and us and may not include additions and modifications.

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3. The project no. used in the table will be referred in “Financial Information”.
4. The amounts show the aggregate amounts of contract sum recognised during the Track Record Period and/or the amounts of variation orders, which may be different from the contract sum.

### On-going projects

As at 31 March 2018, we had 36 on-going projects with an aggregate contract sum of approximately HK\$354.7 million, and approximately HK\$6.8 million, HK\$20.3 million and HK\$103.4 million had been recognised as revenue for the years ended 31 March 2016, 2017 and 2018, respectively. Of these 36 on-going projects, the remaining balance of approximately HK\$180.0 million is expected to be recognised as our revenue for the year ending 31 March 2019 and approximately HK\$44.1 million after the year ending 31 March 2019.

The below table sets forth details of the on-going projects (with contract sum of more than HK\$10.0 million) as at 31 March 2018:

No.	Type of building development	Location	Contract date	Expected completion date (Note 1)	Revenue recognised (Note 2)			Estimated revenue to be recognised		
					Year ended 31 March			Year ending	After the	
					2016	2017	2018	31 March year ending 2019	31 March 2019	
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
B1	Steel and metal works for public rental housing	Tung Chung	17 June 2016	December 2018	65,010	Nil	6,530	41,950	16,530	Nil
B2	Steel and metal works for public rental housing	Shatin	4 February 2016	March 2019	37,379	Nil	2,697	14,507	20,174	Nil
B3	Steel and metal works for public rental housing	Kwun Tong	22 November 2016	March 2019	36,601	Nil	Nil	1,050	35,551	Nil
B4	Steel and metal works for public rental housing	North West Kowloon Reclamation Site	20 September 2017	September 2019	32,548	Nil	Nil	Nil	19,529	13,019
B5	Steel and metal works for public rental housing	Sham Shui Po	18 December 2017	March 2020	22,097	Nil	Nil	Nil	8,839	13,258
B6	Steel and metal works for public rental housing	Tin Shui Wai	2 March 2017	December 2018	19,552	Nil	Nil	10,208	9,344	Nil
B7	Steel and metal works for public housing	Shatin	13 July 2015	December 2018	18,802	1,258	8,719	6,684	2,141	Nil

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No.	Type of building development	Location	Contract date	Expected completion date (Note 1)	Contract sum	Revenue recognised (Note 2)			Estimated revenue to be recognised	
						Year ended 31 March			Year ending	After the
						2016	2017	2018	31 March year ending 2019	31 March 2019
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
B8	Steel and metal works for public rental housing	Tseung Kwan O	19 March 2018	March 2020	18,317	Nil	Nil	Nil	9,158	9,159
B9	Design, supply and installation of metal gates for public rental housing	Kwun Tong	6 August 2013	November 2018	13,518	Nil	2,242	9,517	1,760	Nil
B10	Supply and installation of metal gates for public rental housing	Tung Chung	6 April 2016	December 2018	11,018	Nil	Nil	9,605	1,413	Nil
B11	Supply and installation of metal gates for public rental housing	Lai Chi Kok	30 May 2016	June 2019	10,782	Nil	Nil	Nil	8,626	2,156

*Notes:*

1. The expected completion date for the contracts is determined based on our management's best estimation. In determining the estimation, our management takes into account factors including but not limited to the expected completion date specified in the relevant contracts and the actual work schedule as agreed between our customers and us.
2. The amounts show the revenue recognised during the Track Record Period and/or variation orders.
3. The project no. used in the table will be referred in "Financial Information".



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### Newly awarded projects

From 1 April 2018 and up to the Latest Practicable Date, we had been awarded with nine new projects with an aggregate contract sum of approximately HK\$75.7 million, which is expected to be recognised as our revenue after the year ending 31 March 2019. The below table sets forth details of the four newly awarded projects:

No.	Type of building development	Location	Date of contract awarded on	Contract sum <i>HK\$'000</i>
C1	Steel and metal works for public rental housing	North West Kowloon Reclamation Site	14 May 2018	35,069
C2	Design, supply and installation of fences, canopy and footbridge for public rental housing	North West Kowloon Reclamation Site	6 June 2018	11,689
C3	Installation of roller shutters for public rental housing	Sham Shui Po	6 June 2018	3,800
C4	Supply and installation of metal gates for public rental housing	Kwun Tong	4 June 2018	397
C5	Design, supply and installation of protective canopy	North West Kowloon Reclamation Site	1 August 2018	1,057
C6	Supply and installation of steel and metal works for public rental housing	Kwun Tong	8 August 2018	19,206
C7	Metal works for public rental housing	North District	27 August 2018	3,911
C8	Supply and installation of metal works	Tseung Kwan O	3 September 2018	185
C9	Supply and installation of roller shutters	Sham Shui Po	14 September 2018	384
			<b>Total</b>	<b>75,698</b>

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### Our project backlog

The below table sets forth the movement of the number of projects which were awarded by tender with the aggregated contract sum during the Track Record Period and up to the Latest Practicable Date:

	Number of contracts	Aggregate contract sum <sup>(Note)</sup> <i>HK\$ million</i>
<b>As at 1 April 2015</b>		
Opening backlog contracts	21	252.1
<b>During the year ended 31 March 2016</b>		
New contracts awarded	12	97.0
Contracts completed	12	124.1
<b>As at 1 April 2016</b>		
Closing / opening backlog contracts	21	225.0
<b>During the year ended 31 March 2017</b>		
New contracts awarded	15	165.8
Contracts completed	12	65.0
<b>As at 1 April 2017</b>		
Closing / opening backlog contracts	24	325.8
<b>During the year ended 31 March 2018</b>		
New contracts awarded	19	117.4
Contracts completed	7	88.5
<b>As at 31 March 2018</b>		
Closing/opening backlog contracts	36	354.7
<b>From 1 April 2018 up to the Latest Practicable Date</b>		
New contracts awarded	9	75.7
Contracts completed	Nil	Nil
<b>As at the Latest Practicable Date</b>		
Closing backlog contracts	45	430.4

*Note:* The aggregate contract sum is based on a total of all contract sums stated in the initial contracts between our customers and us and may not include additions and modifications due to subsequent variation orders. The final revenue recognised from a contract may differ from the contract sum initially agreed between the contracting parties.

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The below table sets out the movement of our projects by outstanding contract value during the Track Record Period and up to the Latest Practicable Date:

	<b>For the year ended 31 March</b>			<b>From 1 April 2018 up to the Latest Practicable Date</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Outstanding contract value brought forward from the prior financial year/period end date	160,377	167,211	234,693	224,059
Add: Value of new projects awarded by tender and relevant variation orders for these projects in the financial year/period	95,873	163,554	117,436	75,698
Less: Revenue recognised in the financial year/period <sup>(Note)</sup>	<u>(89,039)</u>	<u>(96,072)</u>	<u>(128,070)</u>	<u>(55,239)</u>
<b>Outstanding contract value on hand as at the year/period end date</b>	<u><u>167,211</u></u>	<u><u>234,693</u></u>	<u><u>224,059</u></u>	<u><u>244,518</u></u>

*Note:* The amounts only included revenue recognised for the projects awarded by tender.

The below table sets out the contract size range and average contract size of our projects which were awarded by tender during the Track Record Period:

	<b>For the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract size (minimum)	521.6	462.2	241.5
Contract size (maximum)	37,378.6	65,009.8	35,069.1
Average contract size	8,081.3	10,924.5	7,443.1

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The below table sets out breakdown by contract sum and number of contracts which the projects were awarded by tender during the Track Record Period:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>Number of contracts</i>	<i>Number of contracts</i>	<i>Number of contracts</i>
Projects awarded by tender with contract sum:			
Below HK\$5.0 million	6	9	14
Over HK\$5.0 million and below HK\$10.0 million	3	1	2
Over HK\$10.0 million and below HK\$20.0 million	2	3	1
Over HK\$20.0 million	<u>1</u>	<u>2</u>	<u>2</u>
	<u>12</u>	<u>15</u>	<u>19</u>

### **Key contract terms with our customers**

Generally, our construction contracts with customers for provision of steel and metal engineering services contain terms, such as scope and specification of works, price, payment terms, duration, retention monies, defect liability period, insurance and termination. Below set forth the key common contract terms with our customers during the Track Record Period:

Scope and specification of works	:	Description of types of works, specification of steel and metal works to be carried out.
Duration	:	We are required to follow the main contractor's program of works on site as set out in the main contract. Such schedule may be varied pursuant to the actual construction progress and our customers will usually notify us the time to commence work.
Payment terms	:	The total contract sum is stated, which is generally a fixed amount. Based on the amount of work completed, we make progress payment application to the customer which sets out the amount of work done and its corresponding value, which is normally on a monthly basis. The application is subject to examination by the architects, surveyors or other representatives appointed by our customers and the issuing of a certification based on such examination approving the amount of works eligible for payment under the application.

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- Retention monies : A portion of the contract value, normally ranges from 5% to 10% of progress payment, with a maximum of not more than 5% of the contract sum, is withheld by our customers as retention monies, of which half will be released after practical completion or issuance of the certificate of completion under the main contract, with the remaining to be released after the defect liability period (usually being 12 months — 24 months from completion date as set out in the main contract) or upon issuance of final completion certificate. The substantial and final completion certificates are certificates issued by the customer's architect to us to acknowledge that the projects are completed.
- Defect liability period : Our contracts will include a defect liability period, during which we are responsible to rectify works defects at no extra cost to our customers. The defect liability period is usually from 12 to 24 months from the completion date as set out in the main contract. If the materials used are defective, we will replace them during the defect liability period. There was no material claim which was brought against our Group by our customers during the Track Record Period. The cost incurred to rectify defective works or products during the Track Record Period was immaterial.
- Insurance : Insurance in relation to on-site activities will be purchased by our customers who are usually the main contractors of the projects, which cover all risks insurance and work injury compensation insurance.
- Liquidated damages : The contracts usually include a liquidated damages clause stipulating that in the event we fail to complete the work set out in the contracts within the allowed timeframe while no prior approval for any extension of time has been given by our customers and/or causes unnecessary delay to project completion that result in loss incurred by our customer, we shall compensate the customers by way of liquidated damages based on a daily fixed sum set out in the contract. Our Directors confirmed that there were no material liquidated damages paid by our Group during the Track Record Period.

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- Variation order(s) : Depending on the terms and conditions of individual contracts, our customers may give instructions to us to vary the contract works which we are generally obliged to follow. Such variation orders could be addition, modification or cancellation of the contract works. The value of the variations is generally ascertained with reference to the rates and prices already specified in the contract, and the total contract sum of the relevant project is adjusted accordingly.
- Termination : Our contracts can typically be terminated by the customer if, among others, (i) we have abandoned the contract or suspended the contract works; (ii) we have failed to proceed with the contracted works diligently; (iii) we have failed to execute the contract works or to perform or comply with other obligations or duties under and in accordance with the contract; (iv) we have refused to rectify defective works; (v) we have failed to carry out the contracted works as per the specified schedule; (vi) we become bankrupt or insolvent; or (vii) our customer's contract has been terminated. During the Track Record Period, none of our contracts were terminated.

### SALES OF STEEL AND METAL PRODUCTS

We sell steel and metal products to our customers, which we are not required to provide installation works and after-sale services. Our revenue generated from sales of steel and metal products were approximately HK\$26.6 million, HK\$58.2 million and HK\$58.6 million, representing approximately 21.7%, 36.0% and 29.4% of our total revenue for the years ended 31 March 2016, 2017 and 2018, respectively.

Generally, our customers provide us with their required product types, specifications, quantities and delivery schedule and our sales personnel will work with our production team in providing the quotations. Once our customers confirm their purchase orders, we will proceed with checking the inventory of available raw materials before procuring raw materials, if necessary, products production and delivery. See "Operating procedures" below for details. During the Track Record Period, our customers were mainly small and medium size contractors and engineering companies, and our customers were located in Hong Kong, save for sales transactions with the PRC customers (based on the location of goods delivered and services provided) with an aggregate revenue of approximately HK\$1.9 million, HK\$3.0 million and HK\$0.6 million, respectively, for the years ended 31 March 2016, 2017 and 2018.

In 2015, the Hong Kong Housing Authority has implemented the policy in respect of replacing the old-type collapsible gates at public rental housing estates and unsold flats at the Tenants Purchase Scheme estates, which involved 101 estates in Hong Kong. By the first quarter of 2016, we

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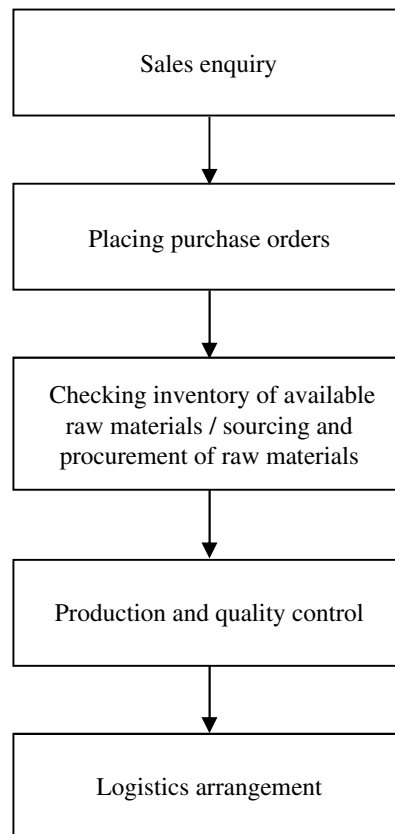
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commenced to manufacture and supply standardised collapsible gates to our customers which were the contractors undertaking the gate replacement project. Our revenue generated from selling standardised collapsible gates amounted to HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, respectively, for the years ended 31 March 2016, 2017 and 2018. According to the Frost & Sullivan Report, the Hong Kong Government has also adopted a housing supply target of approximately 480,000 units for the ten-year period from 2015 to 2025, and the demand for metal gates, shutters and doors is expected to increase as steel and metal engineering services are generally required for newly built housing units. Our Directors believe that with our good reputation in the construction industry and our capacity in designing and producing at our production facilities, we are capable of capturing the demand of steel and metal gates in the future.

### Operating procedures

The flow chart below sets out a typical flow of operations involved in the sales of steel and metal products:



#### *Sales enquiry*

The potential customers generally make enquiry and provide us with the specifications and requirements for steel and metal products, including the use of steel and metal products, measurements and delivery timeline. Upon receipt of such sales enquires, our sales personnel will liaise with our production team on the feasibility of handling the order based on the specifications and requirements

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## BUSINESS

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provided by the potential customers as well as costs of production. Upon the internal discussion, our sales will provide the quotation, and negotiate with the potential customers on the terms, such as payment terms and delivery time. It generally takes less than two days to provide the quotation after receipt of the sales enquiry.

### *Placing purchase orders*

Once our customers confirm quotations, they will place the purchase orders confirming the quantities and delivery time. In some occasions, in particular bulk purchase of certain products, our customer may request to enter into agreements setting out the detailed terms of a sales transaction. For details, see “Salient terms of a typical sales transaction” below. It generally takes two days to seven days from a sales enquiry to confirmation of purchase orders.

During the Track Record Period, our customers had placed bulk purchase orders of collapsible gates for replacements project launched by the Hong Kong Government. The revenue generated from sales of collapsible gates was approximately HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, representing approximately 4.3%, 21.0% and 21.5% of our total revenue, respectively, for the years ended 31 March 2016, 2017 and 2018.

### *Checking inventory of available raw materials / sourcing and procurement of raw materials*

Immediately after our customers confirm the purchase order, our production team will be responsible for checking the inventory of available raw materials, sourcing and procuring the required raw materials in accordance with our customers’ requirements. In certain circumstances, we may source and procure raw materials such as stainless steel, metal, galvanised coils and other accessories at the request of our customers to procure from their specified raw material suppliers. Further details regarding our raw materials suppliers, see “Suppliers and services providers — Suppliers” below.

### *Production and quality control*

Our production team are responsible for the overall production management and monitoring production schedule. During the Track Record Period, the lead time between placing of purchase orders by our customers and delivery ranged from approximately seven days to 14 days. The actual lead time depends on a number of factors, such as the capacity of our production team, the complexity of products, the quantity and the delivery time required by our customers.

We have established stringent quality control procedures throughout the total supply chain from procurement of raw materials to the inspection of finished products so as to ensure the quality of the our products are of industry standard consistently. See “Quality control” below for details of our quality control procedures.



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### *Logistics arrangement*

Generally, we are responsible for arranging appropriate logistics, through our in-house logistics team or delivery companies arranged by us for delivery of our products to the place specified by our customers, depending on the agreed delivery terms. We are able to deliver our products to our customers directly, allowing timely delivery and control over the delivery process, and ensuring that the products are not damaged during delivery. This also gives us flexibility over our delivery process, enabling us to fulfil urgent orders from our customers.

Our Directors confirm that we had not experienced any material disruption or damage to our products in the course of delivery during the Track Record Period and up to the Latest Practicable Date.

### **Salient terms of a sales transaction**

In respect of sales of steel and metal products, we do not enter into long-term agreements with purchase obligations with our customers. Our customers' orders are generally confirmed by placing purchase orders with us. Upon request by customers, we may enter into agreements stipulating fixed unit prices of our products with our customers. Set out below are the salient terms of our typical sales transaction:

Products	:	A brief description of the products, including the product specification and raw materials to be used, is specified.
Quantity	:	The agreement sets out the quantity required for our products.
Price	:	The agreement sets out the agreed unit prices for a list of products.
Payment terms	:	Depending on years of business relationship, reputation and payment history of our customers, we generally grant no credit terms or a credit period of up to 60 days to our major customers and require no deposit or up to 50% deposit from them. Customers with no credit terms are normally required to settle payment in full upon delivery of goods. We normally require our customers to settle our account receivables by wire transfer.
Delivery	:	The estimated delivery time and logistic arrangement is specified.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there had not been any material breach of the terms of the above agreements and our Group had not encountered any material incident of product replacement or repair, or cancellation of purchase order pursuant to the above agreements.

The purchase orders from our customers generally include terms such as the products required with specifications, quantity of the products required, delivery date, delivery address and contact person.

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During the Track Record Period, we have not experienced any product return which has had a material impact on our business and operations, and we have not recalled any products due to quality or other issue.

### SEASONALITY

Our Directors consider that there is no material seasonal pattern of provision of steel and metal engineering services and sales of metal gates and shutters.

### CUSTOMERS

Our major customers include well-known construction companies in Hong Kong who subcontract the steel and metal engineering works of their projects to us. Our customers also include small and medium size contractors and engineering companies.

#### Five largest customers

For the year ended 31 March 2016, 2017 and 2018, revenue generated from our five largest customers amounted to approximately HK\$89.7 million, HK\$93.7 million and HK\$125.1 million, representing approximately 73.1%, 58.2% and 62.9% of our total revenue, respectively. Revenue generated from our largest customer during the year ended 31 March 2016, 2017 and 2018, amounted to approximately HK\$41.4 million, HK\$48.7 million and HK\$51.6 million, representing approximately 33.8%, 30.2% and 25.9% of our total revenue, respectively.

The below tables set forth our five largest customers and their revenue contributed during the Track Record Period:

#### For the year ended 31 March 2016

Rank	Customer	Scope of services provided by our Group	Business relationship since	Credit terms	Aggregate amount of revenue contribution (HK\$'000)	% of revenue of our Group
1	Customer A	Provision of steel and metal engineering services and sales of steel and metal products	2013	30 to 60 days	41,439	33.8
2	Customer B	Provision of steel and metal engineering services and sales of steel and metal products	1997	30 to 60 days	30,219	24.6

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<b>Rank</b>	<b>Customer</b>	<b>Scope of services provided by our Group</b>	<b>Business relationship since</b>	<b>Credit terms</b>	<b>Aggregate amount of revenue contribution (HK\$'000)</b>	<b>% of revenue of our Group</b>
3	WY Construction Limited	Provision of steel and metal engineering services	2015	45 days	7,716	6.3
4	Customer D	Provision of steel and metal engineering services	2013	14 days	6,246	5.1
5	Customer E	Sales of steel and metal products	2015	30 days	4,086	3.3
<b>Total:</b>					<b>89,706</b>	<b>73.1</b>

**For the year ended 31 March 2017**

<b>Rank</b>	<b>Customer</b>	<b>Scope of services provided by our Group</b>	<b>Business relationship since</b>	<b>Credit terms</b>	<b>Aggregate amount of revenue contribution (HK\$'000)</b>	<b>% of revenue of our Group</b>
1	Customer A	Provision of steel and metal engineering services and sales of steel and metal products	2013	30 to 60 days	48,740	30.2
2	Customer B	Provision of steel and metal engineering services and sales of steel and metal products	1997	30 to 60 days	13,343	8.3
3	Customer F	Provision of steel and metal engineering services	2015	30 days	11,119	6.9
4	Customer G	Sales of steel and metal products	2016	30 days	10,902	6.8

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<b>Rank</b>	<b>Customer</b>	<b>Scope of services provided by our Group</b>	<b>Business relationship since</b>	<b>Credit terms</b>	<b>Aggregate amount of revenue contribution (HK\$'000)</b>	<b>% of revenue of our Group</b>
5	Customer H	Provision of steel and metal engineering services	2006	30 days	9,615	6.0
<b>Total:</b>					<b>93,719</b>	<b>58.2</b>

**For the year ended 31 March 2018**

<b>Rank</b>	<b>Customer</b>	<b>Scope of services provided by our Group</b>	<b>Business relationship since</b>	<b>Credit terms</b>	<b>Aggregate amount of revenue contribution (HK\$'000)</b>	<b>% of revenue of our Group</b>
1	Customer I	Provision of steel and metal engineering services	2012	30 days	51,555	25.9
2	Customer G	Sales of steel and metal products	2016	30 days	21,445	10.8
3	Customer A	Provision of steel and metal engineering services and sales of steel and metal products	2013	30 to 60 days	20,228	10.2
4	Customer B	Provision of steel and metal engineering services and sales of steel and metal products	1997	30 to 60 days	17,356	8.7

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Rank	Customer	Scope of services provided by our Group	Business relationship since	Credit terms	Aggregate amount of revenue contribution (HK\$'000)	% of revenue of our Group
5	Customer J	Provision of steel and metal engineering services	2006	30 days	14,507	7.3
<b>Total:</b>					<u><u>125,091</u></u>	<u><u>62.9</u></u>

*Notes:*

1. Customer A principally provides building construction and civil engineering services. The holding company of Customer A is listed in Hong Kong and had a total of 2,111 employees as at 31 December 2017 and recorded approximately HK\$6,302.4 million of revenue for the year ended 31 December 2017 according to its annual report for the year ended 31 December 2017.
2. Customer B principally provides in building construction services and is also registered as general building contractor and specialist contractors (sub-register of site formation works category) at Buildings Department. The holding company of Customer B is listed in Hong Kong and had approximately 3,100 employees as at 31 March 2017 and recorded approximately HK\$6,124.1 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.
3. WY Construction Limited is a private company with limited liability in Hong Kong with a paid-up share capital of HK\$2.5 million. Customer C is a building construction general contractor and operative builder in Hong Kong and is also a registered subcontractor at Construction Industry Council.
4. Customer D principally provides in building construction and maintenance services, and is a registered general building contractor at Buildings Department, and registered contractor of (i) electrical contractor and (ii) builder lifts and tower working platforms (safety) contractor at Electrical and Mechanical Services Department. The holding company of Customer D is listed in Hong Kong and had approximately 1,110 employees as at 31 December 2017 and recorded approximately HK\$6,953.0 million of revenue for the year ended 31 December 2017 according to its annual report for the year ended 31 December 2017.
5. Customer E is a private company with limited liability in Hong Kong with a paid-up share capital of HK\$10,000, and was incorporated in 2013. Customer E is a metal work engineering services provider in Hong Kong and is also a registered subcontractor at Construction Industry Council.
6. Customer F is a private company with limited liability in Hong Kong with a paid-up share capital of approximately HK\$55 million, and was incorporated in 1958. Customer F principally provides building construction and engineering services, and is a contractor under the categories of building maintenance (Group M2) and building (new works) (Group NW2) at Hong Kong Housing Authority, a contractor under the categories of general building contractor, specialist contractor (sub-registers of each of demolition works category, foundation works category, site formation works category, ground investigation field works category) at Buildings Department, an approved contractor for public works with contracts of any values exceeding HK\$300 million and an approved suppliers of materials and specialist contractors for public works at Development Bureau, and also a registered subcontractor at Construction Industry Council. Accordingly to the company website of Customer F, it is currently owned by two shareholders, one of which is a diversified business group focused principally in Asia with more than a hundred

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years and its group companies are one of the leaders in the field of engineering and construction, transport services, insurance broking, property investment and development, retailing, restaurants, luxury hotels, motor vehicles and related activities, financial services, heavy equipment, mining and agribusiness, and another shareholder is an infrastructure services business with strong positions in major markets.

7. Customer G is a private company with limited liability in Hong Kong with a paid up share capital of HK\$5,000, and was incorporated in 2001. Customer G is a trading company of brick, stone and related construction materials.
8. Customer H is a private company with limited liability in Hong Kong with a paid-up share capital of approximately HK\$50 million, and was incorporated in 1960. Customer H is a building construction general contractor and operative builder, and is a registered subcontractor at Construction Industry Council, an approved contractor for public works at Development Bureau, and also a contractor under the categories of general building contractor. The holding company of Customer H is listed in Hong Kong and had a total of 1,808 employees as at 31 March 2017 and recorded approximately HK\$6,127.1 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.
9. Customer I principally provides building construction services and is also registered as decoration contractor under Hong Kong Housing Authority. The holding company of Customer I is listed in Hong Kong and had a total of 344 employees as at 31 March 2017 and recorded approximately HK\$2,318.3 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.
10. Customer J principally provides building construction services and is also registered as general building contractor at Buildings Department. The holding company of Customer J is listed in Hong Kong and had 982 employees as at 31 March 2017 and recorded approximately HK\$3,216.0 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.
11. As advised by our Company's legal adviser as to Hong Kong laws, some of the contracts entered into between our Group and our top five customers contained confidentiality clauses, pursuant to which our Group shall not disclose any information in relation to the business of the customers, to any third parties unless prior consent is obtained. In absence of such consent, we are unable to disclose the identities of the top five customers during the Track Record Period in this prospectus.

None of our five largest customers in each of the years/ period during the Track Record Period is also our supplier or service providers, and all of them are Independent Third Parties. None of our Directors, their respective close associates or any Shareholders which, to the knowledge of our Directors, owns more than 5% of the issued share capital of our Company immediately following the completion of the Global Offering and the Capitalisation Issue, had any interest in any of our five largest customers in each of the years during the Track Record Period.

### **Customer concentration**

The revenue generated from the five largest customers amounted to approximately HK\$89.7 million, HK\$93.7 million and HK\$125.1 million, representing approximately 73.1%, 58.2% and 62.9% of our total revenue for the years ended 31 March 2016, 2017 and 2018, respectively. Save for Customer E, Customer F and Customer G which our Group sold the steel and metal products, we provided steel and metal engineering services to most of the largest customers. The percentage of our total revenue attributable to our largest customer amounted to approximately HK\$41.4 million, HK\$48.7 million and HK\$51.6 million, representing approximately 33.8%, 30.2% and 25.9% of our total revenue, respectively, for the years ended 31 March 2016, 2017 and 2018. Despite customer concentration, our Directors consider that our business model is sustainable for the following factors:

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1. Our Group is a leading and well-established steel and metal engineering company in Hong Kong with an operating history since 1993. We believe that we have earned a good reputation over the years in the construction industry and established stable relationship with our customers, and further our track record allows us to consolidate our reputation and secure projects from different main contractors. For details of our competitive strengths, see “Competitive strengths” in this section. Our Directors further believe that if any of our major customers reduces the number of contracts with us or terminates its business relationship with us, we would be able to utilise our spare operational and production resources to serve other existing customers and new customers in a timely manner.
2. We generally have preference for and it is our priority to work with reputable and sizeable contractors which have a tendency to undertake sizeable construction projects. Given the past working experience and their relatively strong financial strength, we believe that working with these contractors would reduce our credit risk and securing future business opportunities with them would strengthen our job reference. When we decide to undertake sizeable projects with large contract sum, we would dedicate sufficient resources into these projects and may not scatter our focus to compete for other less significant projects with overlapping work programme. During the Track Record Period, taking into account our available production capacity at that time, we prioritised our resources to cater to our major customers’ demand of our services to maintain a good business relationship with them, which gave rise to the concentration situation. In the event that any of our major customers cease to maintain a business relationship with us in the future, our Directors consider that we would have spare capacity to undertake other projects from other customers.
3. We will continue to identify and take on new customers when opportunity arises and we have no intention to limit ourselves to serve only our existing customers. During the Track Record Period and up to the Latest Practicable Date, our Group has established business relationship with various new customers in small to large scale, and one of which became one of our largest customers.
4. Our Directors believe that our major customers could benefit from our proven track record as a quality subcontractor in handling steel and metal works projects to ensure that their projects are executed on time. In particular, we have our own production facilities to produce steel and metal products which allow us to deliver the products to the site on a timely basis. We can assist our major customers to fulfil their responsibilities under the contracts with their project employers and also them in achieving their development objectives. Furthermore, having a stable and regular workforce enables our Group to cater for projects of various sizes and allows a better coordination in the deployment of labour in different projects, which in turn increases the overall efficiency and ability to handle multiple projects simultaneously. The extensive experience of our project management and supervision staff have also enabled us to assist our customers in project management and site supervision, and build reliable relationship and trust among our customers, their respective employers and us. Our Directors believe that we have a mutually beneficial relationship with our major customers, and so it enables us to maintain a close and stable business relationship with each other.

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5. We have regularly supported our major customers in the tender process due to our capability to take pragmatic approach in construction and submitting economical quotation for potential projects. We are able to provide full range services from design, production, installation and maintenance, which can demonstrate our Group's capabilities in steel and metal works and strengthen the tender proposition. This relationship allows our Group to enjoy a steady stream of steel and metal engineering projects. As a result, we believe the cooperation between our Group and each of our major customers mutually benefited the respective parties in capturing economic benefits and business growth.
  
6. Our Directors consider that our customer concentration is in part due to the fact that we are encountering our maximum capacity in both production and workforce. For each of the three years ended 31 March 2016, 2017 and 2018, our annual utilisation rate was approximately 87.9%, 89.0% and 90.3%, respectively. Due to the limit on our production capacity, we could be restricted to undertaking a limited number of sizeable steel and metal engineering services projects and sales of steel and metal products, hence giving rise to the customer concentration during the Track Record Period. As such, we are planning to expand our capacity to undertake more projects for different customers by strengthening our production fleet. We intend to use part the net proceeds from the Global Offering to acquire additional machines and equipment for our projects. We also plan to expand our market share by strengthening our financial capability in undertaking more large scale projects. See "Business strategies" above and "Future Plans and Use of Proceeds" for further details.

### **Credit control**

Generally, our Group allows a credit period of 30 days to 45 days to our customers from the date of payment certificate for provisions of engineering services and a credit period of up to 60 days to our customers from the date of invoices for sales of steel and metal products. Our Group regularly assesses the collectability of our trade receivables on a case-by-case basis to determine if any provision for trade receivables is necessary. Such assessment is based on, among others, the evaluation of collectability, ageing analysis of the receivables, the ultimate realisation of these outstandings, the current creditworthiness, the past collection history of and our Group's current and potential future business relationship with each customer. If the financial conditions of any of our Group's customers deteriorate, resulting in an impairment of their ability to make payments, provision for trade receivables may be required. During the Track Record Period, we did not have allowance for bad and doubtful debts on trade receivables.

During the Track Record Period, most of our revenue was generated in Hong Kong and our sales were mainly denominated in HK dollars, save for sales transactions with the PRC customers.

For the years ended 31 March 2016, 2017 and 2018, the average trade receivable turnover days were approximately 49.0 days, 54.0 days and 41.3 days, respectively.



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### PRICING

For both provision of steel and metal engineering services and sales of steel and metal products, we generally determine our price based on costs-plus basis with reference to the scale, complexity and specifications of the project, product types and specifications, our capacity and resources, prevailing market price, indicative pricing of our materials, delivery schedule, our past experience in tendering for similar projects and our relationship with customers.

With respect to provision of engineering services, when we receive an invitation to tender for a project, our tender team will do the analysis of tender documents and prepare the tender submission once the management agrees to proceed. For the projects which there is no tender process, our chief project manager will prepare the quotation for the approval of Mr. PS Lee, our executive Director. There is no specific pricing basis that is dependent on the type of building. Our project budget will depend on various factors, including but not limited to, the scale, complexity and specifications of the project, our capacity and resources, prevailing market price, indicative pricing of our materials and subcontracting works, and our past experience in tendering for similar projects. Key costs of services that impact our budgeted profit margin of our projects are (i) material purchases and (ii) labour costs. When preparing the tender pricing for higher value contracts, we will require certain of our suppliers and/or installation service providers to provide their fee quotations whose prices would be valid for the project duration. With respect to the sales of steel and metal products, we will take into account of the raw material costs, labour costs, delivery schedule and our relationship with customers.

We consider that it is important for us to accurately assess the cost for the projects prior to entering into contracts with our customers in order to avoid over-budget and to ensure that we can generate profit within our expected profit margin from the relevant projects. In particular, our construction contracts with customers usually contain a variation order clause which obligates our Group to execute additional works or modify the original scope of works as our customers may request from time to time. In the event that our customers place variations orders, we will ascertain the amount of additional cost and expenses which is subject to the written approval of the authorised person appointed by our customers. During the Track Record Period, our Group has not engaged in any material claims or disputes with our customers in relation to value of variation works performed by our Group.

### SALES AND MARKETING

Due the nature of our industry, our Group usually secures the business contracts by way of tender or quotation. Our Directors consider that our quality of services and proven track record is crucial to our business development, and enable us to retain our existing customers and attract new customers. We have a showroom at Tai Kok Tsui, Hong Kong to display our steel and metal products samples to our potential customers so that they can view the sample of the final products before placing an order. During the Track Record Period, our Group did not conduct marketing or promotional activities, and a number of our major customers are recurring customers with long established working relationships.

### PRODUCTION FACILITIES

Our production facilities are located in Huizhou, the PRC, with the aggregate gross floor area of approximately 17,273.7 sq.m.. Our Group leased the existing production facilities from an

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independent third party in December 2000, and Huizhou Hengyi purchased the production facilities from the independent third party in September 2010. We produce variety of steel and metal products at our production facilities operating for provision of engineering services and sales of steel and metal products. The steel and metal products used by us for the provision of engineering services are all manufactured at our production facilities.

### Principal products

Our major products consist of the followings:

(i) *Steel/metal gates and shutters*

We produce variety types of gates and shutters, such as metal gates, collapsible gates, fire-insulated shutters, transparent security roller shutter and escalator shutters. The gates and shutters can be in different sizes and functions, for example fire-insulated shutters are capable of resisting fire and with the fire resistant standard required by the Building Department, and transparent security roller shutters can be connected to security alarm or attached with safety device which are usually applied in shopping centres, warehouses and machine rooms.

(ii) *Other steel/metal products*

In provision of steel and metal engineering services, we are often required to provide steel and metal products, including lifting beams, metal staircases, metal working platform, handrails, ladders and water tank support and frames.

### Production process

We are able to produce various types of steel and metal products based on our customers' requirements and specifications. Our production process can be adjusted depending on the demanded product mix from time to time and is capable of producing custom-made products for our customers. The production time of our products varies as the product types, specifications, sizes and production process of our products are different.

The below sets out our general production process:

<b>Steps</b>	<b>Description</b>
Step 1: Material inspection	When raw materials are delivered to our production facilities, we will inspect the quality and quantity of raw materials to fit our customers' requirements.
Step 2: Cutting and forming	We will cut steel or metal plates into parts of predetermined sizes and lengths and also cut holes on them through hydraulic cutting, plasma cutting and water jet cutting.

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<b>Steps</b>	<b>Description</b>
	<p>The steel or metal parts will then undergo the forming process, through which the parts will be trimmed, levelled, milled and/or bent into three-dimensional shapes that fit our customers' specifications.</p>
Step 3: Dimension inspection and assembling	<p>We will inspect the sizes, shapes, angles, weld joints, root gaps, groove angles and other relevant dimensions of the steel or metal parts and other components, such as anchors and lock accessories. Only after the parts and components pass our strict dimension inspection and checking, they will be assembled according to our customers' specifications.</p>
Step 4: Welding	<p>Welding is a process of joining the steel or metal parts and other components by heating. Through the welding process, the steel or metal parts and other components are joined together to form the semi-finished products in accordance with our customers' specifications. We will carry out inspection on the semi-finished products again to confirm whether the welding process has been properly conducted.</p>
Step 5: Surface polishing	<p>The surface of the semi-finished products will become uneven after undergoing the above production process. Through the surface polishing process, imperfections on the surface of the semi-finished products such as creases and scratches will be removed.</p>
Step 6: Hot-dip galvanisation	<p>The semi-finished products will also go through the hot-dip galvanisation process. The semi-finished steel or metal products will be immersed in a bath of molten zinc so that a layer of zinc will form on the surface of the semi-finished products upon cooling. This can protect the steel or metal underneath from corrosion. During the Track Record Period, due to the shortage of our labour resources and significant utilisation rate, we engaged our approved service providers for hot-dip galvaning process. For details, see "Suppliers and Service Providers — Hot-dip galvanising service provider" below.</p>
Step 7: Packing and delivery	<p>The final steel or metal products will be packaged and wrapped by protective materials to prevent development of cracks, scratches and/or other imperfections on the products. We generally provide delivery services to our customers.</p>

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### Machines

As at 31 March 2018, our Group had the following major types of machinery with the expected useful life and average years of service:

Type of machines	Function	Expected useful life	Approximate average years of services	Quantity (units)
CNC shears (數控剪板機)	Cutting	10 years	More than 10 years	5
Multi-station drillers (多工位沖孔機)	Cutting holes on the plates	10 years	3 years	3
Notching machines (剪角機)	Cutting steel and metal plates into predetermined sizes	10 years	More than 10 years	5
Plasma cutting machine (等離子切割機)	Cuts through materials by means of an accelerated jet of hot plasma	10 years	6 years	1
Trough forming machines (槽仔成型機)	Forming	10 years	More than 10 years	2

We adopt a straight-line depreciation policy on our machinery for five to ten years. Some of the machines we purchased were second-hand machines and most of the machines have been used for more than ten years despite the expected useful life was around five to ten years. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material work interruption due to malfunction of our production machines and equipment.

Machines that are discovered to be malfunctioning would be examined by our production team. We would then decide to repair or dispose of such machines based on their damage level, value and years of service. Generally, for the machines with higher value, our production team would inspect them from time to time and replace the damaged parts only. Our Group had not experienced any material disruption to our production in connection with the machines during the Track Record Period and up to the Latest Practicable Date. We upgrade our production facilities regularly through software and hardware updates to keep up with the pace of technological developments so as to maintain our Group's competitiveness. See "Business strategies — To strengthen our capacity in order to capture the business opportunities and expand our market share" for further details.

### *Production capacity*

We produce various steel and metal products and we generally prepare the production plan based on the construction contracts and purchase orders from our customers. Our Group reviews the production plan regularly in order to ensure that there is sufficient production capacity to handle customers' orders and that finished products can be delivered in a timely manner. The majority of our

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products are not standardised products, which depends on our customers' demand and requirements. In addition, unlike production process of products that has standard production requirements and production times, the production requirements and production times for our steel and metal products vary significantly due to a number of factors such as different structure, sizes, styles and complexity for products which are different from project-to-project. Our production generally contains certain stages, including cutting and forming, dimension inspection and assembling, welding, surfacing polishing and hot-dip galvanisation with the aid of various machines and equipment such as cutting machines, notching machines and CNC planers. See "Production facilities — Production process" above for details. Nevertheless, the bottleneck of our production is cutting process, as most of key components of major products include as steel or metal plates, and steel or metal bars, are required to be cut and formed before they can proceed to next production steps. The other machines may be left unused pending completion of cutting process. Our Directors are of the view that we use the cutting process to calculate the production capacity and utilisation rate, based on the available record, such as the working hours and working days per year and production volume, which is a fair reflection of our use of production capacity during the Track Record Period. For illustration purpose, we select the cutting process and our key components of major products for calculating the utilisation rate.

The below table sets out the estimated maximum capacity, actual production volume of our Group's key components of major products and utilisation rate of the production facilities of our Group during the Track Record Period:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	('000)	('000)	('000)
Estimated maximum capacity ( <i>motions</i> ) ( <i>Note 1</i> )	3,634.6	7,610.4	9,845.3
Approximate actual production volume the year ( <i>motions</i> ) ( <i>Note 2</i> )	3,194.0	6,770.6	8,893.9
Approximate utilisation rate for the year ( <i>Note 3</i> )	87.9%	89.0%	90.3%

*Notes:*

- The estimated maximum capacity represents the estimated number of units of key components of major products produced by our key machines, mainly include cutting machines, notching machines and CNC planers. The maximum capacity is estimated based on the assumption that our key machines operate for 302 days for each of the years ended 31 March 2016, 31 March 2017 and 31 March 2018 and 12 hours per day taking into account public holidays and rest time of our workers and they will operate at optimal processing speed.

The estimated maximum capacity had been increased during the years ended 31 March 2017 and 2018 as we purchased some second-hand machines with a few years of expected useful lives remaining or already over their expected useful lives.

- The actual production volume represents the number of key components of major products produced during the Track Record Period.
- The utilisation rate is calculated as the approximate actual production volume for the year divided by the estimated maximum capacity.

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### SUPPLIERS AND SERVICE PROVIDERS

#### Suppliers

We generally order the raw materials on an order-by-order basis and we did not enter into any long-term contract with our suppliers. We usually check our available raw materials before we obtain the quotations of key raw materials from our approved suppliers and confirm with them on the price and quantities required. The price is determined by reference to a pre-agreed quotation subject to fluctuations and delivery date as agreed by the parties.

Our purchases of materials from are mainly stainless steel, metal, galvanised coils and accessories. Our suppliers are located in the PRC and Hong Kong. The below table sets forth a breakdown of our purchases of major raw materials during the Track Record Period:

	Year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Stainless steel	12,916	30.3	12,782	18.6	14,814	26.6
Metal	10,112	23.7	9,514	13.9	12,099	21.8
Galvanised coils	7,007	16.4	32,207	47.0	13,413	24.1
Accessories	<u>12,650</u>	<u>29.6</u>	<u>14,035</u>	<u>20.5</u>	<u>15,311</u>	<u>27.5</u>
<b>Total:</b>	<b><u>42,685</u></b>	<b><u>100.0</u></b>	<b><u>68,538</u></b>	<b><u>100.0</u></b>	<b><u>55,637</u></b>	<b><u>100.0</u></b>

The terms of our supply agreement generally include the type of raw materials or services required, the price, the quantity of materials/duration of service and the payment terms. We select our suppliers from our approved supplier list based on factors including the (i) quality of product/services; (ii) delivery time; (iii) previous working experience with the supplier; (iv) reputation of the supplier; and (v) credit period of the supplier. We generally provide the construction materials required for our projects unless otherwise stated in the agreement with our customers and our rate generally includes the costs of construction materials.

Since there are a number of suppliers of raw materials in Hong Kong and the PRC, our Directors consider that it is feasible to engage alternative suppliers of raw materials for our Group and we are not overly reliance on our suppliers of raw materials.

Our suppliers generally grant us an average credit period of up to 60 days for settling their invoices and we generally settle the payment by cheque. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties or delays in performing our projects due to material shortages or delays in delivery of construction materials.

#### Selection of our suppliers

We maintain an approved list of suppliers and service providers. The potential suppliers and service providers must fulfill our assessment criteria before they are put into our approved list, and the criteria include, among others, (i) price, (ii) quality, (iii) reputation in the industry, (iv) financial situation, (v) delivery time, (vi) services and (vii) quality management. This assessment will be approved by production manager.

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From time to time, our project manager and production manager will assess the performance of the suppliers and services providers in the projects, including, among others, (i) cost competitiveness, (ii) ability to meet the delivery schedules, (iii) response to the instructions, (iv) quality of goods or services received. If the suppliers or service providers do not meet our assessment, they will be removed from our approved list.

### Five largest suppliers

During the Track Record Period, our five largest suppliers mainly are suppliers of raw materials for our steel and metal products. For the years ended 31 March 2016, 2017 and 2018, our purchases attributable to our five largest suppliers amounted to approximately HK\$15.2 million, HK\$37.3 million and HK\$19.2 million, representing approximately 35.7%, 54.4% and 34.5% of our total purchases, respectively. Our purchases attributable to our largest supplier during the year ended 31 March 2016, 2017 and 2018, amounted to approximately HK\$7.0 million, HK\$20.1 million and HK\$5.7 million, representing approximately 16.3%, 29.3% and 10.2% of our total purchases, respectively.

The below tables set forth the details of our top five suppliers and service providers based on the ranking in respect of the material costs incurred during the Track Record Period:

#### For the year ended 31 March 2016

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
1	Supplier A	Based in Hong Kong and a supplier of stainless steel products	2001	Stainless steel	60 days	6,954	16.3
2	Supplier B	Based in the PRC and a manufacturer of steel products, including pickled steel, cold rolled steel and galvanised coils	2015	Galvanised coils	Nil	2,719	6.4
3	Supplier C	Based in Hong Kong and a supplier of metal materials for manufacturing and construction industries	1995	Metal	60 days	1,966	4.6

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Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
4	Supplier D	Based in Hong Kong and a supplier of steel products	1997	Stainless steel	30 days	1,947	4.5
5	Supplier E	Based in the PRC and a company specialising in production and processing of stainless steel	2012	Stainless steel	Nil	1,662	3.9
<b>Total:</b>						<b>15,248</b>	<b>35.7</b>

### For the year ended 31 March 2017

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
1	Supplier F	Based in the PRC and a company specialising in processing of metal products	2015	Galvanised coils	Nil	20,072	29.3
2	Supplier A	Based in Hong Kong and a supplier of stainless steel products	2001	Stainless steel	60 days	7,075	10.3
3	Supplier G	Based in the PRC and a wholesaler of metal products	2017	Galvanised coils	Up to 90 days	5,572	8.1
4	Supplier C	Based in Hong Kong and a supplier of metal materials for manufacturing and construction industries	1995	Metal	60 days	2,347	3.4



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Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
5	Supplier B	Based in the PRC and a manufacturer of steel products, including pickled steel, cold rolled steel and galvanised coils	2015	Galvanised coils	Nil	2,238	3.3
<b>Total:</b>						<u>37,304</u>	<u>54.4</u>

**For the year ended 31 March 2018**

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
1	Supplier H	Based in the PRC and a distributor of metal products	2017	Stainless steel	Nil	5,692	10.2
2	Supplier C	Based in Hong Kong and a supplier of metal materials for manufacturing and construction industries	1995	Metal	60 days	3,742	6.7
3	Supplier B	Based in the PRC and a manufacturer of steel products, including pickled steel, cold rolled steel and galvanised coils	2015	Galvanised coils	Nil	3,646	6.6
4	Supplier A	Based in Hong Kong and a supplier of stainless steel products	2001	Stainless steel	60 days	3,052	5.5

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Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
5	Supplier I	Based in the PRC and a company producing and processing metal products	2017	Galvanised coils	Nil	3,046	5.5
<b>Total</b>						<b>19,178</b>	<b>34.5</b>

None of our Directors, their respective close associates or any Shareholders (who to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in any of our five largest suppliers during the Track Record Period.

### General terms of engagement with suppliers and service providers

Our Group does not enter into long term agreements with our material suppliers. We only make purchase orders when we require raw materials, which generally contains the description and specification of purchased items, the schedule of rates with unit price and quantity purchased. For some of the suppliers, they may require us to pay a deposit based on a certain percentage of the purchase amount. The credit term offered to us normally ranges from 0 to 60 days.

### Raw materials

We maintain a suppliers list for raw materials and we can source raw materials from various suppliers which enables us to reduce possible interruptions to our business operations and reliance on individual suppliers. This helps us to maintain stability of components and materials procurement. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage or delay in delivery of our major raw materials, nor had experienced any material adverse effect to our business or financial performance as a result of price fluctuations of raw materials. However, as the prices of major raw materials such as steel and metal may rise, and we may not be able to effectively pass on the effect of fluctuations in such costs to our customers, increase of our raw materials costs may negatively affect our Group's operations and financial performance.

We monitor our inventory monthly with an established internal inventory management system and also carry out an annual audit of our inventory. Our inventory levels are not high as we place separate procurement orders to our suppliers based on the project progress and/or the placement of purchase orders from our customers. We monitor the market prices and trends of raw materials such as steel and metal on a regular basis, and may occasionally make pre-purchases of raw materials, parts or components if their market prices are relatively low. We do not undertake hedging activities against the price of raw materials. The production team is responsible for the overall scheduling of orders and

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deliveries of the raw materials, so as to match material deliveries with the project's requirements. Purchase orders issued to suppliers would indicate the different tentative delivery dates that match with the relevant project schedule steel and metal products delivery schedule. For further details, see "Inventory management" below.

### **Installation service providers**

Generally, our site workers carry out most of the works in the projects, in particular, they carry out all the works in all public sector projects. We may engage service providers for installation works in private sector only, depending on our internal resources level, cost effectiveness and level of works complexity. Also, we did not rely on the installation service providers during the Track Record Period, the fees paid to the installation service providers amounted to approximately HK\$4.6 million, HK\$3.5 million and HK\$3.0 million, representing approximately 5.6%, 3.2% and 2.4% of direct costs, respectively, for the years ended 31 March 2016, 2017 and 2018. Our Directors confirmed that we had no material dispute with our installation service providers during the Track Record Period.

### **Hot-dip galvanising service provider**

Since not all our steel and metal products are required to go through the hot-dip galvanising process, and also due to the availability of our own labour resources, we may outsource hot-dip galvanising process to our service provider in order to achieve our production optimisation. During the Track Record Period, we had entered into a framework agreement with our service provider confirming the service fee which was generally valid for a period of time. We engage such service provider on an order-by-order basis when our steel and metal products are required hot-dip galvanising process. Our production team will deliver the semi-finished products to the service provider, and the semi-finished products will be returned to our production facilities upon completion of the hot-dip galvanising process. Our quality control staff will inspect the semi-finished products returned from our service providers to ensure that they meet the required quality standard before going through other stage of process. For the years ended 31 March 2016, 2017 and 2018, the total amount paid to our hot-dip galvanising service provider were approximately HK\$1.5 million, HK\$1.8 million and HK\$2.6 million, respectively. Our directors confirmed that we had no material dispute with the hot-dip galvanising service provider.

## **QUALITY CONTROL**

We have implemented a quality control system throughout the production process, in order to ensure our steel and metal products meet our customers' expectation and industry standards. Our quality control team is responsible for conducting sample testing on the quality of both raw materials and finished products.

To ensure the quality of our purchases, we will source the raw materials from the suppliers in our approved suppliers list. Generally, when raw materials arrive at our production facilities, our quality control team will check whether the quality, specifications and quantities of the raw materials are in line with our purchase orders. We also obtain the mill test certificates from our suppliers for

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each purchase of steel and metal materials to ensure the materials are in compliance with the industry standards. In addition, we may engage independent professionals to perform inspection and quality tests on certain steel and metal materials. Any defective materials or materials without the mill test certificates will be returned to the suppliers for replacement.

During the production stage, we have quality checking by our production team at various stages of the production process, including interim inspection on semi-finished products and final inspection on the finished products before delivery. Our quality control team also attends to the production lines and conducts random testing to ensure that our finished products could meet the customers' requirements and specifications. In respect of certain types of products, such as fire-insulated shutters, we arrange for independent testing and certification companies to conduct tests on our products in order to ensure the industry standard is fulfilled. Also, once our steel and metal products are delivered to the construction sites, our foremen will inspect the products.

In respect of our steel and metal works at the construction sites, to ensure that our works meet the required standard, our foremen will monitor the quality of steel and metal works done by our own site workers. Our project manager visits the construction sites from time to time and monitors the work quality, the progress of construction work and ensures that the works are duly completed according to the implementation schedules. Furthermore, our project management teams have regular meetings with our management who closely monitors the progress of each project and any issue identified to ensure that our steel and metal works are being carried out in a way that satisfy our customers' requirements and can be completed within the time stipulated in the contract.

During the Track Record Period and up to the Latest Practicable Date, we did not have any quality control issues in respect of works we delivered to our customers, materials supplied by third parties and works delivered by our service providers which would have had a material impact on our business, financial or results of operations.

### INVENTORY MANAGEMENT

Our inventories include raw materials, work in progress and finished goods. Set out below is a breakdown of our inventories as at 31 March 2016, 31 March 2017 and 31 March 2018:

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Raw materials	16,981	20,359	12,676
Work-in-progress	3,393	5,700	5,158
Finished goods	304	356	840
<b>Total:</b>	<b>20,678</b>	<b>26,415</b>	<b>18,674</b>

Our Group checks the available raw materials when the tenders are success or our customers placed their purchase orders, and we will place purchase orders if necessary. We prefer to procure raw materials in bulk and it allows us to negotiate with a better price from our suppliers. For some

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unutilised or leftover raw materials such as stainless steel, metal, galvanised coils and accessories, given that they are durable in nature we can utilise them after long period of storage. We mainly procure the raw materials and accessories from the suppliers located in the PRC and Hong Kong to minimise the delivery time. Our inventories are stored in our production facilities in Huizhou.

As at 31 March 2016, 31 March 2017 and 31 March 2018, the total value of our inventory were approximately HK\$20.7 million, HK\$26.4 million and HK\$18.7 million, respectively. For the years ended 31 March 2016, 2017 and 2018, our inventory turnover days were 91.5 days, 79.8 days and 65.9 days, respectively. For details of inventory analysis, see “Financial Information — Inventories — Analysis of various items from the Consolidated Statement of Financial Information”. Our Directors, having considered the nature of the raw materials and the likelihood to utilise the raw materials inventory, are satisfied that, save as disclosed above, there was no obsolete stock as at the respective years.

According to our inventory control procedures, our production team monitors storage of raw materials and places procurement orders to our suppliers when the stored raw materials are not enough for our production. Production of our products is carried out in accordance with the engineering services projects and purchase orders of our customers. In respect of our engineering services, we generally deliver our finished steel and metal products based on the schedule of construction projects. In respect of the sales of our products, we generally deliver our finished products to customers based on the agreed delivery schedule.

## COMPETITION

According to Frost & Sullivan Report, the overall steel and metal engineering services market in Hong Kong is fragmented in terms of number of market participants. According to Frost & Sullivan, there were approximately 400 steel and metal works contractors registered with the Construction Industry Council and approximately 50 contractors were engaged in steel and metal works engineering service in public sector in 2017. Our Group had an estimated market share of approximately 8.6% in the overall steel and metal engineering services market in Hong Kong. The steel and metal engineering services market in public sector is relatively concentrated and the aggregate market share for the top three market participants reached approximately 57.1% in 2017. Our Group was the largest steel and metal engineering services provider in the overall public sector in terms of revenue with a market share of approximately 31.9% in 2017.

In respect of the sales of steel and metal products, according to the Frost & Sullivan Report, attributable to increase in demand for metal gates from replacement scheme for metal gates and doors in public housing flats and construction of new residential buildings, the sales value of metal gates in Hong Kong registered a significant growth from approximately HK\$397.5 million in 2012 to approximately HK\$650.0 million in 2017, representing a CAGR of 10.3%. With the continuous growing demand for metal gates from increasing supply of new buildings as well as regular renovation and maintenance works in old aged residential buildings such as the five-year replacement scheme of old type collapsible gate launched by Hong Kong Housing Authority in public rental housing starting from 2015, the sales value of metal gates is expected to increase at a CAGR of 8.6% during 2018 to 2022.

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The key factors of competition for steel and metal works market in Hong Kong include (i) service level — e.g. provision of timely delivery and installation services; (ii) product design — e.g. provision of a variety of product; (iii) product quality; and (iv) competitive pricing. See “Industry Overview — Competitive landscape of Hong Kong steel and metal works engineering services market — Factors of market competition” for details.

We consider that our competitive advantages have contributed to our success. As such, even though the steel and metal works industry in Hong Kong may remain competitive in the future, we are confident that we are able to withstand the intense competition with our competitive advantages. For further details of our competitive advantages, see “Competitive strengths”.

### PROPERTY

#### Owned properties

As at the Latest Practicable Date, we owned Huizhou factory comprising a parcel of land with our production plants, office, warehouse and staff dormitory located at No. 9 Xilong Industrial Park, Lilin Village, Lilin Town, Zhongkai District, Huizhou, the PRC, with an aggregate gross floor area of approximately 17,273.7 sq.m.. Our PRC legal advisers confirmed that we have obtained the valid title certificate and land use certificate of the Huizhou factory.

During the Track Record Period, we owned two properties in Hong Kong, including a residential property and a car park space, which were sold to Mr. Lee Ka Kit, the youngest son of Mr. PS Lee and Ms. LC Lau, our executive Directors and Controlling Shareholders, and the younger brother of Mr. Benny Lee, our non-executive Director. See “Connected Transactions — One-off connected transactions” for details.

As at the Latest Practicable Date, no single property interest forming part of our Group’s non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, this prospectus is exempted from compliance with the requirements of rules 5.01A and 5.01B of the Listing Rules and the requirements of Section 342(1) and paragraph 34(2) of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance with respect to the requirements of the inclusion of a property valuation report in this prospectus.

#### Leased properties

As at the Latest Practicable Date, we had entered into a tenancy agreement with Mr. PS Lee and Ms. LC Lau, our executive Directors and Controlling Shareholders, for leasing the following properties:

Address	Use of property	Monthly rental	Tenure
Unit A and all Unit D Upper Ground Floor Yau Tong Industrial Building Block 4, No 18 & 20 Sze Shan Street Kowloon, Hong Kong	Office	HK\$16,000	Term of two years and 11 months commencing from 7 May 2018 to 31 March 2021

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Address	Use of property	Monthly rental	Tenure
Unit B, Upper Ground Floor Yau Tong Industrial Building Block 4, 18 and 20 Sze Shan Street Kowloon, Hong Kong	Office	HK\$14,000	Term of two years and 11 months commencing from 7 May 2018 to 31 March 2021
Ground Floor Kar Wun Court 18 Ivy Street Kowloon, Hong Kong	Showroom	HK\$23,000	Term of two years and 11 months commencing from 7 May 2018 to 31 March 2021
Xilong Factory, Lilin Village Lilin Town Zhongkai District, Huizhou, the PRC	Factory	RMB40,000	Term of three years commencing from 1 January 2018 to 31 December 2020

Also see “Connected Transactions” for details.

## INTELLECTUAL PROPERTY RIGHTS

Our Group has marketed our business in Hong Kong by using the trademark and “Hang Yick” as our brand name. As at the Latest Practicable Date, we have applied for registration of trademarks and patents in Hong Kong. Detailed information of our intellectual property rights is set out in “Appendix IV — Statutory and General Information — B. Further information about the business —” 2. Intellectual property rights of our Group”.

As at the Latest Practicable Date, we are not aware of any material infringements (i) by us of any intellectual property rights owned by third parties; or (ii) by any third parties of any intellectual property rights owned by us and we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the material infringement of any intellectual property rights of third parties.

## RESEARCH AND DEVELOPMENT

During the Track Record Period and as at the Latest Practicable Date, we did not engage in any research and development activity.

## ENVIRONMENTAL MATTERS

In providing our engineering services, we aim to ensure that all works done are conducted in an environmentally responsible manner. Our Group has established an environmental management system

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and also formulated an environmental policy to provide guidance, support and adequate resources for effective implementation of our environmental protection measures. Our environmental management system currently in place involves, among others, the following environmental protection measures:

- ensuring that we are committed to regulatory compliance and comply with customer requirements and industry best practices from an environmental perspective in undertaking our activities;
- evaluating the environmental impact of our business activities, products and services and the associated risks, and devising targets and plans for managing such risks; and
- effectively conserving the use of resources and minimizing waste generation.

We also ensure that our installation service providers and their workers comply with our environmental protection policy on the basis of appropriate education, training and/or experience. Further, environmental management system, operational control and compliance trainings are provided for our employees so as to encourage their active participation in environmental protection and ensure compliance with the regulatory and internal requirements.

Our production facilities in Huizhou, the PRC discharge various kinds of wastes, including noise, waste water and other industrial waste and we are subject to a number of environmental laws and regulations in the PRC. For details, see “Regulatory Overview — PRC laws and regulations — Laws and regulations relating to environmental protection”. We have adopted the procedures and guidelines for handling the waste materials in order to ensure that our operation will not cause any material damage to the environment and environmental compliance. We had also retained an independent inspection company to conduct pollution level check for noise, waste water and other industrial waste at our production facilities.

We continuously observe the laws and regulations in relation to environmental protection in Hong Kong and the PRC. Our Directors confirm that as at the Latest Practicable Date, no administrative sanctions, penalties or punishments have been imposed upon us for the violation of any environmental laws or regulations. We do not expect to incur material costs in relation to compliance with applicable environmental laws and regulations upon Listing. For details of the laws and regulations in relation to environmental protection applicable to our business, see “Regulatory Overview”.

## OCCUPATIONAL HEALTH AND WORK SAFETY

We regard occupational health and safety as an important social responsibility. Our Group has implemented occupational health and safety policy for safety assurance and accident prevention. We emphasise to our employees that strict compliance with safety requirements is vital to ensure that there are no accidents to themselves or others that work on our projects in both construction sites and our production facilities.



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At the construction site, we conduct regular safety inspections to ensure our operations are conducted in a manner so as to reduce the risks to persons and properties. We also provide safety training to all of our employees who are working at the construction sites. In addition, we require our service providers to abide by all applicable laws, regulations and safety requirements imposed by the relevant government authorities.

At our production facilities, we are also required to abide by work safety laws and regulations imposed by the relevant PRC government authorities and maintain a safe working environment. We have adopted and implemented occupational health and safety procedures and measures for our production operations, and ensure that all our production employees are aware of our safety procedures, protective equipment procedures and social and environmental responsibility. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedures, and social and environmental responsibility. Our employees involved in the production of our steel and metal products are required to attend training courses on production and workplace safety, and certain employees with unique skill sets are required to attain special post quality control certifications. We provide, and require our employees to wear, regularly tested protective devices to ensure their safety. In addition, we provide general health and safety education and training to our employees and conduct periodical emergency drills. We also carry out workplace security inspections from time to time.

### **Accidents during the Track Record Period and up to the Latest Practicable Date**

#### *Hong Kong*

During the Track Record Period and up to the Latest Practicable Date, we carried out engineering services in Hong Kong and there was one accident involved one worker who were employed by us and occurred in Hong Kong. As at the Latest Practicable Date, save as disclosed in “Litigation and claims” below, we are not aware of any claim or legal proceedings has been commenced by the injured persons.

Either our Group or our customers have taken out insurance in compliance with the applicable laws and regulations to provide sufficient coverage for such work-related injuries for workers on site and we have not incurred any material liabilities as a result thereof. As such, these incidents did not and are not expected to have a material impact on our Group’s operation. For details of our insurance purchased, see “Insurance” below.

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Table below sets forth a comparison of the accident rate per 1,000 workers and fatality rate per 1,000 workers of our Group against the industry average in Hong Kong:

	<b>Construction industry average rate</b> <i>(Note 1)</i>	<b>Our Group's rate</b> <i>(Note 2)</i>
	<b>From 1 January 2015 to 31 December 2015</b>	<b>For the year ended 31 March 2016</b>
Accident rate per 1,000 workers	39.1	Nil
Fatality rate per 1,000 workers	0.20	Nil
	<b>From 1 January 2016 to 31 December 2016</b>	<b>For the year ended 31 March 2017</b>
Accident rate per 1,000 workers	34.5	16.4
Fatality rate per 1,000 workers	0.09	Nil
	<b>From 1 January 2017 to 31 December 2017</b>	<b>For the year ended 31 March 2018</b>
Accident rate per 1,000 workers	NA	Nil
Fatality rate per 1,000 workers	NA	Nil

*Notes:*

1. The figures are extracted from the Occupational Safety and Health Statistics Bulletin Issue No. 17 (August 2017) and Summary of Occupational Safety and Health Statistics of 2017 by Occupational Safety and Health Branch, Labour Department, which is the latest issue as at the Latest Practicable Date. The figures for the year ended 31 December 2017 were not available as at the Latest Practicable Date.
2. Our Group's accident rate is calculated as the occurrence of accident during the financial year divided by the average construction site workers in the construction sites during the financial year and multiply the result by 1,000.

Table below shows our Group's lost time injuries frequency rates ("LTIFRs") (*Notes*) is set out below:

For the financial year ended 31 March 2016	0
For the financial year ended 31 March 2017	0.55
For the financial year ended 31 March 2018	0

*Notes:*

1. LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFR is calculated as multiplying the number of lost time injuries of our Group happened in the financial year by 1,000,000 and then dividing by the number of hours worked by the workers over that financial year.

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2. The number of working days of site workers for each of the years ended 31 March 2016, 2017 and 2018, were approximately 296 days, 303 days and 342 days respectively. It is assumed that the number of working days of site workers is computed based on the assumption that the workers do not work on a statutory holiday and the working hour of each worker is eight hours per day.

The fluctuation of our Group's LTIFR during the Track Record Period is in line with the respective accident rates per 1,000 workers as disclosed above.

### *The PRC*

We carry out our production in the PRC. We provide internal guidelines on work safety for our employees. We also make necessary arrangements to ensure safety and health. During the Track Record Period, we did not breach any work safety related laws and regulations in the PRC. At our production facilities, during the Track Record Period and up to the Latest Practicable, there had not been any claim by or compensation paid to our production employees due to any accidents. There was no accident causing death or serious bodily injury in our production operations during the Track Record Period and up to the Latest Practicable Date.

## INSURANCE

It is common practice in the construction industry, and also setting out in most construction contracts between main contractors and customers, that the main contractor of a construction project will take out and maintain employees' compensation insurance and contractor's all risks insurance for the entire project. The coverage of such insurance policies includes all works performed by the main contractor and all its subcontractors.

For our provision of steel and metal engineering services, the projects undertaken by us and the employees are respectively protected by contractors' all risks and employees' compensation insurance. Depending on the terms of the relevant contracts, such insurances are usually taken out by our customers who are the main contractors. We generally will not take out separate insurance policies but will rely on the insurance policies taken out and maintained by the relevant main contractors. Our reliance on the main contractors' insurance policies is explicitly provided for in the relevant subcontracting agreements with our customers. Our Group has adequate insurance coverage against our liabilities under employees' compensation and personal injury claims. Our Directors believe that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and are in line with the industry norm. For the years ended 31 March 2016, 2017 and 2018, our insurance expenses were approximately HK\$0.2 million, HK\$0.3 million and HK\$0.3 million, respectively.

In addition, as at the Latest Practicable Date, we maintained insurance policies to protect us risks insurance for our property, plant and equipment, vehicle insurance and medical insurance for our employees who are working at our office in Hong Kong or our production facilities in Huizhou, the PRC. Our Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect us from any potential loss or damage and are in line with the industry norm.

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During the Track Record Period and up to the Latest Practicable Date, we had not made and did not make or had not been the subject of any material insurance claim.

### EMPLOYEES

As at 31 March 2018, our Group had 335 staff (including our executive Directors), of which 174 full-time employees were located in Hong Kong and 161 full-time employees were located in the PRC.

The following sets forth the number of our employees in the respective functions (including our executive Directors but not our non-executive Director and independent non-executive Directors) as at 31 March 2018:

	<b>As at 31 March 2018</b>
<b>Hong Kong</b>	
Executive Directors and senior management (including two project manager and one designer)	6
Project management and supervision (including one project manager, three designers and six safety officers and foremen)	14
Finance and accounting	2
Administration and human resources	6
Site workers	142
Logistics	<u>4</u>
<b>Sub-total:</b>	<u>174</u>
<b>PRC</b>	
Production workers	134
Procurement	4
Warehouse	4
Accounting	4
Administration and human resources	<u>15</u>
<b>Sub-total:</b>	<u>161</u>
<b>Total:</b>	<u><u>335</u></u>

### Recruitment policies and training

We recruit our employees based on a number of factors such as their work experience, educational background, qualifications or certifications possessed and vacancies. We entered into separate labour contracts with each of our employees in accordance with the applicable labour laws of Hong Kong or the PRC, depending on where the employees are located. The remuneration offered to employees generally includes salaries and bonuses. In general, we determine salaries of our employees based on their qualifications, position and seniority.

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An induction training will be provided to our new employees before commencing onsite work and on-the-job training will be provided to our employees, in order to enhance their technical and product knowledge, as well as safety standards, quality control and job related skills.

### **Welfare benefits**

#### *Hong Kong*

We maintain employees' compensation insurance as required under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) for our employees in Hong Kong for all of our employees. We also participate in the Mandatory Provident Fund Scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. As required under the ordinance, 5% of our employees' relevant income per month is contributed to the provident fund, subject to a maximum of HK\$1,500 per employee per month.

#### *PRC*

Pursuant to the applicable PRC laws and regulations, we are required to contribute to various social security insurance including pension contributing plans, medical insurance, work related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC. The salary level of the production workers has been steadily increasing in recent years owing to changes in labour law and the local labour market trends.

### **Relationship with staff**

We have not set up any trade union for our employees. We have not had any strikes or other material labour disputes that have materially disrupted our operations, during the Track Record Period and up to the Latest Practicable Date. Also, we have not experienced any significant problems with the recruitment and retention of experienced employees. Our Directors believe that we have maintained a good working relationship with our employees, and our working environment and benefits offered to our employees have contributed to building good staff relationship and maintain a stable retention rate.

## **QUALIFICATIONS AND CERTIFICATIONS**

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that our Group has obtained all requisite licences, permits, certifications and qualifications that are material for our business operations in Hong Kong and the PRC.

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Hang Yick is a registered subcontractor under the Subcontractors Registration Scheme of the Construction Industry Council in Hong Kong, and the details are as follows:

Type of registration	Issuing authority	Trade Groups	Types of works	Date of Expiry
Registered Subcontractor	Construction Industry Council	Structural and civil, and finishing	Structural steelwork, shutters/doors fabrication and installation, and metal works	29 April 2023

Our Directors further confirm that our Group had not experienced any material difficulties in obtaining and/or renewing the abovementioned licenses, permits, consents and approvals. Our Directors are not aware of any circumstances that would significantly hinder or delay the renewal of such licenses, permits, consents and approvals.

In recognition of our quality control system, during the Track Record Period, our Group had received the major certifications as follows:

Certification	Description	Award organisation or authority	Recipient	Period of validity/ Date of issue
Authorised Economic Operator (AEO) Certificate (認證企業證書) — General Certified Enterprise (一般認證企業) <sup>(Note)</sup>	AEO status is an internationally recognised quality mark indicating that the role in the international supply chain is secure, and that the customs controls and procedures are efficient and compliant.	Shenzhen Customs District People's Republic of China	Huizhou Hengyi	14 December 2015
Quality Management System Certificate of Approval — GB/T19001-2016/ISO9001:2015	Production of steel gates, portcullis, volume gates, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products (no electroplating)(excluding products need national qualification permits)	Shanghai DAS Certificate Co. Ltd.	Huizhou Hengyi	27 June 2018 to 26 June 2021

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Certification	Description	Award organisation or authority	Recipient	Period of validity/ Date of issue
Environmental Management System Certificate of Approval — GB/T24001-2016/ISO14001:2015	Production of steel gates, portcullis, volume gates, al-alloy door and window, all kinds of stents, hardware door lock etc. hardware products(no electroplating)(excluding products need national qualification permits) and related environmental management activities	Shanghai DAS Certificate Co. Ltd.	Huizhou Hengyi	27 June 2018 to 26 June 2021

*Note: Pursuant to Article 3 of the Decree of the General Administration of Customs of the People's Republic of China No.237 (海關總署第237號令 (關於公佈《中華人民共和國海關企業信用管理辦法》的令)) (the "Decree"), the enterprises issued with the AEO certificate can be categorised as general certified enterprise (一般認證企業) and advanced certified enterprise (高級認證企業). The AEO Certificate does not have any expiry date. However, pursuant to Article 18 of the Decree, the Customs Administration shall re-authorise the general certified enterprises on a random basis. Where the enterprise fails to fulfil the re-certification requirements, the enterprise shall be issued with the Decision Letters on a Disapproval for Certified Enterprises Management and its credit status shall be adjusted accordingly. As advised by our legal adviser as to PRC laws, the AEO Certificate is not a mandatory certification in the PRC. As at the Latest Practicable Date, our Group did not receive any letter of disapproval.*

### AWARDS AND RECOGNITIONS

Furthermore, our Group has received awards and recognitions from various organisations. The below table sets forth the significant awards and recognitions which we received:

Award/recognition	Year of award/ recognition	Issuer of award/ recognition
Certificate of Commendation for the outstanding achievements in the Completion Contract for the Construction of Fanling Area 36 Phase 1	2009	Hong Kong Housing Authority
Quality public housing — Construction and maintenance awards — New works projects — Outstanding building project (special mention) for conversion of Chai Wan Factory Estate to public rental housing and demolition of Blocks 1, 2, 3, 12 and a school in Pak Tin Estate — Domestic sub-contractor — Metal works	2017	Hong Kong Housing Authority

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### LITIGATION AND CLAIMS

During the Track Record Period and as at the Latest Practicable Date, save as disclosed in “Civil litigation” below, our Group had not been involved in claims or litigation which had material adverse effect on our business, results of operations or financial condition or on our Shares or the Listing.

#### *Civil litigation*

As at the Latest Practicable Date, there were two civil litigations against our Group which we had received the relevant summons and legal proceedings had been commenced. These accidents were caused during the usual and ordinary business of our Group and did not cause material disruption to our Group’s business.

<b>Nature of claim</b>	<b>Date of incident</b>	<b>Status</b>
An employee suffered an injury to his left knee and back as a result of certain stacks of wire meshes falling upon him and pushing him to the ground against a pile of metal materials placed nearby.	21 December 2016	The insurer has taken over conduct of the proceedings. Checklist review hearing was held in August 2018 but no settlement order has been granted by the court yet. The amount claimed by the injured person was approximately HK\$2.5 million but the quantum is to be assessed by the court. As the contract between our customer and us includes the insurance maintained over the works performed by us under the contract, the compensation amount as assessed by the court will be fully covered by the insurer.
An employee suffered injuries to his right knee when the employee was instructed to install a louver board at the works site. As the drill he used was one without safety device, the drill bounced causing it to hit on the employee’s knee.	25 February 2014	The insurer has taken over conduct of the proceedings. As at the Latest Practicable Date, the case was settled by a consent order dated 29 March 2017 at a settlement sum of HK\$250,000. The compensation payment was covered by the insurer.

### NON-COMPLIANCE

#### **Housing provident Fund contribution**

##### *Non-compliance incidents and reasons*

Huizhou Hengyi did not set up housing provident fund accounts and contribute to the housing provident fund for all of our eligible employees since our establishment and up to September 2017. Since October 2017, we have contributed to the housing provident fund for all employees. For the years ended 31 March 2016, 2017 and 2018, the outstanding housing provident fund contributions are immaterial to our Group.



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Such non-compliance incident was mainly caused by our designated staff's unintended and inadvertent oversight of the relevant PRC laws and regulations.

### *Relevant laws and regulations*

According to the Housing Provident Fund Management Regulations\* (住房公積金管理條例), employers failing to (i) register housing provident fund accounts after employment may be subject to a fine ranging from RMB10,000 to RMB50,000; and (ii) pay housing provident fund contributions after employment may be ordered to make outstanding contributions. The relevant housing provident fund authority may apply to the PRC courts for enforcement of such payments for any further failure to make such payments.

Therefore, in addition to the payment of outstanding contributions, we may be subject to a potential maximum fine of RMB50,000 (equivalent to approximately HK\$62,500).

### *Remedial actions and status of the Latest Practicable Date*

Since October 2017, we have been in full compliance with relevant requirements under the Housing Provident Fund Management Regulations and have made contribution to the housing provident fund for all our eligible employees. As at the Latest Practicable Date, Haizhou Hengyi did not received any complaints in relation to housing provident fund, any notice of repayment nor any administrative penalties imposed by the relevant housing provident fund authority.

As advised by our legal advisers as to PRC laws, as we have voluntarily registered housing provident fund account for our employees and our Group did not receive notice or order from the relevant housing provident fund authority demanding repayment of housing provident fund contribution, there will not be any administrative penalty or liability due to late registration of housing provident fund account. Based on the view of our legal advisers as to PRC laws and the indemnity given by our Controlling Shareholders, our Directors confirmed that such non-compliance incident would not have an adverse and material effect on our business operations and financial condition. As a result, we have not made any provision for fines. However, we have made a provision amount for the shortfall of the contributions during the relevant period.

### *Enhanced internal control measures*

To prevent recurrence of the non-compliance, from October 2017 onwards, Huizhou Hengyi has been paying contributions to the housing provident fund for all our eligible employees in accordance with the relevant laws and requirements in the PRC. Since March 2018, we have adopted the following measures: (i) adopting internal polices to ensure compliance with all regulatory requirements in the PRC in relation to housing provident fund contribution, including the procedures to require our administrative staff to review periodically that all our existing and incoming employees have made housing provident fund contributions and report to our Board should any material non-compliance occur; (ii) enhancing the awareness of our employees with respect to the importance of participation in housing provident fund by regularly reminding them to make their part of contributions; and (iii) seeking advice from external legal advisers on the latest requirements of applicable laws and regulations of the PRC when necessary.

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### **Notice of commencement of employment**

#### *Non-compliance incidents and reasons*

Hang Yick failed to submit the notice (Form 56E) regarding the commencement of employment of the employees within three months from such commencement during the Track Record Period. The omission was not willful and was due to inadvertent oversight of our administrative staff responsible for employee records at the relevant time.

Hang Yick subsequently submitted Form 56E for those employees on 25 April 2018.

#### *Relevant laws and regulations*

Pursuant to section 80 of Inland Revenue Ordinance, the company in default of section 52(4) is liable to a level 3 fine, which is fixed at the rate of HK\$10,000 and the court may order the person convicted within a time specified in the order to do the act which he has failed to do. Section 80(3) of Inland Revenue Ordinance further stipulates that the time limit of prosecution of this kind of default is either in the year of assessment in respect of or during which the offence was committed or within six years after the expiration thereof.

#### *Remedial actions and status as of the Latest Practicable Date*

Hang Yick submitted the Employer's Returns of Remuneration & Pensions (Form 56B) in respect of the relevant employees for each of the years of assessment ended 31 March 2016 and 31 March 2017, which advised the taxable salaries of those employees.

Having considered that there appears to be no taxative repercussions arising from the non-compliance and we had duly filed the Employer's Return on Remuneration and Pensions (Form 56B) which have fully reported the annual salaries of the employees to the IRD and duly paid their respective salaries taxes, our legal advisers as to Hong Kong laws are of the view that the likelihood of the IRD instituting prosecution against Hang Yick for the non-compliance would be slim.

#### *Enhanced internal control measures*

Our company secretary is responsible for supervising and will remind the staff responsible for the preparation of filings with IRD. The relevant staff is required to keep a register in respect of, among other things, the preparation and filing status of all relevant documents required under the Inland Revenue Ordinance.

### **Employees' compensation insurance**

#### *Non-compliance incidents and reasons*

During the Track Record Period, Hang Yick had failed to secure sufficient employees' compensation insurance for certain of our employees in breach of section 40 of the Employees' Compensation Ordinance. The non-compliance was due to the inadvertent omission by an employee of our Group who was responsible for handling employees' insurance at the relevant time.

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### *Relevant laws and regulations*

A person who commits an offence under section 40 of the Employees' Compensation Ordinance shall be liable to a maximum penalty of a fine of HK\$100,000 and imprisonment of one year on conviction. On conviction of indictment, the maximum penalty is a fine of HK\$100,000 and imprisonment of two years.

### *Remedial actions and status as of the Latest Practicable Date*

Since April 2017, our Group has already secured sufficient employees' compensation insurance to cover our employees. Our legal advisers as to Hong Kong laws opined that Hang Yick did not intentionally put our members or staff at risk by failing to take out insurance policy and there was no workplace accident resulting in the injuries of our staff who were not subject to insurance coverage. Hence, the risk of prosecution against our Group is remote.

### *Enhanced internal control measures*

To prevent recurrence of the non-compliance, our responsible administrative staff who is responsible for monitoring the changes in the number or the positions of the employees will report to our executive Directors regularly in respect of the employees' compensation insurance.

Our Group has established internal control systems covering the principal operational aspects and key business decision making process. These aspects include sourcing and selection of steel and metal projects, approval and preparation of documents, revenue estimation and project management, and human resources management. It is the responsibility of our Board to ensure that we maintain an effective internal control and risk management systems to safeguard our Shareholders' investment at all times and to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. In order to prevent future recurrence of the non-compliance incidents and improve our corporate governance, we have adopted the following measures:

- (a) An audit committee has been established upon the Listing to (i) review our risk management policies; (ii) monitor the risk to which our Group would be exposed during our course of provision of fire safety services; and (iii) review the internal control systems and procedures for compliance with the requirements of the Listing Rules.
- (b) We engaged an independent internal control consultant to review our Group's internal control systems and procedures in December 2017 and to further review the remedial internal controls implemented related to previous non-compliance incidents in May 2016. We have adopted measures and policies to enhance our internal control and risk management systems and to ensure that our operations will be in full compliance with the applicable laws and regulations.
- (c) Our Directors and senior management had attended a training session conducted by our legal advisers as to Hong Kong law in May 2018 on the on-going obligations and duties of directors of a publicly listed company, including among others, sessions on connected transactions, codes of corporate governance, dealing in securities, disclosure of inside information and notifiable transactions.

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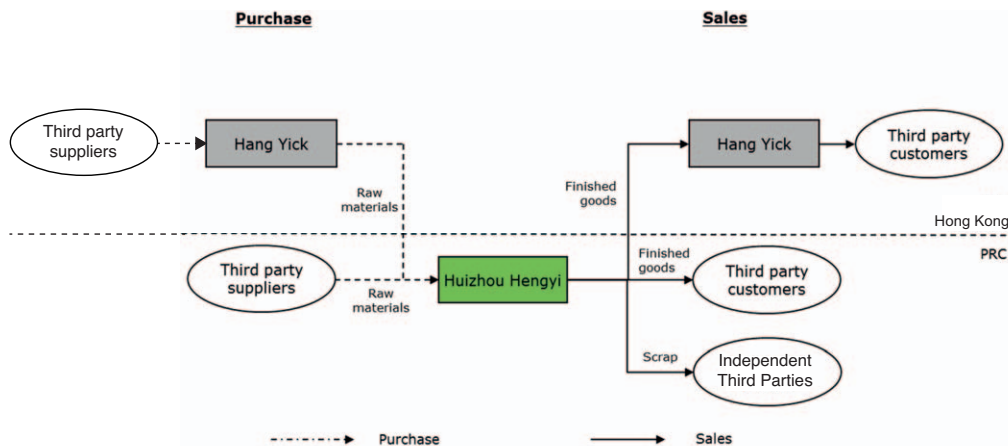
- (d) Our Company has appointed Fortune Financial Capital as our compliance adviser to advise on compliance matters in accordance with the Listing Rules.
- (e) We will engage external legal advisers to provide professional advice and guidance to our Group to ensure compliance with applicable laws and regulations.

Our Directors are of the view, and the Sole Sponsor concurs, that the internal control measures adopted by our Group are adequate and effective in reducing the risk of future non-compliance with legal and regulatory requirements in Hong Kong.

### INTRA-GROUP TRANSACTIONS

Our Group primarily designs, manufactures, supplies and installs steel and metal products (“**Products**”) for construction projects to unrelated customers. During the Track Record Period, Huizhou Hengyi has been the manufacturing arm of our Group, with Hang Yick being the key trading entity of our Group. Upon receipt of purchase orders from Hang Yick, Huizhou Hengyi would manufacture the Products using raw materials purchased from Hang Yick as well as from unrelated suppliers in the PRC. Upon production, most of the manufactured Products were sold by Huizhou Hengyi to Hang Yick, which in turn would sell to third party customers located in Hong Kong.

The abovementioned intra-group transactions between Huizhou Hengyi to Hang Yick are set forth in the following diagram.



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### *Commercial rationale*

Our Directors consider the commercial rationale for such intra-group transaction arrangement is that Hang Yick and Huizhou Hengyi serving different functions within our Group would be more efficient for overall operation and management of the business, and also it would be easier for Huizhou Hengyi to deal with the PRC customers in relation to the sales of Products. During the Track Record Period, our Group had a PRC customer who made the purchase order directly to Huizhou Hengyi for purchases of steel and metal products. The amount involved was not significant (represented approximately 4.48%, 6.73% and 1.98% of Huizhou Hengyi's total sales for the years ended 31 December 2015, 2016 and 2017, respectively), for efficiency purpose, the management decided to let Huizhou Hengyi to handle and directly communicate with the PRC customer.

During the Track Record Period, the pricing basis for selling the products to Hang Yick by Huizhou Hengyi was based on net cost plus margin. The revenue derived by Huizhou Hengyi for the years ended 31 December 2015, 2016 and 2017 (“FY2015”, “FY2016”, “FY2017” respectively) was as follows:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Sales of products to Hang Yick	24,265	34,896	57,233
Domestic sales of products to third parties	1,152	2,540	1,167
Domestic sales of scrap materials to third parties*	<u>277</u>	<u>338</u>	<u>547</u>
Total:	<u>25,694</u>	<u>37,774</u>	<u>58,947</u>

\* The amount is included in the audited financial statements of Huizhou Hengyi as operating revenue for the relevant years.

During the Track Record Period, Hang Yick sold the Products to the customers in Hong Kong for the provision of engineering services and sales of steel and metal products, while Huizhou Hengyi was responsible for manufacturing the Products required by Hang Yick.

### *Potential tax exposure*

We have engaged an independent tax consultant, an international professional accounting firm in Hong Kong (the “**Tax Consultant**”), to conduct transfer pricing study (“**TP Study**”) on the intra-group transactions between Huizhou Hengyi and Hang Yick for the years ended 31 March 2016, 2017 and 2018 based on the relevant transfer pricing regulations. See “Regulatory Overview — Hong Kong laws and regulations — Transfer pricing” and “Regulatory Overview - PRC laws and regulations —

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Taxation — Transfer pricing” for details of the relevant transfer pricing regulations.

In preparation for the TP Study, the Tax Consultant has followed the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations as well as the applicable transfer pricing rules and regulations in the PRC when selecting the comparable companies to Huizhou Hengyi.

The Tax Consultant has also applied both quantitative and qualitative criteria to select comparable companies. Applying the quantitative criteria, the comparable companies must be companies which (i) did not report three years consecutive losses, (ii) had spent no more than 3% of their total sales in research and development, (iii) had no more than 20% of their total sales and purchase as related parties’ transaction, and (iv) had less than 10% of their total assets as non-routine intangible assets. Applying the qualitative criteria, the comparable companies must be companies which (i) engaged in sufficiently similar activities of Huizhou Hengyi, (ii) manufactured sufficiently similar products of Huizhou Hengyi, (iii) had reliable financial data and (iv) had sufficient information for review.

According to the TP study, Huizhou Hengyi’s operating profit for the Track Record Period was below the arm’s length ranges established by the comparable companies.

Our Group considers the following business factors to be the main reasons that led to Huizhou Hengyi’s operating profits falling below the arm’s length ranges during the Track Record Period:

- *The setting up of a new production line at Huizhou Hengyi during the year ended 31 December 2015.* During the initial stage of setting up the production line, Huizhou Hengyi had undergone a lengthy process of testing and adaptation in order to be able to manufacture the products in accordance with the required standards, which led to a substantial amount of wastage and scrapped materials in the production process than originally budgeted.
- *Increase in actual cost of raw materials during the year ended 31 December 2016.* The actual cost of raw materials during the year ended 31 December 2016 was much higher than the original budgeted cost set by Huizhou Hengyi at the beginning of 2016 (which was based on the market price of steel during the year 2015). As the cost of raw materials contributed to the majority of the total cost of Huizhou Hengyi in the year ended 31 December 2016, the increase in cost of raw materials had significantly impacted the profit level of Huizhou Hengyi during the year ended 31 December 2016.
- *One-off staff bonus payment during the year ended 31 December 2017.* In order to maintain staff morale and to reward staff performance, the management of Huizhou Hengyi made a substantial one-off bonus payment to its staff during Chinese New Year Festival in the year ended 31 December 2017. The one-off bonus payment constituted a significant part of the staff cost for the year.

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In accordance with the PRC transfer pricing regulations, in case there is a transfer pricing audit, transfer pricing adjustments may be imposed by the PRC tax authorities if the enterprise's profitability falls below the median of the arm's length range established by the comparable companies. In this respect, Huizhou Hengyi may be subject to potential adjustments from the PRC tax authorities on its related party transactions with Hang Yick during the Track Record Period. If the PRC tax authorities were to impose the transfer pricing adjustments on Huizhou Hengyi and adjust its operating margin to the median of the respective arm's length ranges, it will result in an additional tax payable for the Track Record Period of approximately RMB1,320,000. Based on the PRC-Hong Kong Double Taxation Agreement, Hang Yick can apply for corresponding adjustment or mutual agreement procedure from the IRD, to obtain relief from double taxation and obtain refund at 16.5% of the transfer pricing adjustment imposed by the PRC tax authorities, i.e. at a maximum of RMB871,000 for the Track Record Period.

After taking the above into consideration, and given that the potential additional tax liability would only be approximately RMB125,000, RMB147,000 and RMB177,000 for the years ended 31 December 2015, 2016 and 2017, our Directors consider that any tax exposure arising from potential tax adjustments to be imposed by the PRC tax authorities on Huizhou Hengyi would be immaterial. In addition, Huizhou Hengyi has prepared transfer pricing documentation reports for the years ended 31 December 2015 and 2016, in accordance with the PRC transfer pricing regulations. As for the years ended 31 December 2017, Huizhou Hengyi did not meet the threshold for preparing transfer pricing documentation and was not required to prepare transfer pricing documentation report as per the applicable transfer pricing rules and regulations in the PRC.

There are no mandatory transfer pricing documentation requirements in Hong Kong during the Track Record Period.

Based on the TP Study as mentioned above, our Tax Consultant is of the view that our Group is considered to be in compliance with the applicable transfer pricing laws and regulations in Hong Kong and the PRC.

The below tables set out the gross profit margin and tax paid by Hang Yick and Huizhou Hengyi during the Track Record Period:

### *Hang Yick*

<b>For the year ended 31 March</b>	<b>Gross profit margin</b>	<b>Tax paid</b> <i>HK\$ '000</i>
<b>2016</b>	32.3%	5,822
<b>2017</b>	34.6%	7,550
<b>2018</b>	33.2%	N/A <sup>(Note)</sup>

*Note: The tax return for the year ended 31 March 2018 has not been filed yet as at the Latest Practicable Date, and the extended due date for filing the profit tax return is 15 November 2018.*

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### *Huizhou Hengyi*

<b>For the year ended 31 December (Note)</b>	<b>Gross profit margin</b>	<b>Tax paid</b> <i>RMB</i>
<b>2015</b>	7.9%	26,505
<b>2016</b>	5.7%	20,814
<b>2017</b>	8.7%	175,239

*Note: The financial year end date of Huizhou Hengyi is 31 December.*

Based on the functions and risk analysis in the TP Study regarding the intra-group transaction between Hang Yick and Huizhou Hengyi, Huizhou Hengyi, being the manufacturing arm of our Group, mainly manufactured the Products based on the orders from Hang Yick using raw materials purchased by Hang Yick and sold the Products to Hang Yick. On the contrary, Hang Yick undertook most of the operational functions, which include entering into construction contracts with third party customers, retaining control in the procurement of raw materials, providing steel and metal engineering services, coordinating logistics arrangement and invoicing our third party customers. Hang Yick also bore operational risks, such as, production costs, marketing risk, credit risk and product liability risk. Given most of the operational functions and risks were undertaken by Hang Yick, the profit and the respective profits tax of Hang Yick during the Track Record Period was much higher than that of Huizhou Hengyi.

Our Group had unused tax losses of approximately HK\$2.9 million as at 31 March 2017. This was mainly due to the payment of one-off discretionary staff bonus in the PRC in 2017.

#### *Measures to ensure on-going compliance with the relevant transfer pricing laws and regulations*

Our Group has adopted the following measures to ensure on-going compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

- Our Directors will review the terms of the inter-company transactions and regularly monitor our pricing policy of inter-company transactions to ensure that they are carried out on arm's length basis from time to time.
- The finance and accounting team will (i) closely monitor the amount of the inter-company transactions to ensure that the reporting and filing requirements under the relevant transfer pricing laws, regulations and guidelines are duly complied with from time to time; and (ii) ensure that the inter-company transactions are properly recorded and filed for the purposes of internal control and reporting to the tax authorities in the PRC.



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- Our Directors will monitor the implementation of internal control policy on tax related matters, review regularly on transfer pricing policy and exposure and consult our tax adviser when necessary.

As at the Latest Practicable Date, our Directors were not aware of any inquiry, audit or investigation raised by any tax authority in the PRC and Hong Kong with respect to the subject transactions.

### CORPORATE GOVERNANCE AND RISK MANAGEMENT

Our Group has in place policies and procedures in relation to corporate governance and risk management. Our Board is primarily responsible for overseeing the corporate governance and risk management system and monitoring the effectiveness.

The below sets out the key measures under our corporate governance and risk management system for managing specific operational and financial risks relating to our business operations:

#### **Risk management**

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process are committed to managing and minimising risks by identifying, analysing, evaluating and mitigating risk exposures that may impact the continued efficiency and effectiveness of our operations or prevent it from achieving its business objective. We therefore implement the risk management process which will involve, *inter alia*, (i) an annual risk identification exercise which involves assessment of the consequence and likelihood of risks (including documenting those of potentially high impact) and the development and/or review of risk management plans for mitigating such risks; (ii) testing of documented risk management procedures at approval intervals; and (iii) ensuring that our staff and other stakeholders have access to appropriate information and training in the area of risk management. Our Board oversees and manages the overall risks associated with our operations, while our audit committee will review and supervise our risk management process, as well as financial reporting process and internal control system.

#### **Corporate governance measures**

Our Company will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. We have established four board committees, namely, the audit committee, the nomination committee and the remuneration committee with respective terms of reference in compliance with the Corporate Governance Code. For details, see “Directors and Senior Management — Board committees”. In particular one of the primary duties of our audit committee is to review the effectiveness of our Company’s internal audit activities, internal controls and risk management systems. Our audit committee consists of all three of our independent non-executive Directors, whose backgrounds and profiles are set out in “Directors and Senior Management”.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

Immediately following the completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of the options to be granted under the Share Option Scheme), HY Steel (an investment holding company owned as to 70% and 30% by Mr. PS Lee and Ms. LC Lau, respectively which has not commenced any substantive business activities as at the Latest Practicable Date) will control 75% of our Company's issued share capital. For the purpose of the Listing Rules, HY Steel and its shareholders, Mr. PS Lee and Ms. LC Lau are a group of Controlling Shareholders.

Each of Mr. PS Lee, Ms. LC Lau, and HY Steel confirms that he, she or it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

In the opinion of our Directors, our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

(i) **Financial independence**

During the Track Record Period, our Group had certain amount due to Mr. PS Lee and Ms. LC Lau and received guarantees from Mr. PS Lee. All loans, advances and balances due from our Controlling Shareholders and their respective close associates and all loans, advances and balances due to our Controlling Shareholders will be fully settled upon Listing. All guarantees provided by our Controlling Shareholders and their respective close associates for our Group will also be fully released upon Listing.

Having taken into account (i) the release of the above guarantees (upon Listing); (ii) the present financial status (including the cash flow and available facilities) of our Group; and (iii) our Group has an independent financial system and makes financial decisions according to our business needs, our Directors are of the view that our Group has sufficient capital to operate our business independently, and has adequate internal resources and a strong credit profile to support our daily operations.

(ii) **Operational independence**

Our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their associates. Our Directors are of the view that there is no operational dependence on our Controlling Shareholders.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### (iii) Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. The main functions of our Board include the approval of its overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. Our Company has an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies.

Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. PS Lee is our executive Director, Chairman and chief executive officer. Ms. LC Lau is our executive Director. Mr. PS Lee and Ms. LC Lau are also the directors of HY Steel. Save for Mr. PS Lee and Ms. LC Lau, no other Directors nor members of senior management of our Group hold any directorship or position in HY Steel.

We consider that our Board and senior management are capable of managing our Group's business independently from our Controlling Shareholders because:

- each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest to exist;
- the three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions;
- in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transactions and shall not be counted in the quorum present at the particular Board meeting; and
- connected transactions between our Group and our Controlling Shareholders or their respective associates are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and independent Shareholders' approval (where applicable).

### **RULE 8.10 OF THE LISTING RULES**

Our Controlling Shareholders, our Directors and their respective associates do not have any interest in a business apart from our Group's business which competes and is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### LOCK-UP UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders, namely Mr. PS Lee, Ms. LC Lau and HY Steel, have given an undertaking to the Stock Exchange pursuant to Rule 10.07(1) of the Listing Rules which specifies that, except for the circumstances permitted pursuant to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders shall not and shall procure that his/her/its associates or companies controlled by him/it or our nominees or trustees holding the Shares in trust for him/her/it (as the case may be) shall not:

- (a) within the period commencing on the date by reference to which disclose the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is or they are shown by this prospectus to be the beneficial owner(s); or
- (b) within the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in the preceding paragraph if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that person or group of persons would cease to be a Controlling Shareholder.

### NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and our Controlling Shareholders, HY Steel, Mr. PS Lee and Ms. LC Lau (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the Deed of Non-competition with our Company (for itself and for the benefit of each other member of our Group) on 19 September 2018. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and as trustee for its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/she/it shall not, and shall procure that his/her/its associates (other than any member of our Group) not to directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venturer, employee, consultant or otherwise) in competition with or likely to be in competition with the existing business carried on by our Group (the “**Restricted Business**”).

Each of the Covenantors further undertakes that if any of he/she/it or his/her/its close associates other than any member of our Group associates decide to invest, be engaged, or participate in any Restricted Business, whether directly or indirectly, in compliance with this Deed, he/it will and/or will procure his/her/its close associates (other than members of the Group) to disclose the terms of such investment, engagement or participation to the Company and the Directors as soon as practicable and use his/her/its best endeavours to procure that such investment, engagement or participation (the “**New Business Opportunities**”) is offered to the Company on terms no less favourable than the terms on

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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which such investment, engagement or participation is offered to him/her/it and/or his/her/its close associates. When any New Business Opportunities are referred to the Company by any Covenantors, the independent non-executive directors of the Company will consider such opportunity on various aspects including viability and profitability.

The Covenantors and their respective close associates are entitled to engage or have an interest in any Restricted Business if after offering the New Business Opportunities to the Company pursuant to the above, the Company has confirmed in writing (the “**Approval Notice**”) that none of the Group members wishes to be engaged or interested in the relevant Restricted Business and it has approved in writing the relevant Covenantors and their respective close associates to engage or have any interest in the Restricted Business. It is acknowledged and agreed that any Director who is interested in the relevant Restricted Business shall not vote on relevant resolutions approving the Approval Notice.

The undertakings contained in the Deed of Non-competition are conditional upon (i) fulfilment of all the conditions as stated in the paragraph headed “Conditions of the Global Offering” in the section headed “Structure And Conditions Of The Global Offering” in this prospectus; and the completion of the Global Offering which shall be evidenced by the first trading of the Shares on the Stock Exchange. If any such condition is not fulfilled on or before the date falling 30 days after the date of this prospectus (or if such date is not a Business Day, the immediate preceding Business Day), the Deed of Non-competition shall become null and void and cease to have any effect.

The Deed of Non-competition shall terminate on (i) in relation to any Covenantor, the date on which he/she/it together with his/her/its associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) the date on which the Shares shall cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

### CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that he/she/it fully comprehends his/her/its obligations to act in the best interests of our Company and our Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

- (i) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors (or their associates), the interested Directors shall abstain from voting at the relevant Board meeting and shall not be counted in the quorum;
- (ii) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or his/her associates has/have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (iii) the Covenantors will make an annual confirmation as to compliance with his/her/its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;
- (iv) our Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (v) our independent non-executive Directors will, based on the information available to them, review on an annual basis (a) the compliance with the Deed of Non-competition; and (b) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition. Findings of such review will be disclosed in our Company's annual report after Listing; and
- (vi) we have appointed Fortune Financial Capital as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance. See "Directors and Senior Management — Compliance adviser" for further details in relation to the appointment of compliance adviser.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

During the Track Record Period, we entered into certain transactions with the connected persons of our Company. Several transactions are expected to continue after the Listing and will constitute continuing connected transactions (as defined under Chapter 14A of the Listing Rules) of our Company upon the Listing.

### RELATIONSHIP BETWEEN OUR GROUP AND THE CONNECTED PERSONS

The following entities will be connected persons of our Company under the Listing Rules upon Listing.

#### Mr. PS Lee

Mr. PS Lee is our Chairman, chief executive officer, executive Director and Controlling Shareholder, and is therefore a connected person of our Company under Chapter 14A of the Listing Rules.

#### Ms. LC Lau

Ms. LC Lau is our executive Director and Controlling Shareholder, and is therefore a connected person of our Company under Chapter 14A of the Listing Rules.

#### Mr. Lee Ka Kit

Mr. Lee Ka Kit is the son of Mr. PS Lee and Ms. LC Lau aged 18 or above, and is therefore an associate of a connected person of our Company under Chapter 14A of the Listing Rules.

#### Huizhou Jiantai

Huizhou Jiantai is a limited liability company established in the PRC, which is wholly owned by Biopower Co., ultimately held as to 100% by Mr. PS Lee. Therefore, Huizhou Jiantai is an associate of our Company under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The following transactions are entered into in the ordinary and usual course of our business and on normal commercial terms where each of the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, not exceed 5% and the total consideration will be less than HK\$3,000,000 on an annual basis.

#### 1. Yau Tong Lease Agreements

*Parties:*

- (i) Mr. PS Lee
- (ii) Ms. LC Lau
- (iii) Hang Yick

*Principal terms:*

On 7 May 2018, Hang Yick entered into two tenancy agreements (the “**Yau Tong Lease Agreements**”) with Mr. PS Lee and Ms. LC Lau, pursuant to which Mr. PS Lee and Ms. LC Lau (as landlords) agreed to lease to Hang Yick (as tenant) the premises with a gross floor area of 2,136 square feet, situated at Units A, B and D, Upper G/F, Yau Tong Industrial Building Block 4, Nos. 18 & 20 Sze Shan Street, Kowloon, Hong Kong (the “**Yau Tong Premises**”) for use as our office in Hong Kong for a term of approximately two years and 11 months commencing from 7 May 2018 to 31 March 2021. The parties agreed to fix the aggregate monthly rent at HK\$30,000 (excluding government rates and management fees).

Our Directors confirmed that the aggregate monthly rent of HK\$30,000 was determined after arm length’s negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity. In this connection, we have engaged an independent property valuer to assess the fairness of the rent and the terms of the Yau Tong Lease Agreements. Our Directors are of the opinion that the terms of the Yau Tong Lease Agreements (including the rental and duration) are fair and reasonable and the rents payable thereunder reflect the prevailing market rate.

*Historical amounts:*

For the three years ended 31 March 2018, the Yau Tong Premises was used by our Group at nil consideration.

*Annual caps and basis of caps:*

The Yau Tong Lease Agreements will continue after the Listing. It is proposed that the annual caps for the rents payable under the Yau Tong Lease Agreements will be approximately HK\$330,000, HK\$360,000 and HK\$360,000, respectively, for each of the years ending 31 March 2019, 2020 and 2021. The annual caps were arrived at with reference to the rents payable by our Group under the Yau Tong Lease Agreements.

#### 2. Tai Kok Tsui Lease Agreement

*Parties:*

- (i) Ms. LC Lau
- (ii) Hang Yick



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## CONNECTED TRANSACTIONS

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*Principal terms:*

On 7 May 2018, Hang Yick entered into a tenancy agreement (the “**Tai Kok Tsui Lease Agreement**”) with Ms. LC Lau, pursuant to which Ms. LC Lau (as landlord) agreed to lease to Hang Yick (as tenant) the showroom with a gross floor area of 2,451 square feet, situated on G/F, Kar Wun Court, Nos. 18 Ivy Street, Kowloon, Hong Kong (the “**Tai Kok Tsui Premises**”) for use as our shop in Hong Kong for a term of approximately two years and 11 months commencing from 7 May 2018 to 31 March 2021. The parties agreed to fix the monthly rent at HK\$23,000 (excluding government rates and management fees).

Our Directors confirmed that the monthly rent of HK\$23,000 was determined after arm length’s negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity. In this connection, we have engaged an independent property valuer to assess the fairness of the rent and the terms of the Tai Kok Tsui Lease Agreement. Our Directors are of the opinion that the terms of the Tai Kok Tsui Lease Agreement (including the rental and duration) are fair and reasonable and the rents payable thereunder reflect the prevailing market rate.

*Historical amounts:*

For the three years ended 31 March 2018, the Tai Kok Tsui Premises was used by our Group at nil consideration.

*Annual caps and basis of caps:*

The Tai Kok Tsui Lease Agreement will continue after the Listing. It is proposed that the annual caps for the rents payable under the Tai Kok Tsui Lease Agreement will be approximately HK\$253,000, HK\$276,000 and HK\$276,000, respectively, for each of the years ending 31 March 2019, 2020 and 2021. The annual caps were arrived at with reference to the rents payable by our Group under the Tai Kok Tsui Lease Agreement.

### 3. PRC Lease Agreement

*Parties:*

- (i) Huizhou Jiantai
- (ii) Huizhou Hengyi

*Principal terms:*

On 1 January 2018, Huizhou Hengyi entered into a tenancy agreement (the “**PRC Lease Agreement**”) with Huizhou Jiantai, pursuant to which Huizhou Jiantai (as landlord) agreed to lease to Huizhou Hengyi as tenant the premises at Xilong Factory, Lilin Village, Lilin Town, Zhongkai District, Huizhou, the PRC (the “**PRC Premises**”) for use as our factory in the PRC for a term of three years commencing from 1 January 2018 to 31 December 2020. The parties agreed to fix the monthly rent at RMB40,000 (excluding government rates and management fees).

Our Directors confirmed that the monthly rent of RMB40,000 (equivalent to approximately HK\$50,000) was determined after arm length’s negotiations between the parties with reference to the

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## CONNECTED TRANSACTIONS

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then prevailing market conditions and the rental rate of similar properties in the vicinity. In this connection, we have engaged an independent property valuer to assess the fairness of the rent and the terms of the PRC Lease Agreement. Our Directors are of the opinion that the terms of the PRC Lease Agreement (including the rental and duration) are fair and reasonable and the rents payable thereunder reflect the prevailing market rate.

### *Historical amounts:*

For each of the three years ended 31 March 2018, the annual rental of the PRC Premises paid by our Group amounted to nil, nil and RMB120,000 (equivalent to approximately HK\$142,000), respectively.

### *Annual caps and basis of caps:*

The PRC Lease Agreement will continue after the Listing. It is proposed that the annual caps for the rents payable under the PRC Lease Agreement will be approximately RMB480,000, RMB480,000 and RMB480,000, respectively (equivalent to approximately HK\$600,000, HK\$600,000 and HK\$600,000, respectively), for each of the years ending 31 March 2019, 2020 and 2021. The annual caps were arrived at with reference to the rents payable by our Group under the PRC Lease Agreement.

### **Listing Rules implications**

Based on the fixed monthly rent under the Yau Tong Lease Agreements, Tai Kok Tsui Lease Agreement and the PRC Lease Agreement (collectively, the “**Lease Agreements**”), the proposed annual cap in respect of the aggregate annual rental payable by our Group for each of the years ending 31 March 2019, 2020 and 2021 will be HK\$1,183,000, HK\$1,236,000 and HK\$1,236,000, respectively. Each of the applicable percentage ratios calculated with reference to the aggregate rental annual cap is less than 5% and the total consideration is less than HK\$3,000,000. Accordingly, the entering into the Lease Agreements constitutes an exempt continuing connected transaction of our Company under 14A.76(1)(c) of the Listing Rules, and is exempt from the reporting, annual review, announcement and independent Shareholders’ approval requirements under the Listing Rules.

### **Confirmation from our Directors**

In respect of the Lease Agreements, our Directors (including the independent non-executive Directors) consider that (i) it is in our Group’s interest to continue the continuing connected transactions under the Lease Agreements as described above after the Listing; (ii) taking into consideration of the view from an independent valuer, that the terms of each of the Lease Agreements are fair and reasonable and the rental payment thereunder reflect the prevailing market rate as at the commencement date of the tenancy, all such continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of the business of our Group and have been based on arm’s length negotiations and on normal commercial terms or better that are fair and reasonable; and (iii) such transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

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## CONNECTED TRANSACTIONS

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### ONE-OFF CONNECTED TRANSACTION

On 29 March 2018, our Group disposed a property to a connected person, Mr. Lee Ka Kit. On 28 February 2018 Hang Yick (as vendor) entered into a sale and purchase agreement with Mr. Lee Ka Kit (as purchaser) (the “**Sale and Purchase Agreement**”) for the sale of Flat D, 3rd Floor, Block 30 Grand Dynasty View Classical Gardens, Phase IV, No. 9 Ma Wo Road, Tai Po, New Territories, Hong Kong and Car Parking Space No. 83, 2nd Basement of Grand Dynasty View Classical Gardens, Phase IV, No. 9 Ma Wo Road, Tai Po, New Territories, Hong Kong (the “**Disposed Premises**”) in the consideration of HK\$10.6 million. We have engaged an independent property valuer to assess the market value of the Disposed Premises. Our Directors are of the opinion that the consideration paid under the Sale and Purchase Agreement reflects the prevailing market rate as at the date of the Sale and Purchase Agreement. The disposal was completed on 29 March 2018.

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our Group's business. Our Board currently consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

The following table sets out information regarding our Directors:

Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Director(s) and senior management
<i>Executive Directors</i>						
Lee Pui Sun (李沛新)	61	Chairman, chief executive officer and executive Director	20 January 1993	6 March 2018	Overall strategic management and development of our Group's business operations	Spouse of Ms. LC Lau, father of Mr. Benny Lee
Lau Lai Ching (劉麗菁)	61	Executive Director	20 January 1993	6 March 2018	Overseeing our Group's finance and administration	Spouse of Mr. PS Lee, mother of Mr. Benny Lee
<i>Non-executive Director</i>						
Lee Ka Chun Benny (李嘉俊)	32	Non-executive Director	27 December 2017	14 May 2018	Providing strategic advices to our Group	Son of Mr. PS Lee and Ms. LC Lau
<i>Independent non-executive Directors</i>						
Au Yeung Wai Key (歐陽偉基)	60	Independent non-executive Director	19 September 2018	19 September 2018	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group	N/A

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Director(s) and senior management
Hon Cheung Kwok Kwan, JP (張國鈞, 太平紳士)	44	Independent non-executive Director	19 September 2018	19 September 2018	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group	N/A
Tse Ka Ching Justin (謝嘉政)	31	Independent non-executive Director	19 September 2018	19 September 2018	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group	N/A

### EXECUTIVE DIRECTORS

**Lee Pui Sun (李沛新)** (“**Mr. PS Lee**”), aged 61, spouse of Ms. LC Lau, is our Chairman, chief executive officer and our Controlling Shareholder. Mr. PS Lee was appointed as a Director of our Company on 6 March 2018 and was re-designated as an executive Director of our Company on 14 May 2018. He is primarily responsible for the overall strategic management and development of our Group’s business operations.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. PS Lee has more than 35 years' experience in the gate engineering industry. In June 1982, Mr. PS Lee established Hang Yick Co, a sole proprietorship in Hong Kong, which is principally engaged in the business of gate engineering. Hang Yick Co ceased its business in March 2018. In January 1993, Mr. PS Lee founded Hang Yick with Ms. LC Lau and he has been handling our Group's overall business operation since then.

Mr. PS Lee was a director of the following companies/businesses which was incorporated in Hong Kong and dissolved:

<b>Company name</b>	<b>Nature of company/business</b>	<b>Nature of proceeding</b>	<b>Date of dissolution</b>
Sparkful Enterprise Limited	Limited company	Dissolved by striking off	18 March 2005
Hang Yick Co	Sole proprietorship	Dissolved by deregistration	23 March 2018

As confirmed by Mr. PS Lee, the companies/businesses aforementioned in this paragraph were solvent at the time of dissolution. Mr. PS Lee further confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Mr. PS Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

Our Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code. Except for the deviation from Corporate Governance Code provision A.2.1 as set out below, our Company's corporate governance practices have complied with the Corporate Governance Code.

Corporate Governance Code provision A.2.1 stipulates that the roles of chairman of the board and chief executive officer should be separate and should not be performed by the same individual. Mr. PS Lee is the Chairman of the Board and the chief executive officer of our Group. In view of Mr. PS Lee has been operating and managing our Group since 1993, our Board believes that it is in the best interest of our Group to have Mr. PS Lee taking up both roles for effective management and business development. Therefore, our Directors consider that the deviation from Corporate Governance Code provision A.2.1 is appropriate in such circumstance.

**Lau Lai Ching (劉麗菁)** ("Ms. LC Lau"), aged 61, spouse of Mr. PS Lee, is our Controlling Shareholder. Ms. LC Lau was appointed as a Director of our Company on 6 March 2018 and was re-designated as an executive Director of our Company on 14 May 2018. She is primarily responsible for overseeing our Group's finance and administration.

Ms. LC Lau has more than 25 years' experience in the gate engineering industry. In January 1993, Ms. LC Lau founded Hang Yick with Mr. PS Lee and has been handling the group's overall administration since then. In 2003, Ms. LC Lau established Hang Yick Metal Products, a sole proprietorship in Hong Kong providing wholesales, retail sales and engineering services. Hang Yick Metal Products ceased its business in March 2018.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. LC Lau was a director of the following company/business which was incorporated in Hong Kong and dissolved:

<b>Company name</b>	<b>Nature of company/business</b>	<b>Nature of proceeding</b>	<b>Date of dissolution</b>
Hang Yick Metal Products	Sole proprietorship	Dissolved by deregistration	23 March 2018

As confirmed by Ms. LC Lau, the company/business aforementioned in this paragraph was solvent at the time of dissolution. Ms. LC Lau further confirmed that there was no wrongful act on her part leading to the dissolution and she is not aware of any actual or potential claim that has been or will be made against her as a result of such dissolution.

Ms. LC Lau has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

### NON-EXECUTIVE DIRECTOR

**Lee Ka Chun Benny (李嘉俊)** (“**Mr. Benny Lee**”), aged 32, was appointed as a non-executive Director of our Company on 14 May 2018. He is primarily responsible for providing strategic advices to our Group.

Mr. Benny Lee has more than five years’ experience in accounting, and was admitted as member of CPA Australia in November 2016. He obtained a bachelor’s degree of commerce, major in accounting from the University of Adelaide in Australia in December 2008, and a master’s degree in management from the University of South Australia in August 2010.

Mr. Benny Lee was appointed as director of Hang Yick in December 2017. Prior to joining our Group, Mr. Benny Lee worked as accounts assistant of accountant department in Dimerco Express Singapore Pte Ltd, a shipping and logistics services provider, from August 2012 to September 2014. He has been appointed as accounting officer of finance department at Fitness First Singapore Pte Ltd since October 2014.

Mr. Benny Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Au Yeung Wai Key (歐陽偉基)** (“**Mr. Au Yeung**”), aged 60, was appointed as our independent non-executive Director on 19 September 2018. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. Mr. Au Yeung is responsible for providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Au Yeung obtained a bachelor's degree in civil engineering from the University of Westminster in the United Kingdom in July 1991 and a degree of master of science in engineering from the University of Hong Kong in December 1998. He has been a member of The Institute of Structural Engineers since October 1995, a member of The Hong Kong Institution of Engineers since September 1996, a member of The Institution of Engineers, Australia since March 1996 and a member of The Institution of Civil Engineer since July 1999. He worked as a part-time lecturer in Vocational Training Council Technical Institutes (currently known as Hong Kong Institute of Vocational Education) from March 1994 to July 2007 and from September 2016 to August 2017.

Mr. Au Yeung has more than 25 years' experience in handling various construction projects in Hong Kong, Macau and the PRC. He previously worked as a graduate engineer at Mott Connell Limited from October 1991 to June 1992. From July 1992 to July 1995, he worked as a structural engineering graduate at the Architectural Service Department. Mr. Au Yeung worked as engineer at Maunsell Consultants Asia Ltd from June 1995 to February 1997. He worked as a senior structural engineer in Ove Arup & Partners Hong Kong Ltd. from March 1997 to January 2002 and December 2007 to October 2017. From March 2002 to September 2005, he worked as a project engineer at Greg Wong and Associates Ltd. He worked as a project manager at Yau Lee Construction Co., Ltd from September 2005 to December 2007. He has worked as a senior project engineer at the Airport Authority Hong Kong since October 2017.

Mr. Au Yeung was a director of the following company which was incorporated in Hong Kong and dissolved:

Company name	Nature of company	Nature of proceeding	Date of dissolution
Newell Engineering Limited	Limited company	Dissolved by striking off	28 November 2014

As confirmed by Mr. Au Yeung, the company aforementioned in this paragraph was solvent at the time of dissolution. Mr. Au Yeung further confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Mr. Au Yeung has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

**Hon Cheung Kwok Kwan, JP** (張國鈞, 太平紳士) (“**Hon Cheung**”), aged 44, was appointed as our independent non-executive Director on 19 September 2018. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Hon Cheung is responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Group.

Hon Cheung obtained a bachelor's degree of laws and a postgraduate certificate in laws from the City University of Hong Kong in November 1997 and August 1998 respectively. Hon Cheung was admitted as a solicitor in Hong Kong in September 2000 and is a partner of Cheung & Yeung, Solicitors. He has been an Elected Member of Central and Western District Council since January 2012



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## DIRECTORS AND SENIOR MANAGEMENT

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and was appointed as a Justice of the Peace in July 2014. He was then elected as a Legislative Council member of Hong Kong since October 2016. He was also appointed as a non-official member of the Executive Council since July 2017, a member of the Hong Kong Housing Authority since 2015 and China-Appointed Attesting Officer since December 2015. Hon Cheung has also been appointed as an independent non-executive director of Innovax Holdings Limited (stock code: 2680) since August 2018.

Hon Cheung was a director of the following company which was incorporated in Hong Kong and dissolved:

Company name	Nature of company	Nature of proceeding	Date of dissolution
Smart IP Consultancy Limited	Limited company	Dissolved by deregistration	7 December 2007

As confirmed by Hon Cheung, the company aforementioned in this paragraph was solvent at the time of dissolution. Hon Cheung further confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Hon Cheung has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

**Tse Ka Ching Justin** (謝嘉政) (“**Mr. Tse**”), aged 31, was appointed as our independent non-executive Director on 19 September 2018. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Tse is responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Group.

Mr. Tse obtained a bachelor of science degree with honours in human biology in the University of Toronto in Canada in June 2009. He has been a member of the Hong Kong Institute of Certified Public Accountants since January 2014. Mr. Tse worked in KPMG as an audit manager since August 2010 to April 2018. Mr. Tse has worked as senior finance manager at Pacific Tiger Group Limited since April 2018.

Mr. Tse has not held any directorship in any public listed company during the three years immediately preceding the date of this prospectus.

### DIRECTORS' INTEREST

Save as disclosed in “Statutory and general information — C. Further information about substantial shareholders, Directors and experts”, each of our Directors (i) had no interest in the Shares within the meaning of part XV of the SFO as at the Latest Practicable Date; (ii) is independent from,

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## DIRECTORS AND SENIOR MANAGEMENT

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and not related to, any Directors, substantial shareholders, Controlling Shareholders (as defined under the Listing Rules), or senior management of our Company; and (iii) had not held any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding to the Latest Practicable Date.

Save as disclosed in this prospectus, 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 Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

### SENIOR MANAGEMENT

The following table sets forth certain information of the senior management of our Group:

Name	Age	Present Position	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Leung Wing Lun (梁穎麟)	36	Chief financial officer	1 July 2017	Formulation of our Company's financial strategies and management, internal control, and implementation of the corporate financial plan of our Group	N/A
Sin Kwok Chi Stephen (冼國持)	48	Chief project manager	7 February 2004	Management of the engineering department	N/A
Ho Wang Shun (何宏信)	45	Project manager (design)	1 March 2004	Project design, safety check and fulfilment of products	N/A
Yeung Leung Yu Water (楊琅儒)	46	Project manager	16 March 2000	Project management, quality control and construction in sites	N/A

**Leung Wing Lun (梁穎麟)** (“Mr. Leung”), aged 36, was appointed as the chief financial officer in July 2017 and company secretary of our Group on 14 May 2018. He is primarily responsible for formulation of our Company's financial strategies and management, internal control, and implementation of the corporate financial plan of our Group.

Mr. Leung obtained a bachelor's degree in business administration major in accounting from City University of Hong Kong in November 2004. Mr. Leung has been a Hong Kong Certified Public Accountant since February 2010.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Leung has more than 13 years' experience in providing professional corporate services. Prior to joining our Group, Mr. Leung worked in Hop Fung Group Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 2320) from July 2004 to August 2005. He served in the IRD as contracted assistant taxation officer in Hong Kong from September 2005 to March 2006. From March 2006 to July 2011, Mr. Leung worked as tax consultant at Thomas Lee & Partners Ltd. In November 2010, Mr. Leung founded Superior Alliance Group Company Limited and he has been acting as director since then.

**Sin Kwok Chi Stephen** (冼國持) (“**Mr. Sin**”), aged 48, joined our Group in February 2004 and is the chief project manager of our Group. He is primarily responsible for management of the engineering department.

Mr. Sin obtained a diploma in mechanical engineering from Haking Wong Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Haking Wong)) in August 1991. He also obtained a higher certificate in mechanical engineering and a bachelor's degree in building services engineering, from Hong Kong Polytechnic (currently known as Hong Kong Polytechnic University) and Hong Kong Polytechnic University in November 1993 and November 2002, respectively.

Mr. Sin has more than 20 years' experience in the gate engineering industry. Prior to joining our Group, Mr. Sin was employed by Sanwa Shutter (HK) Limited from November 1993 to June 2003 with his last position as senior engineer manager.

**Ho Wang Shun** (何宏信) (“**Mr. Ho**”), aged 45, joined our Group in March 2004 and is the project manager (design) of our Group. He is primarily responsible for product design, safety check and fulfilment of products.

Mr. Ho obtained a bachelor's degree in mechanical engineering from Ryerson Polytechnic University (currently known as Ryerson University) in Canada in June 1996.

Mr. Ho has more than 20 years' experience in the gate engineering industry. Prior to joining our Group, Mr. Ho was employed by Sanwa Shutter (HK) Limited from October 1996 to December 2003 with his last position as design manager.

**Yeung Leung Yu Water** (楊琅儒) (“**Mr. Yeung**”), aged 46, joined our Group in March 2000 and is the project manager of our Group. He is primarily responsible for project management, quality control and construction in sites.

Mr. Yeung completed his secondary education in July 1989.

Mr. Yeung has around 18 years' experience in the gate engineering industry. Prior to joining our Group, Mr. Yeung was employed by Sanwa Shutter (HK) Limited from December 1995 to January 2000 with his last position as engineer.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPANY SECRETARY

Mr. Leung was appointed as our company secretary of our Company on 14 May 2018. For details of Mr. Leung, see “Senior management” above.

### COMPLIANCE ADVISER

We have appointed Fortune Financial Capital as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Listing Rules and Fortune Financial Capital assumes responsibility for acting as our Compliance Adviser. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes the annual report of its financial results for the second full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

Except for (i) Fortune Financial Capital’s role as the Sole Sponsor in relation to the Listing; (ii) the compliance adviser agreement entered into between our Company and Fortune Financial Capital; and (iii) the Underwriting Agreements, Fortune Financial Capital does not have any other contractual arrangement with our Group as at the Latest Practicable Date.

### BOARD COMMITTEES

#### Audit Committee

Our Company established the Audit Committee on 19 September 2018 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise our financial reporting process and internal control and risk management system, nominate and monitor external auditors, provide advice and comments to the Board on matters related to corporate governance and perform other duties and responsibilities as assigned by the Board.

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## DIRECTORS AND SENIOR MANAGEMENT

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The Audit Committee consists of three members, being Mr. Tse, Mr. Au Yeung and Hon Cheung. Mr. Tse currently serves as the chairman of the Audit Committee.

### Remuneration Committee

Our Company established the Remuneration Committee on 19 September 2018 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are, among other things, to make recommendations to the Board on our Company's policy for human resource management as well as establish and review policies and structure in relation to remuneration for our directors and senior management.

The Remuneration Committee consists of three members, being Mr. Au Yeung, Hon Cheung and Mr. Tse. Mr. Au Yeung currently serves as the chairman of the Remuneration Committee.

### Nomination Committee

Our Company established the Nomination Committee on 19 September 2018 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are, among other things, to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee consists of three members, being Hon Cheung, Mr. Au Yeung and Mr. Tse. Hon Cheung currently serves as the chairman of the Nomination Committee.

## CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company will comply with the Corporate Governance Code and the associated Listing Rules. In order to comply with the requirements under the Listing Rules, in particular, the Corporate Governance Code, we have adopted the following measures as at the Latest Practicable Date:

- (i) we have established the Audit Committee, Remuneration Committee and Nomination Committee on 19 September 2018 with respective written terms of reference in accordance with the code provisions contained in the Corporate Governance Code. Further information is set out in "Board Committees" above;
- (ii) our Board has adopted the terms of reference with regard to corporate governance and a shareholders' communication policy in accordance with the Corporate Governance Code;
- (iii) we will arrange appropriate insurance cover on our Directors' liabilities in respect of legal actions against our Directors arising out of corporate activities before Listing;

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## DIRECTORS AND SENIOR MANAGEMENT

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- (iv) we have appointed three independent non-executive Directors representing more than one-third of the Board and at least one of them has accounting expertise;
- (v) our Directors will operate in accordance with the Articles which require the interested Director not to vote or be vaunted in the quorum on any resolution of our Board approving any contract or arrangement or other proposal in which he/ she or any of his/her associates is materially interested;
- (vi) our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our cost;
- (vii) our Company has adopted a comprehensive compliance manual covering legal and regulatory compliance with reference to the Corporate Governance Code;
- (viii) our Company will consider engaging an independent internal control consultant to perform regular review on corporate governance to ensure on-going compliance after Listing; and
- (ix) our Directors will attend professional development seminar including but not limited to the corporate governance to ensure on-going compliance after Listing.

Our Company is expected to comply with the Corporate Governance Code which sets out the principles of good corporate governance in relation to, among others, our Directors, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Board will review our Company's policies and practices on corporate governance from time to time. Our Company will state in our interim and annual reports whether we have complied with the Corporate Governance Code, and will provide details of, and reasons for, any deviations from it in the corporate governance report which will be included in our annual reports.

## REMUNUERATIONS OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors receive, in their capacity as our employees, compensation in the form of salaries, bonus, other allowances and benefits in kind, including our contribution to the pension scheme for our executive Directors, in their capacity as employees, according to the laws of the relevant jurisdiction.

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to our Directors for the three years ended 31 March 2018 was approximately HK\$189,000, HK\$189,000 and HK\$425,000, respectively.

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to the above senior management of our Group for each of the three years ended 31 March 2018 was approximately HK\$0.7 million, HK\$0.7 million and HK\$2.1 million, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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The aggregate amount of contributions to retirement benefits scheme paid by our Group to our Directors for the three years ended 31 March 2018 was approximately HK\$9,000, HK\$9,000 and HK\$20,000, respectively.

Our Company's policy concerning the remuneration of our Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload, performance and the time devoted to our Group. For further details of the remuneration of our Directors, see "Statutory and General Information — C. Further information about substantial Shareholders, Directors and experts — 3. Remuneration of Directors".

The emoluments paid to our Group's five highest paid individuals (including Directors) in aggregate for the three years ended 31 March 2018 was approximately HK\$2.1 million, HK\$2.3 million and HK\$2.7 million, respectively. During the Track Record Period, no emolument was paid by our Group to any of our Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining our Group or as compensation for loss of office. None of our Directors has waived any emoluments during the Track Record Period.

Except as disclosed above, no other payments of remuneration have been made, or are payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to note 6 in the Accountants' Report set out in Appendix I to this prospectus.

### SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted pursuant to the written resolutions of our Shareholder passed on 19 September 2018. The purpose of the Share Option Scheme is to enable our Company to grant options to selected participants as incentives or rewards for their contribution to it. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our Directors, our employees and other selected participants for their contributions to our Group. This will be in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations. For further details of the Share Option Scheme, see "Statutory and General Information — D. Share Option Scheme".

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following completion of the Global Offering and Capitalisation Issue (without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or the exercise of options to be granted under the Share Option Scheme), 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 are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group or any other members of our Group:

#### Long position in the Shares

Name of Shareholder	Capacity/ Nature of interest	Number of fully paid Shares held/ interested as at the date of this Application Proof	Percentage of shareholding as at the date of the Application Proof	Number of Shares held/ interested immediately following completion of the Global Offering and Capitalisation Issue	Percentage of shareholding immediately following the completion of the Global Offering and Capitalisation Issue
Mr. PS Lee ( <i>Note 1</i> )	Interest in controlled corporation/ Interest of spouse	100	100%	570,000,000	75.0%
Ms. LC Lau ( <i>Note 2</i> )	Interest in controlled corporation/ Interest of spouse	100	100%	570,000,000	75.0%
HY Steel	Beneficial owner	100	100%	570,000,000	75.0%

*Notes:*

- Mr. PS Lee beneficially owns 70% of the issued share capital of HY Steel. Mr. PS Lee is the spouse of Ms. LC Lau and is deemed to be interested in 30% of the issued share capital of HY Steel. Therefore, Mr. PS Lee is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Mr. PS Lee is also a director of HY Steel.
- Ms. LC Lau beneficially owns 30% of the issued share capital of HY Steel. Ms. LC Lau is the spouse of Mr. PS Lee and is deemed to be interested in 70% of the issued share capital of HY Steel. Therefore, Ms. LC Lau is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Ms. LC Lau is also a director of HY Steel.



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## SUBSTANTIAL SHAREHOLDERS

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All interests stated are long positions.

Save as disclosed herein, our Directors are not aware of any person (who are not Directors or chief executive of our Company) who will, immediately following completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of Over-allotment Option or the exercise of options to be granted under the Share Option Scheme), have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under 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 members of our Group other than our Company.

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## SHARE CAPITAL

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### SHARE CAPITAL

The share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue is set out in the table below. The table is prepared on the basis of the Global Offering becoming unconditional and the Shares are issued pursuant thereto as described herein. It takes no account of any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

<i>Authorised share capital</i>		<i>HK\$</i>
3,800,000,000	Shares of HK\$0.01 each	38,000,000

*Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and Capitalisation Issue (assuming the Over-allotment Option is not exercised):*

100	Shares in issue as at the date of this prospectus	1
569,999,900	Shares to be issued pursuant to the Capitalisation Issue	5,699,999
<u>190,000,000</u>	Shares to be issued pursuant to the Global Offering	<u>1,900,000</u>
<u>760,000,000</u>	Total	<u>7,600,000</u>

*Issued or to be issued, fully paid or credited as fully paid upon completion of the Global Offering and Capitalisation Issue, assuming the Over-allotment Option is exercised in full:*

		<i>HK\$</i>
100	Shares in issue as the date of this prospectus	1
569,999,900	Shares to be issued pursuant to the Capitalisation Issue	5,699,999
190,000,000	Shares to be issued under the Global Offering	1,900,000
28,500,000	Shares to be issued upon the exercise of the Over-allotment Option in full	285,000
<u>788,500,000</u>	Total	<u>7,885,000</u>

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The 190,000,000 Offer Shares represent 25% of the issued share capital of our Company upon Listing.

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## SHARE CAPITAL

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### RANKING

The Offer Shares 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 or other distributions hereafter declared, made or paid on the Shares after the date of this prospectus save for the entitlements under the Capitalisation Issue.

### CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholders passed on 19 September 2018, subject to the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorised to allot and issue a total of 569,999,900 Shares credited as fully paid at par to the holder(s) of Shares on the register of members of our Company at the close of business on 19 September 2018 (or as they may direct) in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK\$5,699,999 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 19 September 2018. Details of the principal terms of the Share Option Scheme are summarised in “Statutory and General Information — D. Share Option Scheme”.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into the Shares as at the Latest Practicable Date.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or such securities convertible into Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (not including Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of options to be granted under the Share Option Scheme); and
- (ii) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors referred to in “General mandate to repurchase Shares” below.

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## SHARE CAPITAL

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This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, see “Statutory and General Information — A. Further information about our Company — 3. Written resolutions of our existing Shareholder passed on 19 September 2018”.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following completion of the Global Offering (excluding Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of options to be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and General Information — A. Further information about Our Company — 6. Repurchase of our Shares by our Company”.

The general mandate to issue and repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders in general meeting.

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## SHARE CAPITAL

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For further details of this general mandate, see “Statutory and General Information — A. Further information about Our Company — 3. Written resolutions of our existing Shareholder passed on 19 September 2018” and “Statutory and General Information — A. Further information about our Company — 6. Repurchase of our Shares by our Company”.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in “Summary of the Constitution of the Company and the Cayman Islands Companies Law”.

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## FINANCIAL INFORMATION

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*You should read this section in conjunction with our Group's audited consolidated financial information, including the notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with the HKFRSs. You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect of future events and financial performance.*

*These statements are based on assumptions and analyses made by our Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depends on a number of risks and uncertainties over which our Group does not have control. For further information, See "Risk Factors".*

### OVERVIEW

We are a leading and well-established steel and metal engineering company, specialising in design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong, and our Group has been operating for over 25 years. According to the Frost & Sullivan Report, in 2017, we were the largest steel and metal engineering company in overall public sector in Hong Kong in terms of revenue with a market share of approximately 31.9%, and ranked third in the overall steel and metal works engineering service market in Hong Kong in terms of revenue with an estimated market share of approximately 8.6%. Apart from provision of engineering services, we also sell steel and metal products, including metal gates, collapsible gates, fire-insulated shutters, rolling shutters, metal doors and other steel and metal products, to our customers based on their requirements and specifications.

During the Track Record Period, our revenue represented income derived from the (i) provision of steel and metal engineering services in Hong Kong and (ii) sales of steel and metal products. See "Business — Our projects — Projects on hand" for details of some of our projects.

Our Group has generated revenue of approximately HK\$122.7 million, HK\$161.5 million and HK\$199.2 million for the years ended 31 March 2016, 2017 and 2018, respectively. Such increase was mainly attributable to the increase in size of projects in terms of contract sum undertaken by us during the Track Record Period. Our net profit was approximately HK\$29.4 million, HK\$38.1 million and HK\$52.2 million for the corresponding period.

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## FINANCIAL INFORMATION

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### KEY FACTORS AFFECTING OUR RESULTS OF OPERATION AND FINANCIAL CONDITION

#### Market conditions and trends in the construction industry and the overall economy

We carry out our projects principally in Hong Kong. The future growth and level of profitability of the construction industry in Hong Kong depend primarily upon the continued availability of construction projects. The nature, extent and timing of such projects will, however, be determined by the interplay of a variety of factors. These factors may affect the availability of construction projects from the public sector, private sector or institutional bodies. Apart from the public spending of the Hong Kong Government, other factors also affect the construction industry. These other factors include cyclical trends in the economy as a whole, fluctuations in interest rates and the availability of new projects in both public and private sectors.

#### Our success rate on project tendering

Our majority of revenue was generated from the provision of steel and metal engineering services, which accounted for approximately 78.3%, 64.0% and 70.6% of our revenue for the years ended 31 March 2016, 2017 and 2018, respectively. Our engineering services on steel and metal works for construction projects in Hong Kong are provided on contract basis and non-recurring in nature, and we secure these contracts through competitive tendering process. While some main-contractors may invite us for tender, whether we can successfully secure any tender still depends on our bid. Our future growth and success will then depend on our ability to secure contracts continuously. During the Track Record Period, our success rate was approximately 22.2%, 24.6% and 39.6% for the years ended 31 March 2016, 2017 and 2018, respectively, with the total number of projects remained generally stable at 12, 15, 21 projects awarded for the corresponding period. Our results of operations will be adversely affected if we are unable to secure sufficient number and sizeable contracts in the future.

#### Government's level of spending on public works

During the Track Record Period, approximately 74.3%, 62.5% and 66.8% of our Group's revenue in the provision of steel and metal engineering services was generated from the public sector. Public work projects are non-recurring in nature, and thus the level of Hong Kong Government's spending budget may change from year to year. Accordingly, any change or significant delay in the level of spending on public works by the Hong Kong Government may affect the business and operation results of our Group. In the event that the Government reduces its level of spending on public works and our Group fails to secure business from other sectors, the business and profitability of our Group could be adversely affected.

#### Fluctuations in costs directly attributable to our projects

Our costs mainly include material costs and labour costs. They represent a significant portion of our direct costs. Major materials used include stainless steel, metals, galvanised coils and accessories which are generally sourced by our Group through suppliers in Hong Kong and the PRC. For the years ended 31 March 2016, 2017 and 2018, we incurred material costs of approximately HK\$44.9 million, HK\$65.4 million and HK\$67.8 million, representing approximately 54.4%, 60.8% and 54.4% of our

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## FINANCIAL INFORMATION

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total direct costs, respectively. Any significant material price fluctuations that we may experience may cause fluctuations in our material costs. Any increase in our material costs may have a negative impact on our results of operations and financial condition if we are unable to factor in these potential fluctuations into each of our tenders or quotations and pass on a part or the whole of any additional costs to our customers or reduce other costs.

For the years ended 31 March 2016, 2017 and 2018, our direct labour costs amounted to approximately HK\$23.5 million, HK\$30.1 million and HK\$45.4 million, representing approximately 28.5%, 28.0% and 36.3% of our total direct costs, respectively. According to the Frost & Sullivan Report, the average daily wage of metal workers in Hong Kong recorded a CAGR of approximately 6.5% and the average annual usage of employed persons in urban areas in manufacturing industry in the PRC recorded a CAGR of approximately 9.1% during the period between 2012 and 2017. Taken into account the increase in salary levels in keeping pace with the metal workers market in Hong Kong and the probable future economic conditions, the percentage changes used in the sensitivity analysis in this section are commensurate with the historical changes in direct labour costs.

### **Pricing for our services including that under variation orders**

We generally fix our service fee when we submit our tender or quotation. Once the tender or quotation is agreed with our customers, we can only adjust our service fee in certain circumstances as stipulated in the contracts, such as customers' requests for additional services or changes in specifications under variation orders. If the work relating to the variation order is of similar conditions and does not substantially change its work quantity, same rates as the original contract are applied for such work. Otherwise, if it involves an increase in the scope of work, or where the work is not the same, or not of similar nature to any work under the contract, such work is valued at fair rates. Under all circumstances, the final fee for the variation orders is determined upon negotiations with our customers in accordance with our contract terms.

Revenue for variation orders is then recognised based on the percentage of completion and the mutually agreed certified amount of work done indicated in the payment certificate with progress billing. Variation orders may require additional material purchases or extra costs, which would lead to negotiations with our suppliers. During our preparation of tender or quotation and before accepting a variation order, our management prepares a cost budget based on the quotations from our suppliers. During the process of cost budget preparation, our management has been cautious in selecting our suppliers to ensure the cost budget matches with the quotation or cost of the variation order, thereby arriving at the desired profit margin. Our management also reviews the cost budget and compares it with the actual amount incurred.

### **BASIS OF PREPARATION AND PRESENTATION**

Throughout the Track Record Period, Mr. PS Lee and Ms. LC Lau collectively controlled 100% equity interests in Hang Yick. Our Group was under the control of Mr. PS Lee and Ms. LC Lau prior to and after the Reorganisation. Our Group comprising our Company and our subsidiaries resulting from the Reorganisation is regarded as a continuing entity. See "History, Reorganisation and



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## FINANCIAL INFORMATION

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Corporate Structure” for details. Accordingly, for the purpose of preparation of the financial information of our Group, our Company has been considered as the holding company of the companies now comprising our Group throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. The financial information of our Group has been prepared using the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting For Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period. The consolidated statements of financial position of our Group as at 31 March 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

The financial information is presented in Hong Kong dollars, which is also the functional currency of our Company and its subsidiaries.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared on the historical cost basis and in accordance with the accounting policies which conform to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, and also complies with the applicable requirements of the Companies Ordinance and the applicable disclosure requirement of the Listing Rules. The significant accounting policies adopted by our Group are set forth in note 3 of the Accountants’ Report in Appendix I to this prospectus.

#### Revenue recognition

For details of our accounting policies regarding revenue recognition, please refer to the section headed “Accountants’ Report — Notes to the Historical Financial Information — 3. Significant accounting policies — Revenue recognition” in Appendix I to this prospectus.

As disclosed in note 2 to the Accountants’ Report as set out in Appendix I to this prospectus, our Group has early applied Hong Kong Financial Reporting Standard 15 “Revenue from Contracts with Customers” (“**HKFRS 15**”) throughout the Track Record Period. The relevant impact on the net profit of our Group during the Track Record Period as disclosed in “Description of certain line items of the consolidated statements of profit or loss and other comprehensive income — Tax refiling — (ii) Updated filing” in this section. Other than the changes in accounting policies and additional disclosure in relation to revenue recognition of our Group as disclosed in notes 2 to 4 to the Accountants’ Report, our Directors considered that the early adoption of the HKFRS 15 has no other material impact on the results and financial position of our Group in our Group’s consolidated financial statements in the foreseeable future, when compared to our Group’s previous accounting policy on revenue recognition under the previous accounting standard for revenue recognition, i.e. HKAS 18 “Revenue”.

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## FINANCIAL INFORMATION

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### Property, plant and equipment

For details of our accounting policies regarding property, plant and equipment, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Property, plant and equipment” in Appendix I to this prospectus.

### Inventories

For details of our accounting policies regarding inventories, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Inventories” in Appendix I to this prospectus.

### Impairment of financial assets

For details of our accounting policies regarding impairment of financial assets, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Financial instruments — Financial assets — Impairment of financial assets” in Appendix I to this prospectus.

### Other significant accounting policies, estimates and judgements

Please refer to note 3 of the Accountants’ Report in Appendix I to this prospectus for other significant accounting policies and estimates applied in preparation of our consolidated financial information.

## SUMMARY OF RESULTS OF OPERATION

The following financial information summarises our financial results for the Track Record Period which is extracted from the Accountants’ Report in Appendix I to this prospectus:

	Year ended 31 March		
	2016 HK\$’000	2017 HK\$’000	2018 HK\$’000
Revenue	122,698	161,483	199,199
Direct costs	<u>(82,606)</u>	<u>(107,712)</u>	<u>(124,840)</u>
Gross profit	40,092	53,771	74,359
Other income and other gains and losses	720	524	7,784
Administrative expenses	(5,265)	(7,675)	(13,091)
Finance costs	(116)	(132)	(121)
Listing expenses	<u>—</u>	<u>—</u>	<u>(6,397)</u>
Profit before taxation	35,431	46,488	62,534
Income tax expense	<u>(6,025)</u>	<u>(8,395)</u>	<u>(10,310)</u>
Profit for the year	29,406	38,093	52,224
Other comprehensive income (expense) for the year			
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operation	<u>250</u>	<u>(293)</u>	<u>429</u>
Total comprehensive income for the year	<u><u>29,656</u></u>	<u><u>37,800</u></u>	<u><u>52,653</u></u>

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## FINANCIAL INFORMATION

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### DESCRIPTION OF CERTAIN LINE ITEMS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

We principally derive revenue from the (i) provision of steel and metal engineering services; and (ii) sales of steel and metal products.

The following table sets out our revenue breakdown by business segments for the years indicated:

	Year ended 31 March					
	2016		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Provision of steel and metal engineering services						
- Public sector <sup>(1)</sup>	91,230	74.3	100,944	62.5	133,129	66.8
- Private sector <sup>(2)</sup>	<u>4,900</u>	<u>4.0</u>	<u>2,347</u>	<u>1.5</u>	<u>7,491</u>	<u>3.8</u>
	<u>96,130</u>	<u>78.3</u>	<u>103,291</u>	<u>64.0</u>	<u>140,620</u>	<u>70.6</u>
Sales of steel and metal products						
- Standardised collapsible gates	5,240	4.3	34,022	21.0	42,821	21.5
- Other steel and metal products	<u>21,328</u>	<u>17.4</u>	<u>24,170</u>	<u>15.0</u>	<u>15,758</u>	<u>7.9</u>
	<u>26,568</u>	<u>21.7</u>	<u>58,192</u>	<u>36.0</u>	<u>58,579</u>	<u>29.4</u>
	<u><u>122,698</u></u>	<u><u>100.0</u></u>	<u><u>161,483</u></u>	<u><u>100.0</u></u>	<u><u>199,199</u></u>	<u><u>100.0</u></u>

*Notes:*

- (1) For illustration purpose, public sector refers to construction works commissioned by Hong Kong Government, MTR Corporation Limited and Airport Authority, and construction works commissioning departments and statutory bodies of the Hong Kong Government which include Hong Kong Housing Authority, Development Bureau, Civil Engineering and Development Department, Water Services Department and Hong Kong Housing Authority, as well as schools, educational institutions and universities, and properties owned and/or managed by Link Real Estate Investment Trust, excluding any infrastructures projects.
- (2) For illustration purpose, private sector refers to contractor works commissioned by individuals, privately owned property development companies and commercial enterprises.

#### *Provision of steel and metal engineering services*

During the Track Record Period, the increase in our overall revenue was mainly attributable to the increase the number of projects undertaken by us.

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### *Sales of steel and metal products*

Our revenue from the sales of steel and metal products increased from approximately HK\$26.6 million for the year ended 31 March 2016 to approximately HK\$58.2 million for the year ended 31 March 2017, then further increased to approximately HK\$58.6 million for the year ended 31 March 2018.

The below table sets out a breakdown by sales volume and average selling price of our certain steel and metal products for the years indicated:

	Year ended 31 March					
	2016		2017		2018	
	Average selling price (HK\$ per unit)	Units	Average selling price (HK\$ per unit)	Units	Average selling price (HK\$ per unit)	Units
Standardised collapsible gates	1,522.3	3,442	1,388.2	24,508	1,384.9	30,921
Metal gates	2,316.0	553	3,173.0	295	3,337.2	102
Sliding shutters	2,274.6	1,182	2,366.4	622	2,077.8	222
Rolling shutters	20,107.7	11	18,710.9	22	14,654.5	112
Metal doors	4,977.9	238	7,464.2	376	2,904.7	695
Fire insulated gates	22,007.0	73	14,160.0	229	11,999.1	343

The below table sets out a breakdown of the range of selling price of our certain steel and metal products for the years indicated:

	Year ended 31 March					
	2016		2017		2018	
	Lowest selling price (HK\$ per unit)	Highest selling price (HK\$ per unit)	Lowest selling price (HK\$ per unit)	Highest selling price (HK\$ per unit)	Lowest selling price (HK\$ per unit)	Highest selling price (HK\$ per unit)
Standardised collapsible gates	1,500.0	1,600.0	1,350.0	1,700.0	1,350.0	2,500.0
Metal gates	500.0	8,740.0	600.0	6,500.0	1,550.0	8,800.0
Sliding shutters	790.0	9,500.0	1,300.0	8,330.0	1,550.0	9,000.0
Rolling shutters	5,000.0	48,000.0	1,300.0	45,000.0	2,600.0	89,600.0
Metal doors	500.0	58,000.0	540.0	34,020.0	300.0	42,000.0
Fire insulated gates	3,000.0	114,500.0	2,500.0	177,000.0	1,150.0	200,000.0

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The increase was primarily attributable to our significant increase in quantity sold of standardised collapsible gates as a result of the policy implemented by the Hong Kong Housing Authority to replace the old-type see-through collapsible gates in the flats of public rental housing estates since January 2016. Our total standardised collapsible gates sold increased significantly from 3,442 units for the year ended 31 March 2016 to 24,508 units for the year ended 31 March 2017, then further increased to 30,921 units for the year ended 31 March 2018 while our average selling price of standardised collapsible gates decreased slightly from HK\$1,522.3 per unit for the year ended 31 March 2016 to HK\$1,388.2 per unit for the year ended 31 March 2017 due to lower price offered for bulk purchase, and remained relatively stable at HK\$1,384.4 per unit for the year ended 31 March 2018.

We produce other steel and metal products based on customer's specifications and requirements and our products vary in sizes, structures, styles and complexity, therefore, a year-to-year comparison on average selling price and units sold of our non-standardised products could not serve as a meaningful analysis of financial performance.

### Direct costs

Our direct costs mainly represents direct material costs, direct labour costs, installation service fees and other costs.

The below table sets out our direct costs breakdown by nature for the years indicated:

	Year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Direct material costs	44,939	54.4	65,433	60.8	67,849	54.4
Direct labour costs	23,518	28.5	30,136	28.0	45,373	36.3
Installation service fees	4,615	5.6	3,504	3.2	3,018	2.4
Other costs	<u>9,534</u>	<u>11.5</u>	<u>8,639</u>	<u>8.0</u>	<u>8,600</u>	<u>6.9</u>
	<u><u>82,606</u></u>	<u><u>100.0</u></u>	<u><u>107,712</u></u>	<u><u>100.0</u></u>	<u><u>124,840</u></u>	<u><u>100.0</u></u>

### *Direct material costs*

Direct material costs includes expenses relating to our purchases of raw materials, such as stainless steel, metal, galvanised coils and other accessories which were sourced in Hong Kong and the PRC. Our direct material costs amounted to approximately HK\$44.9 million, HK\$65.4 million and HK\$67.8 million, representing approximately 54.4%, 60.8% and 54.4% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively. The percentage of direct material costs over total direct costs increased from approximately 54.4% for the year ended 31 March 2016 to approximately 60.8% for the year ended 31 March 2017 due to the increase in sales of standardised collapsible gates, which we are not required to provide installation works. The percentage then decreased to approximately 54.4% for the year ended 31 March 2018 since the increase in direct labour

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costs for the same period was proportionately higher than that of direct material costs. See “Description of certain line items of the consolidated statements of profit and other comprehensive income — Direct labour costs” in this section for the reason for the increase in direct labour costs.

### *Direct labour costs*

Direct labour costs represents salaries and related costs for our site workers and production workers and project managers who are directly involved in the provision of engineering services. Direct labour costs amounted to approximately HK\$23.5 million, HK\$30.1 million and HK\$45.4 million, representing approximately 28.5%, 28.0% and 36.3% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively. Due to increasing size of projects in terms of contract sum during the Track Record Period, we had deployed more labour resources to carry out project works and project management.

### *Installation service fees*

Installation service fees represents the costs charged by our service providers engaged for the installation of steel and metal products at our construction projects in the private sector. Our installation service fees amounted to approximately HK\$4.6 million, HK\$3.5 million and HK\$3.0 million, representing approximately 5.6%, 3.2% and 2.4% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively.

### *Other costs*

Other costs mainly consists of manufacturing overheads, including depreciation of plant and machinery, utility expenses, other miscellaneous production costs and transportation costs. The amounts in aggregate were approximately HK\$9.5 million, HK\$8.6 million and HK\$8.6 million, representing approximately 11.5%, 8.0% and 6.9% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively.

### **Sensitivity analysis**

For both the provision of steel and metal engineering services and the sales of steel and metal products, our pricing is usually determined based on cost-plus basis. Accordingly, any fluctuation in direct material costs, direct labour costs and installation service fees, could generally shift to our customers.

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The below table illustrates the sensitivity analysis of the estimated increase/(decrease) of our gross profit during the Track Record Period in relation to general percentage changes to direct material costs with all variables being constant. Fluctuation in direct material costs are assumed to be 5% and 50% with reference to historical fluctuations.

	<b>Impact on gross profit for the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Direct material costs</b>			
Increase/(decrease) by:			
50%	(22,470)	(32,717)	(33,925)
5%	(2,247)	(3,272)	(3,392)
(5%)	2,247	3,272	3,392
(50%)	22,470	32,717	33,925

The below table illustrates the sensitivity analysis of the estimated increase/(decrease) of our gross profit during the Track Record Period in relation to general percentage changes to direct labour costs with all other variables being constant. Fluctuation in direct labour costs are assumed to be 30% and 50% with reference to historical fluctuations.

	<b>Impact on gross profit for the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Direct labour costs</b>			
Increase/(decrease) by:			
50%	(11,759)	(15,068)	(22,687)
30%	(7,055)	(9,041)	(13,612)
(30%)	7,055	9,041	13,612
(50%)	11,759	15,068	22,687

The below table illustrates the sensitivity analysis of the estimated increase/(decrease) of our gross profit during the Track Record Period in relation to general percentage changes to installation service fees with all other variables being constant. Fluctuation in installation service fees are assumed to be 10% and 20% with reference to historical fluctuations.

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### Impact on gross profit for the year ended 31 March

	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Installation service fees</b>			
Increase/(decrease) by:			
20%	(923)	(701)	(604)
10%	(462)	(350)	(302)
(10%)	462	350	302
(20%)	923	701	604

### Gross profit and gross profit margin

The following table sets out our gross profit and gross profit margin by business segments for the years indicated:

	For the year ended 31 March					
	2016		2017		2018	
	<i>Gross profit</i>	<i>Gross profit margin</i>	<i>Gross profit</i>	<i>Gross profit margin</i>	<i>Gross profit</i>	<i>Gross profit margin</i>
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Provision of steel and metal engineering services	32,599	33.9	37,685	36.5	57,089	40.6
Sales of steel and metal products						
- Standardised collapsible gates	1,097	20.9	8,183	24.1	11,441	26.7
- Other products	<u>6,396</u>	30.0	<u>7,903</u>	32.7	<u>5,829</u>	37.0
	<u>7,493</u>	28.2	<u>16,086</u>	27.6	<u>17,270</u>	29.5
	<u>40,092</u>	32.7	<u>53,771</u>	33.3	<u>74,359</u>	37.3

Our overall gross profit amounted to approximately HK\$40.1 million, HK\$53.8 million and HK\$74.4 million for the years ended 31 March 2016, 2017 and 2018, respectively. Our overall gross profit margin was approximately 32.7%, 33.3% and 37.3% for the years ended 31 March 2016, 2017 and 2018, respectively.

Our gross profit for the provision of steel and metal engineering services amounted to approximately HK\$32.6 million, HK\$37.7 million and HK\$57.1 million for the years ended 31 March 2016, 2017 and 2018, respectively, and our gross profit margin was approximately 33.9%, 36.5% and 40.6% for the years ended 31 March 2016, 2017 and 2018, respectively. The increase in gross profit margin from 33.9% for the year ended 31 March 2016 to 36.5% for the year ended 31 March 2017 was



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due to higher gross profit margins achieved in two projects, namely the supply and installation of metal gates for a public rental housing development project in Tung Chung (Project A1) with contract sum of approximately HK\$47.0 million and a design, supply and installation of metal gates for public rental housing development project in Kwun Tong (Project A4) with contract sum of approximately HK\$27.1 million, whereas the increase in gross profit margin from 36.5% for the year ended 31 March 2017 to 40.6% for the year ended 31 March 2018 was attributable to the supply and installation of metal gate for the public rental housing development project in Tung Chung (Project B1) with contract sum of approximately HK\$65.0 million. Such increase was attributable to (i) the abovementioned development projects which required higher capacity, and therefore setting a high entry barrier for smaller scale subcontractors to participate in tender, thus we had higher bargaining power to secure a better price margin in tendering process; and (ii) the increase in gross profit due to a result of better allocation of resources we achieved in larger scale projects.

Our gross profit for the sales of steel and metal products amounted to approximately HK\$7.5 million, HK\$16.1 million and HK\$17.3 million for the years ended 31 March 2016, 2017 and 2018, respectively, and our gross profit margin for the sales of steel and metal products was approximately 28.2%, 27.6% and 29.5% for the years ended 31 March 2016, 2017 and 2018, respectively. As our customers normally require mass production for the standardised collapsible gates which requires less modification to the production procedures as compared to other steel and metal products, a lower gross profit margin for our standardised collapsible gates was charged when compared to the gross profit margin for the other steel and metal products.

According to the Frost & Sullivan Report, the gross profit margin of metal works engineering service in Hong Kong are considered relatively higher than the general construction work and engineering service (e.g. superstructure works, substructure works and building construction works) as metal works engineering service generally possess the requisite expertise and capabilities in product design and installation. In addition, metal works engineering service providers in Hong Kong generally provide one-stop service from material sourcing, design, fabrication to installation of metal works through their own manufacturing facilities. Further, customers engaging metal works engineering service generally prefer established and renowned market participants in light of the concentrated nature of metal works engineering service market, hence with higher bargaining power and better control over metal production costs, metal works engineering service providers enjoy a relatively higher gross profit margin.

### **Other income and other gains and losses**

Our other income and other gains and losses mainly consists of rental income from investment properties, gain on disposal of property, plant and equipment, gain on disposal of investment properties and sales of scrap materials, and accounted for approximately HK\$0.7 million, HK\$0.5 million and HK\$7.8 million for the years ended 31 March 2016, 2017 and 2018, respectively.

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The following table sets out the breakdown of our other income for the years indicated:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other income</b>			
Interest income from bank deposits	1	4	10
Rental income from investment properties	376	341	395
Sales of scrap materials	209	127	771
Others	47	11	161
	<u>633</u>	<u>483</u>	<u>1,337</u>
<b>Other gains and losses</b>			
Net exchange (losses) gains	(5)	(7)	77
Gain on disposal of property, plant and equipment	92	48	50
Gain on disposal of investment properties	—	—	6,320
	<u>87</u>	<u>41</u>	<u>6,447</u>
	<u><u>720</u></u>	<u><u>524</u></u>	<u><u>7,784</u></u>

### Administrative expenses

Our administrative expenses primarily consists of staff cost, transportation costs, depreciation, legal and professional fee, insurance expenses, office administrative and other expenses. The following table sets out the breakdown of administrative expenses by nature for the years indicated:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff cost	1,942	2,642	5,538
Transportation costs	903	1,081	1,920
Depreciation	806	1,103	1,254
Legal and professional fee	128	980	1,107
Insurance expense	188	332	324
Office administrative and others	1,298	1,537	2,948
	<u>5,265</u>	<u>7,675</u>	<u>13,091</u>

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Staff cost represents compensation and benefits payable to our Directors and administrative staff of our Group. Transportation costs comprises mainly fuel charges, toll fees and vehicle parking fees. Legal and professional fee represents fees for certain professional services, such as audit, internal control review and business contract review. Office administrative and other expenses represents expenses incurred for building management fee, repair and maintenance, insurance, telecommunication fees and sundry expenses.

### Finance costs

Our finance costs represents interest expenses incurred from bank borrowings and finance leases. Interest on finance leases was incurred for some of our motor vehicles that were acquired under hire purchase arrangements with financial institutions in Hong Kong with lease terms ranging from 24 to 36 months. Interest rates on finance leases were fixed at respective contract dates ranging from 2.0% to 2.5% per annum, 2.0% to 2.5% per annum and 2.0% to 2.3% per annum as at 31 March 2016, 2017 and 2018, respectively. The bank borrowings are at floating rate which carry interest at Hong Kong dollar prime rate minus 1.5% or 1.75% per annum.

### Income tax expense

Our revenue during the Track Record Period was mainly derived in Hong Kong, and hence are subject to profits tax in Hong Kong. Provision of Hong Kong profits tax was calculated at statutory tax rate of 16.5% on the estimated assessable profits of our subsidiaries in Hong Kong. The effective tax rates of our Group for the years ended 31 March 2016, 2017 and 2018 was approximately 17.0%, 18.1% and 16.5%, respectively.

Huizhou Hengyi, our operating subsidiary is incorporated in Huizhou, the PRC and is subject to Enterprise Income Tax in the PRC. Provision for Enterprise Income Tax was calculated at statutory tax rate of 25% on taxable profit.

Pursuant to the relevant applicable laws, rules and regulations of the Cayman Islands and the BVI, our Group and our intermediate subsidiary are not subject to any profits tax in the Cayman Islands and the BVI.

### Tax re-filing

#### (i) 2017 Filings

During the time for the initial tax filing, the then accounting personnel (the “**Relevant Staff**”) of Hang Yick, who did not have relevant professional qualification, was responsible for, among others, the bookkeeping and the preparation of management accounts of Hang Yick. In connection with the historical audited financial statements and the tax returns of Hang Yick previously filed with the IRD, an independent local accounting firm (the “**Former Local Auditor**”) of Hang Yick audited the management accounts and supporting documents prepared by the Relevant Staff and another independent local accounting firm (the “**Former Tax Representative**”) prepared the tax computations and tax returns based on the financial statements audited by the Former Local Auditor. In July 2017, we had appointed our chief financial officer, Mr. Leung Wing Lun, who is a certified public

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accountant, to oversee and closely monitor the accounting and financial matters of Hang Yick, and also to revisit the accounting policy and application of the relevant accounting principles in the financial statements of Hang Yick. During the review of financial statements of Hang Yick for the year ended 31 March 2016, certain errors in accounting treatment were identified.

Our Directors consider that the errors in the accounting treatment were led by the following circumstances:

- (a) Mr. PS Lee and Ms. LC Lau, being the only directors of Hang Yick at the relevant times, were businessmen who have limited accounting knowledge. They were not fully observant to certain accounting concepts such as recognition of construction contracts, recognition of investment in subsidiary and classification of accounting items in accordance with the relevant Hong Kong Accounting Standards and/or Hong Kong Financial Reporting Standards;
- (b) the Relevant Staff did not possess any accounting qualification. At the relevant times, the Relevant Staff, being the only accounting personnel, was in charge of all the accounting matters, including the preparation of management accounts and provision of relevant information to the Former Local Auditor, and the Relevant Staff reported directly to the then directors of Hang Yick. Before the appointment of Mr. Leung Wing Lun in July 2017 as the chief financial officer (the “CFO”), there was no personnel with professional qualification to review and monitor the accounting matters; and
- (c) the directors of Hang Yick relied on the professional advice from Former Local Auditor. It was stated in the opinion of the independent auditor’s report issued by the Former Local Auditor that the financial statements of Hang Yick at all material times gave a true and fair view of the state of the Company’s affairs as at the respective reporting dates.

The errors in the Accounting Treatment and the impact of respective prior year adjustment made in relation to each accounting error on the profit before taxation of Hang Yick are summarised as follows:

**Accounting error**

- cut-off errors in relation to the recognition of the revenue and the corresponding direct costs and administrative expenses

**Adjusted items in financial statements**

- revenue increased by approximately HK\$21.1 million and HK\$2.4 million for the years ended 31 March 2015 and 2016, respectively

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- capital contribution to a subsidiary was not properly recognised as investment in a subsidiary in the statement of financial position
- certain machinery were not properly recognised as property, plant and equipment in the statement of financial position
- direct costs and administrative expenses increased by approximately HK\$8.4 million and decreased by approximately HK\$12.5 million for the years ended 31 March 2015 and 2016, respectively
- administrative expenses decreased by approximately HK\$1.3 million and HK\$5.0 million for the years ended 31 March 2015 and 2016, respectively
- direct costs decreased by approximately HK\$1.5 million for the year ended 31 March 2016

To rectify these accounting errors, we had made relevant prior year adjustments to the financial statements for the years ended 31 March 2015 and 2016 and appointed a new local auditor to perform the audit on Hang Yick's financial statements for the year ended 31 March 2017 to restate the financial statements for the year ended 31 March 2016 (as comparative figures in the financial statements for the year ended 31 March 2017).

Hang Yick then engaged an international professional accounting firm (the “**Current Tax Representative**”) to act as its tax representative to prepare and submit the revised tax computations for the years of assessment 2014/15 and 2015/16 (“**2017 Filings**”) so as to inform the IRD voluntarily about the revised assessable profits for these two years. The 2017 Filings were submitted to the IRD on 15 November 2017. On 28 February 2018, the IRD issued additional profits tax assessments to Hang Yick for the years of assessment 2014/15 and 2015/16 in accordance with the 2017 Filings and the additional tax demanded totaling HK\$5.6 million, which represents the exact amount to be taxed for 2017 Filings without any penalties, was settled before the payment due date on 11 April 2018.

As a result of the above adjustments, there was an increase in the assessable profits (for Hong Kong profits tax purpose) of approximately HK\$14.0 million and HK\$20.1 million for the years ended 31 March 2015 and 2016, respectively, which led to an additional tax payable of approximately HK\$2.3 million and HK\$3.3 million for the years of assessment 2014/2015 and 2015/2016. There was no impact on the cash flow for the above-mentioned years of assessments.

The roles and responsibilities of our Directors in respect of the tax incident can be demonstrated by their actions taken before and after the incident. Before the tax incident, the following actions had been taken:

- (a) appointed the Former Local Auditor, who is and was at all material times a certified public accountant to audit the financial statements of Hang Yick;
- (b) appointed the Former Tax Representative to prepare the tax computations and tax returns. Hang Yick has a good track record of filing tax returns paying tax on time;

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- (c) reviewed the financial statements audited by the Former Local Auditor and the tax computations and tax returns prepared by the Former Tax Representative; and
- (d) delegated the preparation of management accounts/financial statements of Hang Yick to the Relevant Staff. The Relevant Staff had worked in Hang Yick and been in charge of preparation of the management accounts/financial statements since 2003. During their supervision, the directors of Hang Yick were not aware of any major issue on her work performance, therefore, they believed that the Relevant Staff prepared the management accounts/financial statements properly until the accounting errors were subsequently discovered by the CFO.

Immediately after the accounting errors were discovered by the CFO in July 2017, our Directors had taken steps proactively to rectify the accounting errors and also adopted the following measures to prevent the same from happening again:

- (a) appointed the CFO who is an experienced certified public accountant, and he is responsible for overseeing all the accounting and financial matters. Our Group adopted the correct accounting treatment based on the relevant accounting standards, including recognition of revenue in accordance with the accounting standards for construction contracts and relevant costs under accrual basis, recognition of investment in subsidiary and other reclassification of financial line items, under the monitor of the CFO;
- (b) appointed the Current Tax Representative, an international professional accounting firm, to prepare revised profits tax computations to voluntarily inform the IRD of the additional assessable profits because of the aforesaid prior year adjustments in due course;
- (c) strengthened the accounting and financial reporting functions of Hang Yick by establishing an accounting team of three members, led by the CFO, in July 2017. Internal training related to accounting knowledge and Hong Kong Financial Reporting Standards update will be provided to all accounting staff periodically;
- (d) established our accounting policies and procedural manual to periodically review and assess the accounting policies in March 2018 and the procedures describing the flow of process and relevant approvals needed;
- (e) appointed a new local auditor, who has extensive experience in accounting and audit of listed companies, to perform the audit for the year ended 31 March 2017 and restate the financial information for the years ended 31 March 2015 and 2016 as comparative figures in the financial statements of Hang Yick for the year ended 31 March 2017;
- (f) engaged an independent internal control consultant to review our internal control systems and has taken enhanced internal control measures in order to prevent re-occurrence of the incident in the future;
- (g) established and started to implement the corporate governance policies and report to the Board from time to time; and

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- (h) provided training to our Directors by legal advisers of the Group in respect of their directors' obligations under applicable laws and rules,

(collectively, the “**Remedial Actions**”).

Our Director also:

- (a) appointed Mr. Lee Ka Chun Benny, a certified public accountant, as the non-executive Director of the Company on 14 May 2018;
- (b) appointed Mr. Tse Ka Ching Justin, a certified public accountant who has the working experience of around eight years in an international professional accounting firm, as our independent non-executive Director on 19 September 2018;

In light of the Remedial Actions taken, our Directors consider, and the Sole Sponsor concurs, that it is unlikely for similar accounting errors to happen again in the future, given the effectiveness of the Remedial Actions as follows:

- (a) the accounting and financial reporting functions of Hang Yick have been strengthened with clear delineation of roles and responsibilities. Since the establishment of the accounting team, the accounting matters of our Group are now handled by a group of three accounting staff (two of them are certified public accountants) with clear delineation of roles and responsibilities. Our Group has also established procedural manual with details of the flow of process and relevant approvals needed. After the Listing, our Group will recruit an additional accounting officer with accounting qualifications and at least five years of related experience;
- (b) our Group has also established an accounting policies manual and will periodically review/ assess the accounting policies going forward. As such, the accuracy of the financial statements can be further enhanced;
- (c) having received the training on directors' obligations, our Directors now have a better understanding as to their roles and responsibilities in handling finance and taxation matters; and
- (d) the Company has appointed a team of professionals, including (i) the CFO, who is a certified public accountant; (ii) the Reporting Accountants, an international professional accounting firm, who will also be appointed as auditor of our Company upon Listing; (iii) the Current Tax Representative, an international professional accounting firm; and (iv) Mr. Lee Ka Chun Benny, a certified public accountant, as our non-executive Director. All of them have relevant qualification and experience in accounting and financial reporting. Further, our Group has appointed Mr. Tse Ka Ching Justin, a certified public accountant, as our independent non-executive Director. Therefore, it is believed that the chance of having similar accounting errors will be low in the future.

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Under section 80(2) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (“IRO”), any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required by the IRO to make a return, or gives any incorrect information in relation to any matter or thing affecting his own liability to pay tax commits an offence and is liable on conviction to a fine at level 3 (i.e. HK\$10,000) and a further fine of treble the amount of the tax undercharged in consequence of such incorrect return, statement or information.

Under section 82(1) of the IRO, any person who willfully with intent to evade or to assist any other person to evade tax omits from a return any sum which should be included, or makes any false statement or entry in any return, or signs any statement or return without reasonable grounds for believing the same to be true, commits an offence. Such person may be liable on indictment to a fine at level 5 (i.e. HK\$50,000) and a further fine of treble the amount of the tax undercharged and imprisonment for 3 years.

Under section 82A of the IRO, any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required to make a return, shall, if no prosecution under section 80(2) or 82(1) has been instituted in respect of the same facts, be liable to be assessed to additional tax of an amount not exceeding treble the amount of tax undercharged as a result of the filing of the incorrect tax return.

According to the legal opinion from our Hong Kong legal counsel in relation to the IRO, Ms. Sabrina S.Y. Ho, the likelihood that the IRD to impose penalty actions on Hang Yick in respect of the 2017 Filings would be remote based on the following:

- (a) Hang Yick has a good track record of filing tax returns and paying tax on time;
- (b) the 2017 Filings appear to be a one-off incident on the basis that (i) all the accounting errors have been rectified once and for all through the 2017 Filings; and (ii) effective Remedial Actions have been taken to prevent similar accounting errors from happening again;
- (c) as soon as Hang Yick became aware of the abovementioned accounting errors, Hang Yick promptly appointed a new local auditor to audit its 2017 financial statements, which contain the restated figures for the 2015 and 2016 financial statements. Hang Yick further engaged Current Tax Representative and voluntarily submitted the 2017 Filings and confirmed that it has no intention to evade tax liability; and
- (d) the IRD issued the additional tax assessments based on the revised tax computations in the 2017 Filings without further questions or comments. It was not stated in the additional tax assessments or otherwise indicated by the IRD that it considered Hang Yick to be in breach of the IRO.

According to the Current Tax Representative, pursuant to section 60 of the IRO, the IRD may have the general authority to issue an additional assessment to any taxpayer if an IRD assessor is of



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the opinion that the taxpayer has not been assessed or has been assessed at less than the proper amount, within the year of assessment or within 6 years after the expiration thereof. Therefore, from the tax point of view, the additional tax demanded by the IRD may not be final and conclusive for the 2017 Filings.

Nevertheless, considering that additional tax assessments in accordance with the 2017 Filings submitted on 15 November 2017 were issued by the IRD to Hang Yick in February 2018 and as of the Latest Practicable Date, Hang Yick has not received any correspondences or enquiry letters or letters indicating the IRD's intention to impose penalty from the IRD in relation to the 2017 Filings. Based on the practical experience of the Current Tax Representative, the Current Tax Representative is of the view that the chance of the IRD revisiting the 2017 Filings is on the low side.

In addition, based on the practical experience of the Current Tax Representative, the Current Tax Representative is of the view that the chance of the IRD instituting penalty actions against Hang Yick in respect of the 2017 Filings as a result of the restatements to financial statements by way of voluntary filings of the revised profits tax computations is rather low on account of the following:

- (a) Hang Yick does not have any willful intention to evade tax since the under-payment of tax mainly arose from the restatements to Hang Yick's financial statements for the relevant period. As soon as the accounting adjustments were identified, revised profits tax computations were voluntarily filed by Hang Yick to the IRD on 15 November 2017. Hence, section 82 of the IRO would not be applicable.
- (b) Hang Yick has good grounds to establish as having reasonable excuse for filing the seemingly incorrect tax returns, particularly because the restatements are technical accounting adjustments due to divergence of views. It cannot be expected that the Mr. PS Lee and Ms. LC Lau, who were the only directors of Hang Yick at the relevant times with limited accounting knowledge, to be deeply involved in such technical accounting views given that they had not received any adverse or qualified opinion on the audit reports issued by the Former Local Auditor regarding the issue. Management of Hang Yick honestly believed that the tax returns filed with the IRD, based on the historical audited reports issued by the Former Local Auditor, were correct. Hence, sections 80(2) and 82A of the IRO would not be applicable.

As at the Latest Practicable Date, no penalty or surcharge was imposed on us in respect of the 2017 Filings.

### (ii) *Updated Filings*

For the purpose of Listing, we engaged the Reporting Accountants to perform an audit on the consolidated financial statements of our Group for each of the three years ended 31 March 2018 (the "**Underlying Financial Statements**"). Having considered that HKFRS 15 has become effective for annual financial period beginning on or after 1 January 2018, our Directors are of the view that it would be desirable if the Group could early adopt HKFRS 15 to illustrate to the potential investors the financial performance and financial position of the Group under this new accounting standard for

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revenue recognition in a consistent manner throughout the Track Record Period. Accordingly, the financial accounts of Hang Yick for the year ended 31 March 2018 has also early adopted HKFRS 15 and resulting in additional tax payable of approximately HK\$1.1 million, HK\$0.2 million and HK\$0.7 million for the years ended 31 March 2015, 2016 and 2017, respectively. In order to update the tax position of Hang Yick due to the aforesaid adjustments arising from the early adoption of HKFRS 15 (the “**Adjustments**”), Hang Yick submitted in August 2018 an updated tax computations for the years of assessment 2014/15 to 2015/16 (the “**Updated Filings**”) together with the tax return of Hang Yick for year of assessment 2017/18 before it is due for submission and would pay any additional tax assessed.

The net profit amount of Hang Yick for the years ended 31 March 2016 and 2017 included in the Underlying Financial Statements of our Group for each of the three years ended 31 March 2018 which were prepared in accordance with HKFRSs (with early adoption of HKFRS 15) are approximately HK\$1.0 million and HK\$4.2 million higher than those recorded in the audited financial statements of Hang Yick issued for the year ended 31 March 2017 (with restated comparative figures for the year ended 31 March 2016) which were prepared in accordance with HKFRSs (while the revenue recognition policies of our Group by then were prepared in accordance with the Hong Kong Accounting Standard 18 “Revenue”), respectively. The opening retained profits of Hang Yick as at 1 April 2015 included in the Underlying Financial Statements is approximately HK\$5.7 million higher than that recorded in the audited financial statements of Hang Yick for the year ended 31 March 2017.

As at the Latest Practicable Date, Hang Yick had not received any indication from the IRD to impose penalty in this regard. As advised by our legal counsel as to Inland Revenue Ordinance, the additional tax payable arises from the Adjustments is not significant and the likelihood that Hang Yick being subject to the penalty actions from the IRD in respect of the Updated Filings is remote.

Our Controlling Shareholders have agreed to indemnify our Group in respect of any further tax liability and/or the resulting penalty or surcharge as assessed by the IRD in relation to the tax undercharged for the years of assessment 2014/2015 and 2015/2016 for which our Group may be liable. For details in relation to the indemnity, see “E. Other information — 1. Tax and other indemnities” in Appendix IV to this prospectus.

### *View of our Directors and the Sole Sponsor*

Our Directors are of the view, and the Sole Sponsor concurs, that such accounting errors leading to the incorrect tax returns should not cast doubt or have material negative impact on the competence and integrity of our Directors under Rule 3.08 and 3.09 of the Listing Rules due to the following reasons:

1. Mr. PS Lee and Ms. LC Lau, being the directors of Hang Yick during the relevant period, are not professional accountants with extensive and technical knowledge about the relevant accounting standards and had exercised reasonable care and diligence in handling the above matters by seeking professional advice from the Former Local Auditor;
2. the accounting errors did not involve any dishonesty or fraudulent act of our Directors;

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3. the competence of Mr. PS Lee and Ms. LC Lau in business operation in the steel and metal engineering services industry shall never be in doubt, provided that Mr. PS Lee and Ms. LC Lau have over 35 years and 25 years of the relevant work experience, respectively, and our Group is a market leader in the industry;
4. our Directors have been responsive and taken immediate Remedial Actions and our Group has refiled the revised tax computations with the IRD voluntarily and will duly settle the reassessed income tax balance in accordance with the requirement of the IRD;
5. our Directors' commitments to implement Remedial Action measure demonstrates that their integrity is not at risk; and
6. up to the Latest Practicable Date, there has not been any litigation record related to dishonesty or tax non-compliance.

### **Year-to-year comparison of results of operations**

#### **Year ended 31 March 2018 compared to year ended 31 March 2017**

##### ***Revenue***

Our revenue increased by approximately HK\$37.7 million, or 23.3%, from approximately HK\$161.5 million for the year ended 31 March 2017 to approximately HK\$199.2 million for the year ended 31 March 2018.

Revenue from the provision of steel and metal engineering services increased by approximately HK\$37.3 million, or 36.1%, from approximately HK\$103.3 million for the year ended 31 March 2017 to approximately HK\$140.6 million for the year ended 31 March 2018. The increase in revenue was primarily due to the increase in the number of projects undertaken during the year ended 31 March 2018.

Revenue from the sales of steel and metal products remained relatively stable at approximately HK\$58.2 million for the year ended 31 March 2017 and HK\$58.6 million for the year ended 31 March 2018. There was a shift of product mix to increase in the number of standardised collapsible gates sold as a result of the policy implemented by the Hong Kong Housing Authority.

##### ***Direct costs***

Our direct costs increased by approximately HK\$17.1 million, or 15.9%, from approximately HK\$107.7 million for the year ended 31 March 2017 to approximately HK\$124.8 million for the year ended 31 March 2018. The increase was primarily attributable to the increase in direct material costs and direct labour costs, which was generally in line with the increase in revenue.

##### ***Gross profit and gross profit margin***

Our gross profit increased by approximately HK\$20.6 million, or 38.3%, from approximately HK\$53.8 million for the year ended 31 March 2017 to approximately HK\$74.4 million for the year

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ended 31 March 2018. The increase in gross profit margin from approximately 33.3% for 31 March 2017 to approximately 37.3% for 31 March 2018 was primarily due to (i) the supply and installation of metal gates for a public rental housing development project in Tung Chung (Project B1) with contract sum of approximately HK\$65.0 million which required a higher requirement of capacity which limited smaller scale subcontractors to participate in tendering, thus we had higher bargaining power to secure a better price margin in tendering process; and (ii) better cost control in mass production of our standardised collapsible gates.

### *Other income and other gains and losses*

Our Group recorded other income and other gains and losses of approximately HK\$0.5 million for the year ended 31 March 2017 and approximately HK\$7.8 million for the year ended 31 March 2018. Such increase was mainly attributable to a gain on disposal of investment properties of approximately HK\$6.3 million for the year ended 31 March 2018. For further details, see “Analysis of various items from the statements of financial position — Investment properties” in this section.

### *Administrative expenses*

Our administrative expenses increased by approximately HK\$5.4 million, or 70.1%, from approximately HK\$7.7 million for the year ended 31 March 2017 to approximately HK\$13.1 million for the year ended 31 March 2018. The increase was primarily attributable to the increase in staff headcounts.

### *Finance costs*

Our finance costs remained relatively stable at approximately HK\$0.1 million for both years ended 31 March 2017 and 2018.

### *Listing expenses*

Our listing expenses of approximately HK\$6.4 million was incurred in relation to the Listing for the year ended 31 March 2018.

### *Income tax expense*

Our income tax expense increased by approximately HK\$1.9 million, or 22.6%, from approximately HK\$8.4 million for the year ended 31 March 2017 to approximately HK\$10.3 million for the year ended 31 March 2018, which was generally in line with the increase in our profit before taxation. The effective tax rates for the year ended 31 March 2017 and 2018 was 18.1% and 16.5%, respectively.

Our Group had unused tax losses of approximately HK\$2.9 million as at 31 March 2017. This was mainly due to the payment of one-off discretionary staff bonus in the PRC in 2017.

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### *Profit for the year*

Our profit for the year increased by approximately HK\$14.1 million, or 37.0%, from approximately HK\$38.1 million for the year ended 31 March 2017 to approximately HK\$52.2 million for the year ended 31 March 2018. Such increase was mainly attributable to (i) the increase in our gross profit; (ii) a gain on disposal of investment properties; and partially offset by (iii) the incurrence of listing expenses.

### **Year ended 31 March 2017 compared to year ended 31 March 2016**

#### *Revenue*

Our Group's revenue increased by approximately HK\$38.8 million, or 31.6%, from approximately HK\$122.7 million for the year ended 31 March 2016 to approximately HK\$161.5 million for the year ended 31 March 2017.

Revenue from the provision of steel and metal engineering services increased slightly by approximately HK\$7.2 million or 7.5%, from approximately HK\$96.1 million for the year ended 31 March 2016 to approximately HK\$103.3 million for the year ended 31 March 2017. The increase in revenue was primary due to the increase in the size of projects in terms of contract sum.

Revenue from the sales of steel and metal products increased by approximately HK\$31.6 million or 118.8%, from approximately HK\$26.6 million for the year ended 31 March 2016 to approximately HK\$58.2 million for the year ended 31 March 2017. The increase was primarily driven by the revenue of our standardised collapsible gates as a result of policy implemented by the Hong Kong Housing Authority.

#### *Direct costs*

Our direct costs increased by approximately HK\$25.1 million, or 30.4%, from approximately HK\$82.6 million for the year ended 31 March 2016 to approximately HK\$107.7 million for the year ended 31 March 2017. The increase was generally in line with the increase in revenue.

#### *Gross profit and gross profit margin*

Our gross profit increased by approximately HK\$13.7 million or 34.2%, from approximately HK\$40.1 million for the year ended 31 March 2016 to approximately HK\$53.8 million for the year ended 31 March 2017. The increase in gross profit margin from approximately 32.7% for 31 March 2016 to approximately 33.3% for 31 March 2017 due to lower gross margin recorded for our standardised collapsible gates when compared to that of our steel and metal products.

#### *Other income and other gains and losses*

Our other income and other gains and losses remained relatively stable at HK\$0.7 million and HK\$0.5 million for the year ended 31 March 2016 and 2017, respectively.

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### *Administrative expenses*

Our administrative expenses increased by approximately HK\$2.4 million, or 45.3%, from approximately HK\$5.3 million for the year ended 31 March 2016 to approximately HK\$7.7 million for the year ended 31 March 2017. Such increase was mainly due to (i) general legal and consultancy fees to support business operation; (ii) staff costs due to a discretionary bonus payment to our staff.

### *Finance costs*

Our finance costs remained relatively stable at HK\$0.1 million for the years ended 31 March 2016 and 2017.

### *Income tax expense*

Our income tax expense increased by HK\$2.4 million, or 40.0%, from HK\$6.0 million for the year ended 31 March 2016 to HK\$8.4 million for the year ended 31 March 2017, which was generally in line with the increase in our profit before taxation. The effective tax rates for the year ended 31 March 2016 and 2017 was approximately 17.0% and 18.1%, respectively.

### *Profit for the year*

Our profit for the year increased by approximately HK\$8.7 million, or 29.6%, from approximately HK\$29.4 million for the year ended 31 March 2016 to approximately HK\$38.1 million for the year ended 31 March 2017. Such increase was mainly attributable to the increase in our gross profit for the year.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to pay for our purchases of raw materials for production, staff costs and purchase of equipment, and to fund our working capital and other operating expenses. We have historically financed our operations primarily through cash flow from our operating activities.

We expect that there will not be any material change in the sources and uses of the cash of our Group upon completion of the Global Offering and in the future, except that we will have additional funds from the proceeds of the Global Offering for implementing our future plans as detailed in “Future Plans and Use of Proceeds”.

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### Cash flows

The following table sets forth a summary of our cash flow from our consolidated statements of cash flows for the years indicated:

	<b>For the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	12,216	38,993	60,448
Net cash (used in) from investing activities	(2,856)	(1,093)	7,366
Net cash used in financing activities	<u>(5,496)</u>	<u>(31,695)</u>	<u>(70,898)</u>
Net increase (decrease) in cash and cash equivalents	3,864	6,205	(3,084)
Cash and cash equivalents at the beginning of the year	21,270	25,384	31,387
Effect of foreign exchange rate changes	<u>250</u>	<u>(202)</u>	<u>300</u>
Cash and cash equivalents at the end of the year	<u><u>25,384</u></u>	<u><u>31,387</u></u>	<u><u>28,603</u></u>

### Net cash from operating activities

Our cash inflow from operating activities is principally derived from the provision of steel and metal engineering services and sales of steel and metal products. Our cash outflow from operating activities comprises mainly direct costs, administrative expenses and listing expenses. During the Track Record Period, our net cash generated from operating activities represented profit before taxation for the year adjusted for depreciation on property, plant and equipment, depreciation on investment properties, amortisation of prepaid lease payments, finance costs, bank interest income, gain on disposal of property, plant and equipment and gain on disposal of investment properties and changes in working capital.

For the year ended 31 March 2018, we had net cash from operating activities of approximately HK\$60.4 million, primarily attributable to (i) profit before taxation of approximately HK\$62.5 million, as adjusted to reflect non-cash item which principally included depreciation of property, plant and equipment of approximately HK\$2.7 million and gain on disposal of investment properties of approximately HK\$6.3 million; (ii) the decrease in trade receivables of approximately HK\$9.4 million due to prompt settlement of payments from our customers; (iii) the decrease in inventories of approximately HK\$9.6 million due to better inventory level management; (iv) the settlement of amounts due from related companies of approximately HK\$9.6 million; and offset by (v) the increase in retention receivables of approximately HK\$1.9 million, (vi) the increase in other receivables, deposits and prepayments of approximately HK\$2.4 million; and (vii) the decrease in trade and other payables and accruals of approximately HK\$3.8 million due to the increased purchase of galvanised coils from one of our top five suppliers in the first quarter of 2017.

For the year ended 31 March 2017, our net cash from operating activities amounted to approximately HK\$39.0 million, primarily attributable to (i) profit before taxation of approximately

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HK\$46.5 million, as adjusted to reflect depreciation on property, plant and equipment of approximately HK\$2.0 million; (ii) the decrease in contract assets of approximately HK\$1.2 million; (iii) the increase in trade and other payables and accruals of approximately HK\$10.1 million due to the increased purchase of galvanised coils from one of our top five suppliers in the first quarter of 2017; and offset by (iv) the increase in trade receivables and other receivables, deposits and prepayments of approximately HK\$7.1 million due to significant progress made and works certified by our customer for a public rental housing project in Tuen Mun (Project A6) before year end; (v) the increase in inventories of approximately HK\$7.7 million due to the purchase of galvanised coils to cope with the increase in sales orders which was then delivered during April to June 2017; and (vi) the increase in amount due from related companies of approximately HK\$2.3 million.

For the year ended 31 March 2016, our net cash from operating activities amounted to approximately HK\$12.2 million, primarily attributable to (i) profit before taxation of approximately HK\$35.4 million, as adjusted to reflect depreciation on property, plant and equipment of approximately HK\$1.9 million; and offset by (ii) the increase in trade receivables and other receivables, deposits and prepayments of approximately HK\$9.6 million; (iii) the increase in contract assets of approximately HK\$6.6 million; and (iv) the increase in amount due from related companies of approximately HK\$3.6 million.

### **Net cash (used in) from investing activities**

Our cash outflow for investing activities is purchase of property, plant and equipment. Our cash inflow from investing activities is principally derived from the disposal of investment properties.

For the year ended 31 March 2018, our net cash from investing activities amounted to approximately HK\$7.4 million, which was mainly attributable to the disposal of a residential property and a car park space to a connected person at a cash consideration of HK\$10.6 million.

For the year ended 31 March 2017, our net cash used in investing activities was approximately HK\$1.1 million, which was mainly attributable to the purchase of property, plant and equipment of approximately HK\$1.3 million.

For the year ended 31 March 2016, our net cash used in investing activities was approximately HK\$2.9 million, which was mainly attributable to the purchase of property, plant and equipment of approximately HK\$2.9 million.



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### **Net cash used in financing activities**

Our cash outflow for financing activities primarily consists of repayments to Controlling Shareholders, repayments of bank borrowings and obligations under finance lease, and payment of dividend.

For the year ended 31 March 2018, our net cash used in financing activities amounted to approximately HK\$70.9 million. Cash outflow for financing activities included net repayment to Controlling Shareholders of approximately HK\$44.6 million, repayments of bank borrowings of approximately HK\$0.6 million, repayments of finance lease obligation of approximately HK\$1.3 million and payment of dividend of approximately HK\$24.0 million.

For the year ended 31 March 2017, our net cash used in financing activities was approximately HK\$31.7 million. Cash outflow for financing activities included net repayments to Controlling Shareholders of approximately HK\$6.4 million, repayments of bank borrowings of approximately HK\$0.6 million, repayments of obligations under finance lease of approximately HK\$0.6 million, payment of dividend of approximately HK\$24.0 million.

For the year ended 31 March 2016, our net cash used in financing activities amounted to approximately HK\$5.5 million. Cash outflow for financing activities mainly consisted of repayments of bank borrowings of approximately HK\$0.5 million and net repayments to Controlling Shareholders of approximately HK\$4.6 million.

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### NET CURRENT ASSETS

The following table sets forth the breakdown of our Group's current assets and liabilities as at 31 March 2016, 2017 and 2018 and 31 July 2018:

	As at 31 March			As at
	2016	2017	2018	31 July
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
<b>Current assets</b>				
Inventories	20,678	26,415	18,674	20,210
Prepaid lease payments	201	183	201	185
Trade receivables	20,579	27,178	17,850	18,220
Retention receivables	14,586	16,299	18,152	19,361
Other receivables, deposits and prepayments	1,449	1,759	4,333	4,877
Contract assets	9,230	8,036	8,938	15,993
Amounts due from related companies	7,292	9,603	—	—
Bank balances and cash	<u>25,384</u>	<u>31,387</u>	<u>28,603</u>	<u>32,649</u>
	99,399	120,860	96,751	111,495
Assets classified as held for sale	<u>—</u>	<u>—</u>	<u>3,410</u>	<u>—</u>
	<u>99,399</u>	<u>120,860</u>	<u>100,161</u>	<u>111,495</u>
<b>Current liabilities</b>				
Trade and other payables and accruals	5,157	14,916	11,658	14,127
Amount due to a related company	273	273	—	—
Amounts due to Controlling Shareholders	51,221	42,058	—	—
Tax payable	6,900	12,626	4,721	7,147
Obligations under finance leases	475	974	661	645
Bank borrowings	<u>2,497</u>	<u>1,936</u>	<u>1,357</u>	<u>—</u>
	<u>66,523</u>	<u>72,783</u>	<u>18,397</u>	<u>21,919</u>
<b>Net current assets</b>	<u>32,876</u>	<u>48,077</u>	<u>81,764</u>	<u>89,576</u>

Our net current assets increased by approximately HK\$15.2 million, or 46.2%, from approximately HK\$32.9 million as at 31 March 2016 to approximately HK\$48.1 million as at 31 March 2017. Such increase was attributable to the increase in inventories of approximately HK\$5.7 million, trade receivables of approximately HK\$6.6 million and bank balances and cash of

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approximately HK\$6.0 million which was in line with the increase in revenue. Our net current assets increased by approximately HK\$33.7 million, or 70.1%, from approximately HK\$48.1 million as at 31 March 2017 to approximately HK\$81.8 million as at 31 March 2018. Such increase was primarily due to the increase in our net working capital resulting from the operating profits earned and partially offset by dividends paid.

### WORKING CAPITAL

Our Directors confirm that taking into account the financial resources available to our Group, including the internally generated funds and the estimated net proceeds of the Global Offering, we are of the opinion that our Group has sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this prospectus.

### ANALYSIS OF VARIOUS ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	11,460	11,420	13,153
Investment properties	8,208	7,943	—
Prepaid lease payments	<u>4,770</u>	<u>4,167</u>	<u>4,368</u>
	<u>24,438</u>	<u>23,530</u>	<u>17,521</u>
<b>Current assets</b>			
Inventories	20,678	26,415	18,674
Prepaid lease payments	201	183	201
Trade receivables	20,579	27,178	17,850
Retention receivables	14,586	16,299	18,152
Other receivables, deposits and prepayments	1,449	1,759	4,333
Contract assets	9,230	8,036	8,938
Amount due from related companies	7,292	9,603	—
Bank balances and cash	<u>25,384</u>	<u>31,387</u>	<u>28,603</u>
	99,399	120,860	96,751
Assets classified as held for sale	<u>—</u>	<u>—</u>	<u>3,410</u>
	<u>99,399</u>	<u>120,860</u>	<u>100,161</u>

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	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current liabilities</b>			
Trade and other payables and accruals	5,157	14,916	11,658
Amount due to a related company	273	273	—
Amounts due to Controlling Shareholders	51,221	42,058	—
Tax payable	6,900	12,626	4,721
Obligations under finance leases	475	974	661
Bank borrowings	<u>2,497</u>	<u>1,936</u>	<u>1,357</u>
	<u>66,523</u>	<u>72,783</u>	<u>18,397</u>
<b>Net current assets</b>	<u>32,876</u>	<u>48,077</u>	<u>81,764</u>
<b>Total assets less current liabilities</b>	<u>57,314</u>	<u>71,607</u>	<u>99,285</u>
<b>Non-current liabilities</b>			
Provisions	348	327	254
Deferred tax liabilities	232	358	122
Obligations under finance leases	<u>630</u>	<u>1,018</u>	<u>352</u>
	<u>1,210</u>	<u>1,703</u>	<u>728</u>
<b>Net assets</b>	<u><u>56,104</u></u>	<u><u>69,904</u></u>	<u><u>98,557</u></u>

### **Property, plant and equipment**

Our property, plant and equipment comprises mainly buildings, plant and machinery and motor vehicles. We had property, plant and equipment of approximately HK\$11.5 million, HK\$11.4 million and HK\$13.2 million as at 31 March 2016, 2017 and 2018, respectively.

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The following table sets forth the breakdown of our property, plant and equipment as at the respective dates indicated:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Buildings	5,841	4,845	4,784
Motor vehicles	1,557	2,659	1,950
Plant and machinery	4,018	3,891	6,320
Office equipment, furniture and fixtures	<u>44</u>	<u>25</u>	<u>99</u>
	<u>11,460</u>	<u>11,420</u>	<u>13,153</u>

Our property, plant and equipment remained relatively stable at approximately HK\$11.5 million as at 31 March 2016 and approximately HK\$11.4 million as at 31 March 2017.

Our property, plant and equipment increased from HK\$11.4 million as at 31 March 2017 to approximately HK\$13.2 million as at 31 March 2018 mainly due to the additions of machinery of approximately HK\$2.9 million to cope with the increase in sales, offset by the provision of depreciation expenses.

See note 13 to the Accountants' Report in Appendix I to this prospectus for details.

### **Investment properties and assets classified as held for sales**

Our investment properties comprises mainly a residential property, a car park space and a commercial property. All investment properties are stated at costs less accumulated depreciation. The carrying amounts of our investments properties were approximately HK\$8.2 million, HK\$7.9 million and nil as at 31 March 2016, 2017 and 2018, respectively. Our Group did not hold any investment properties as at 31 March 2018 as (i) we sold the residential property and the car park space to Mr. Lee Ka Kit, a connected person of our Group during the year ended 31 March 2018 at a total cash consideration of approximately HK\$10.6 million, resulting in a gain on disposal of investment properties of approximately HK\$6.3 million recorded for the year ended 31 March 2018. See "Connected Transactions" for further details of the disposal; and (ii) our Group entered into a provisional sales and purchase agreement with an independent third party for the disposal of the remaining commercial property at a cash consideration of approximately HK\$4.8 million in March 2018. The carrying amount of the commercial property has been reclassified as assets held for sales as at 31 March 2018. The disposal was completed in May 2018.

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### Inventories

The following table sets forth the breakdown of our inventories as at the respective dates indicated:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	16,981	20,359	12,676
Work-in-progress	3,393	5,700	5,158
Finished goods	<u>304</u>	<u>356</u>	<u>840</u>
	<u>20,678</u>	<u>26,415</u>	<u>18,674</u>

The following tables set forth the ageing analysis of our inventories as at the dates indicated:

#### As at 31 March 2018

	<b>0 — 30</b>	<b>31 — 60</b>	<b>61 — 90</b>	<b>Over 90</b>	<b>Total</b>
	<b>days</b>	<b>days</b>	<b>days</b>	<b>days</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	5,251	—	1,222	6,203	12,676
Work-in-progress	5,158	—	—	—	5,158
Finished goods	<u>840</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>840</u>
	<u>11,249</u>	<u>—</u>	<u>1,222</u>	<u>6,203</u>	<u>18,674</u>

#### As at 31 March 2017

	<b>0 — 30</b>	<b>31 — 60</b>	<b>61 — 90</b>	<b>Over 90</b>	<b>Total</b>
	<b>days</b>	<b>days</b>	<b>days</b>	<b>days</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	10,843	882	855	7,779	20,359
Work-in-progress	4,697	1,003	—	—	5,700
Finished goods	<u>356</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>356</u>
	<u>15,896</u>	<u>1,885</u>	<u>855</u>	<u>7,779</u>	<u>26,415</u>

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As at 31 March 2016

	0 — 30 days <i>HK\$'000</i>	31 — 60 days <i>HK\$'000</i>	61 — 90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
Raw materials	6,104	185	1,666	9,026	16,981
Work-in-progress	3,393	—	—	—	3,393
Finished goods	304	—	—	—	304
	<u>9,801</u>	<u>185</u>	<u>1,666</u>	<u>9,026</u>	<u>20,678</u>

The aging pattern of our inventories remained relatively similar throughout the Track Record Period.

Our inventories mainly comprises stainless steel, metal, galvanised coils and other accessories, and steel and metal products which were under production. The net carrying amount of our inventories increased from approximately HK\$20.7 million as at 31 March 2016 to approximately HK\$26.4 million as at 31 March 2017. Such increase was primarily due to the purchase of galvanised coils amounting to approximately HK\$5.4 million to cope with the increase in sales orders which was then delivered during April to June 2017. The net carrying amount of our inventories decreased to approximately HK\$18.7 million as at 31 March 2018 which was attributable to better inventory level management.

The following table sets forth our average inventories turnover days for the periods indicated:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Average turnover days of our inventories <sup>(1)</sup>	91.5	79.8	65.9

(1) Our inventories turnover days were calculated based on the average of the opening and closing inventory divided by total direct costs for the relevant years and multiplied by 365.

Our inventories turnover days for the years ended 31 March 2016, 2017 and 2018 was approximately 91.5 days, 79.8 days and 65.9 days, respectively. The decrease in inventories turnover days across the years was primarily due to better inventory level management.

As at the Latest Practicable Date, approximately HK\$14.0 million, or 74.8%, of inventories as at 31 March 2018 had been subsequently used or sold.

Our inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Our Group

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has no specific formal policy on the provision or write-off for inventories. Should the management identify any indication of obsolete or slow-moving inventories, the provision on inventories will be reviewed on a case by case basis. No provision on inventories was made for each of the years ended 31 March 2016, 2017 and 2018.

### Trade receivables

For the provision of steel and metal engineering services, our trade receivables are non-interest bearing and the normal credit terms granted by our Group are 30 days from the date of invoice on progress payments of contract works. We normally make application to our customers for progress payment on a monthly basis with reference to the value of works done by us. A payment certificate is issued by the architects, surveyors or other representatives authorised by our customers to us upon completion of works. Upon issuance of such certificates, the progress revenue is billed to our customers and the progress revenue is accounted for as trade receivables.

For the sales of steel and metal products, except for certain major customers of which our Group grants a credit period of up to 60 days from the delivery of goods, our Group generally grants no credit terms to our other customers where they are expected to settle payment in full upon delivery of goods.

Our trade receivables increased from approximately HK\$20.6 million as at 31 March 2016 to approximately HK\$27.2 million as at 31 March 2017 mainly due to significant progress made and works certified by our customer for a public rental housing project in Tuen Mun before year end, then decreased to approximately HK\$17.9 million as at 31 March 2018 mainly due to prompt settlement of payments from our customers.

The following table illustrates the ageing analysis of our trade receivables based on invoice date as at the end of each period:

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	15,043	19,666	15,407
31 to 60 days	1,078	3,624	543
61 to 90 days	1,940	1,237	325
Over 90 days	<u>2,518</u>	<u>2,651</u>	<u>1,575</u>
	<u>20,579</u>	<u>27,178</u>	<u>17,850</u>

We recorded trade receivables with aggregate carrying amount of approximately HK\$5.3 million, HK\$7.2 million and HK\$2.3 million as at 31 March 2016, 2017 and 2018, respectively, was past due but not considered to be impaired as there has not been a significant change in credit quality of trade receivables and the amounts are still considered recoverable.



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The following table sets forth our average trade receivables turnover days for the periods indicated:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Average turnover days of our trade receivables <sup>(1)</sup>	49.0	54.0	41.3

(1) Our trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by total revenue for the relevant years and multiplied by 365.

Our trade receivables turnover days increased from approximately 49.0 days for the year ended 31 March 2016 to approximately 54.0 days for the year ended 31 March 2017 due to a slower repayment from our top customer, of which approximately HK\$2.5 million out of approximately HK\$8.0 million receivables was past due. The entire amount of receivable was settled subsequently during the year ended 31 March 2017. It decreased to approximately 41.3 days for the year ended 31 March 2018 due to better credit control.

As at the Latest Practicable Date, approximately HK\$17.4 million, or 98.2%, of our trade receivables as at 31 March 2018 were subsequently settled.

### **Retention receivables**

Our retention receivables represents the monies withheld by customers of contract works and are unsecured, interest-free and recoverable after the completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from one to two years from the date of completion of respective engineering service projects.

Our retention receivables are to be settled, based on the expiring of the defect liability period, at the end of each reporting period as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	2,192	5,310	5,355
After one year	<u>12,394</u>	<u>10,989</u>	<u>12,797</u>
	<u><u>14,586</u></u>	<u><u>16,299</u></u>	<u><u>18,152</u></u>

As at the Latest Practicable Date, our retention receivables of HK\$0.4 million, or 2.2% as at 31 March 2018 were subsequently settled. The remaining unsettled retention receivables are related to those projects which their respective defect liability period has not yet expired.

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### Other receivables, deposits and prepayments

The following table sets forth the breakdown of our other receivables, deposits and prepayments as at the respective dates indicated:

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Other receivables	702	1,198	907
Deposits	152	59	443
Prepayments	595	502	851
Deferred listing expenses	—	—	2,132
	<u>1,449</u>	<u>1,759</u>	<u>4,333</u>

Our other receivables increased from approximately HK\$0.7 million as at 31 March 2016 to approximately HK\$1.2 million as at 31 March 2017 due to the increase in value-added tax refund receivables for export. Prepayments mainly represents payment in advance for purchase of raw materials to suppliers and prepaid insurance expenses.

### Contract assets

Our contract assets refers to our Group's rights to considerations from customers for the provision of steel and metal engineering services, which arise when our Group completed the steel and metal work under such contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. Our contract assets was approximately HK\$9.2 million, HK\$8.0 million and HK\$8.9 million as at 31 March 2016, 2017 and 2018, respectively. There were no disputes or disagreements between our Group and our customers in relation to the amounts recognised as contract assets as at 31 March 2018. Out of our Group's contract assets of approximately HK\$8.9 million as at 31 March 2018, HK\$8.5 million was certified and invoiced to the respective customers up to the Latest Practicable Date.

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### Trade and other payables and accruals

The following table sets out the breakdown of our trade and other payables and accruals as at the respective dates indicated:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,043	6,624	2,170
Accrued staff costs	2,188	5,328	5,709
Accrued listing expenses	—	—	2,640
Receipts in advance	109	926	676
Accruals and others	817	2,038	463
	<u>5,157</u>	<u>14,916</u>	<u>11,658</u>

Our trade payables mainly consists of payables for purchases of materials from suppliers and installation services provided by service providers.

Our trade payables increased from approximately HK\$2.0 million as at 31 March 2016 to approximately HK\$6.6 million as at 31 March 2017 and decreased to approximately HK\$2.2 million as at 31 March 2018. The increase as at 31 March 2017 was due to our purchase of galvanised coils from one of our top five suppliers in the first quarter of 2017.

The following table illustrates the ageing analysis of the trade payables based on invoice date as at the end of each period:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	1,923	1,069	1,740
31 to 60 days	3	171	430
61 to 90 days	—	5,384	—
Over 90 days	117	—	—
	<u>2,043</u>	<u>6,624</u>	<u>2,170</u>

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## FINANCIAL INFORMATION

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The following table sets forth our average trade payables turnover days for the periods indicated:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Average turnover days of our trade payables <sup>(1)</sup>	9.0	14.7	12.9

(1) Our trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by total direct costs for the relevant years and multiplied by 365.

Our trade payables turnover days increased from 9.0 days for the year ended 31 March 2016 to approximately 14.7 days for the year ended 31 March 2017. Such increase was mainly attributable to the purchase of galvanised coils from one of our top five suppliers amounted to approximately HK\$5.4 million. Our trade payables turnover days remained relatively stable at approximately 12.9 days for the year ended 31 March 2018.

As at the Latest Practicable Date, approximately HK\$2.2 million or 100.0%, of trade payables as at 31 March 2018 had been subsequently settled.

Accrued staff costs increased from approximately HK\$2.2 million as at 31 March 2016 to approximately HK\$5.3 million as at 31 March 2017, and further increased to approximately HK\$5.7 million as at 31 March 2018, which was in line with the increase in headcounts and salary increment.

### **Amounts due from/to related companies/Controlling Shareholders**

As at 31 March 2016 and 2017, the amounts due from our related companies was approximately HK\$7.3 million and HK\$9.6 million, respectively. The amounts were trade in nature with no fixed credit period and were unsecured, non-interest bearing and repayable on demand. As at 31 March 2018, all the amounts due from our related companies were fully settled.

As at 31 March 2016 and 2017, the amount due to a related company was approximately HK\$0.3 million and HK\$0.3 million, respectively, and the amounts due to Controlling Shareholders was approximately HK\$51.2 million and HK\$42.1 million, respectively. The amounts are non-trade in nature, unsecured, interest-free and repayable on demand. As at 31 March 2018, the amounts were fully settled.

See note 20 of the Accountants' Report in Appendix I to this prospectus for details.

### **KEY FINANCIAL RATIOS**

	<b>As at/for the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Current ratio <sup>(1)</sup>	1.5 times	1.7 times	5.4 times
Interest coverage <sup>(2)</sup>	306.4 times	353.2 times	517.8 times
Gearing ratio <sup>(3)</sup>	6.4%	5.6%	2.4%
Net debt to equity ratio <sup>(4)</sup>	Net cash	Net cash	Net cash
Return on assets <sup>(5)</sup>	23.7%	26.4%	44.4%
Return on equity <sup>(6)</sup>	52.4%	54.5%	53.0%
Net profit margin <sup>(7)</sup>	24.0%	23.6%	26.2%

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*Notes:*

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year end.
2. Interest coverage is calculated by the profit before interest and tax divided by the interest expenses for the respective year.
3. Gearing ratio is calculated based on the total interest-bearing debts divided by the total equity as at the respective year and multiplied by 100%.
4. Net debt to equity ratio is calculated based on net debt, being total interest-bearing debts net of cash and cash equivalents and short term bank deposits, divided by the total equity as at respective year.
5. Return on assets is calculated by the profit for the year divided by the total assets for the respective year and multiplied by 100%.
6. Return on equity is calculated by the profit attributable to owners of the Company for the year divided by the total equity for the respective year and multiplied by 100%.
7. Net profit margin is calculated by the profit attributable to owners of the Company divided by the revenue for the respective year and multiplied by 100%.

### **Current ratio**

Our current ratio remained relatively stable at approximately 1.5 times and 1.7 times as at 31 March 2016 and 2017, respectively. Our current ratio increased to approximately 5.4 times as at 31 March 2018 mainly due to (i) the increase in our net working capital resulting from the operating profits earned, (ii) reclassification of investment properties to assets classified as held for sale, (iii) disposal of investment properties and partially offset by (iv) dividends payable.

### **Interest coverage**

Our interest coverage was approximately 306.4 times, 353.2 times and 517.8 times for the years ended 31 March 2016, 2017 and 2018, respectively. Our interest coverage increased over the Track Record Period mainly due to the increase in our profit before interest and tax from approximately HK\$35.5 million for the year ended 31 March 2016 to approximately HK\$46.6 million for the year ended 31 March 2017 and to approximately HK\$62.7 million for the year ended 31 March 2018.

### **Gearing ratio**

Our gearing ratio was approximately 6.4%, 5.6% and 2.4% as at 31 March 2016, 2017 and 2018, respectively. Our gearing ratio remained relatively stable as at 31 March 2016 and 2017 and decreased as at 31 March 2018 mainly due to the repayments of bank borrowings.

### **Net debt to equity ratio**

As at 31 March 2016, 2017 and 2018, we recorded a net cash position as our cash and cash equivalents were in excess of our bank borrowings.

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### Return on assets

Our return on assets remained relatively stable at approximately 23.7% and 26.4% for the year ended 31 March 2016 and 2017, respectively. Our return on assets increased to approximately 44.4% for the year ended 31 March 2018 mainly due to increased net profits recorded for the year ended 31 March 2018.

### Return on equity

Our return on equity remained relatively stable at approximately 52.4%, 54.5% and 53.0% for the years ended 31 March 2016, 2017 and 2018, respectively.

### Net profit margin

Our net profit margin was approximately 24.0%, 23.6% and 26.2% for the years ended 31 March 2016, 2017 and 2018, respectively. Our net profit margin remained relatively stable for the years ended 31 March 2016 and 2017. Our relatively higher net profit margin for the year ended 31 March 2018 was due to the increase in gross profit margin which was discussed in the paragraph headed “Year-to-year comparison of results of operations” in this section.

## CAPITAL EXPENDITURES AND COMMITMENTS

### Capital expenditure

During the Track Record Period, our capital expenditures was approximately HK\$4.2 million, HK\$2.8 million and HK\$3.6 million for the years ended 31 March 2016, 2017 and 2018, respectively, which represented the additions of property, plant and equipment, mainly for motor vehicles and machinery.

### Capital commitments

We had no capital commitments as at 31 March 2016, 2017 and 2018, respectively.

### Operating lease commitments

#### *Our Group as lessor*

As at 31 March 2016, 2017 and 2018, our Group had contracted with tenants for the following future minimum lease payments:

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Within one year	264	220	138
In the second to fifth year inclusive	<u>88</u>	<u>55</u>	<u>81</u>
	<u>352</u>	<u>275</u>	<u>219</u>

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Property rental income earned during the Track Record Period were approximately HK\$376,000, HK\$341,000 and HK\$395,000. Certain of our Group's properties held for rental purposes, with a carrying amount of approximately HK\$8.2 million, HK\$7.9 million and HK\$3.4 million as at 31 March 2016, 2017 and 2018.

### *Our Group as lessee*

As at 31 March 2016, 2017 and 2018, our Group had commitments for future minimum payments in respect of a warehouse premises under non-cancellable operating lease with a company controlled by Mr. PS Lee, which fall due as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	—	—	566
In the second to fifth year inclusive	—	—	991
	<u>—</u>	<u>—</u>	<u>1,557</u>

The above lease is negotiated for a fixed term of three years with fixed rental during the lease term. See "Connected Transactions" for further details.

We anticipate that funds needed to finance our capital expenditures will be financed by cash generated from our operations as well as net proceeds from the Global Offering.

### **INDEBTEDNESS**

#### *Bank borrowings and finance lease obligations*

The following table sets forth our indebtedness as at 31 March 2016, 2017 and 2018 and 31 July 2018:

	<b>As at 31 March</b>			<b>As at</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>31 July</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Amounts due to Controlling Shareholders	51,221	42,058	—	—
Bank borrowings - secured and guaranteed	2,497	1,936	1,357	—
Obligations under finance leases - secured and guaranteed	<u>1,105</u>	<u>1,992</u>	<u>1,013</u>	<u>976</u>
	<u>54,823</u>	<u>45,986</u>	<u>2,370</u>	<u>976</u>

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As at the close of business on 31 July 2018, being the latest practicable date for the purpose of the indebtedness statement in this prospectus, our Group had obligations under finance lease which were secured by the lessors' charge over our Group's leased assets and guaranteed by a director of our Company. Such personal guarantee from our Director will be released by our Group upon or before the Listing.

As at 31 July 2018, being the latest practicable date for the purpose of indebtedness statement, we had no unutilised banking facilities.

### **Contingent liabilities**

As at the Latest Practicable Date, we were not involved in any legal proceedings pending or, to our knowledge, threatened against our Group which could have a material adverse effect on our business operations. Our Directors confirm that as at the Latest Practicable Date, we did not have any significant contingent liabilities.

Save for the aforesaid and apart from intra-group balances, as at the close of business on 31 July 2018, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, our Group did not have any other outstanding loan capital issued or authorised to be issued but unissued, any debt securities issued and outstanding or authorised to be issued but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, or other material contingent liabilities.

### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

### **RELATED PARTY TRANSACTIONS**

During the Track Record Period, Hang Yick Co and Hang Yick Metal Products purchased all metal products from our Group, which were our Group's related party transactions as stated in note 34 of the Accountant's Report set out in Appendix I to this prospectus. As at 31 March 2016 and 2017, our Group had amounts due from Hang Yick Co and Hang Yick Metal Products in the total sum of approximately HK\$7.3 million and HK\$9.6 million, which were solely trade receivable balances arising from sales of steel and metal products as mentioned above. During the year ended 31 March 2018, all these balances were fully settled. Save as disclosed above, our Group had no other transactions with Hang Yick Co and Hang Yick Metal Products during the Track Record Period.

Our Directors confirm that all transactions with related parties described in note 34 of the Accountants' Report set out in Appendix I to this prospectus were conducted in the ordinary and usual course of business and on normal commercial terms, which are considered fair and reasonable and in the interest of the Shareholders of our Company as a whole and that all non-trade balances with related parties have been settled. All guarantees and securities with related parties will be released before Listing. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.



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After Listing, the related party transactions to be continued will be (i) lease of Yau Tong Lease Premises with Controlling Shareholders; (ii) lease of Tai Kok Tsui Premises with Ms. LC Lau; and (iii) lease of PRC Premises with Huizhou Jiantai; while the related party transactions to be discontinued will be all sales of goods to related parties.

### CAPITAL RISK AND FINANCIAL RISK MANAGEMENT

Please refer to notes 30 and 31 of the Accountants' Report in Appendix I to this prospectus.

### DIVIDEND

Hang Yick declared and paid dividends of nil, HK\$24.0 million and HK\$24.0 million during the year ended 31 March 2016, 2017 and 2018, respectively. All such dividends had been fully paid and we financed the payment of such dividends by internal resources. We have declared and paid a special dividend of HK\$24.0 million on 29 August 2018.

Our Group currently does not have a dividend policy and may distribute dividends by way of cash or by other means that our Directors consider appropriate. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to the laws applicable to our Group. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

### DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, our Company had no reserves available for distribution to our Shareholders.

### LISTING EXPENSES

Our Directors estimate that the total estimated listing expenses in connection with the Global Offering are approximately HK\$31.0 million, based on the mid-point of the Offer Price of HK\$0.85 per Offer Share and assuming no Over-allotment Option will be exercised, of which approximately HK\$6.4 million has been charged to our consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2018, and approximately HK\$12.5 million is expected to be further charged to our consolidated statement of profit or loss and other comprehensive income for the year ending 31 March 2019, and approximately HK\$12.1 million is expected to be accounted for as a deduction from equity upon the Listing. Our Company expects to record a decline in its net profit for the year ending 31 March 2019 as a result of listing expenses.

### PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

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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.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is a statement of the unaudited pro forma adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the audited consolidated net tangible assets of Group attributable to owners of our Company as of the Global Offering had taken place at 31 March 2018.

The unaudited pro forma adjusted net tangible assets of our Group have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of the Company as at 31 March 2018 or any future date following the Global Offering.

	<b>Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 March 2018</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as of 31 March 2018 per Share</b>
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on the Offer Price of HK\$0.80 per Share	98,557	127,796	226,353	0.30
Based on the Offer Price of HK\$0.90 per Share	98,557	145,998	244,555	0.32

*Notes:*

- (1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 190,000,000 new Shares at the Offer Price of lower limit and upper limit of HK\$0.80 and HK\$0.90 per Share, respectively, after taken into account the estimated underwriting fees and other related expenses incurred or to be incurred by our Group (excluding listing expenses which

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have been charged to profit or loss up to 31 March 2018) assuming that the Over-allotment Option is not exercised. The calculation of such estimated net proceeds does not take into account any Shares (i) which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.

- (3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 per Share is calculated based on that 760,000,000 Shares in issue assuming that the Global Offering and the Capitalisation Issue had been completed on 31 March 2018 and assuming the Over-allotment Option is not exercised. It does not take into account any Shares (i) which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2018.
- (5) Assuming the special dividend of HK\$24,000,000 declared on 29 August 2018 had been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company would have been HK\$202,353,000 and HK\$220,555,000, whereas the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share would have been HK\$0.27 and HK\$0.29, at the Offer Price of HK\$0.80 and HK\$0.90 per Share, respectively. Such calculation is based on 760,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering, taking into consideration the audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 of HK\$98,557,000 adjusted for (i) the estimated net proceeds from the Global Offering, and (ii) the declaration of the special dividend of HK\$24,000,000.

### DISCLOSURE UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial, operation or trading position since 31 March 2018, being the end of the period reported in the Accountants' Report in Appendix I to this prospectus.

### RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 45 on-going construction contracts awarded by tender (whether in progress or yet to commence) with an aggregate contract sum of approximately HK\$430.4 million. Of these 45 on-going projects, six projects were newly awarded after Track Record Period with an aggregate contract sum of approximately HK\$75.7 million. See "Business — Our projects" for details of our on-going projects and the newly awarded projects after the Track Record Period. Our Directors expect that the amount of backlog revenue to be recognised from the 45 on-going projects as at the latest practicable date as disclosed in "Business — Our projects — Our project backlog" to be approximately HK\$180.0 million for the year ending 31 March 2019 and approximately HK\$119.8

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## FINANCIAL INFORMATION

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million after the year ending 31 March 2019. As at the Latest Practicable Date, there were 19 tenders for provision of steel and metal engineering services which we were yet to be notified of the tender results. See “Business — Provision of steel and metal engineering services — Operating procedures — 1. Tender process” for details.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please refer to “Business — Business strategies” in this prospectus for details of our business objectives and strategies.

### USE OF PROCEEDS

The aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$0.85 per Share, being the mid-point of the indicative Offer Price range of HK\$0.80 to HK\$0.90 per Share, and assuming the Over-allotment Option is not exercised) will be approximately HK\$130.5 million. Our Directors intend to apply the net proceeds from the Global Offering as follows:

- approximately HK\$51.2 million, representing approximately 39.2% of the net proceeds, will be used for acquiring machines to replace and enhance our production capacity;
- approximately HK\$33.7 million, representing approximately 25.8% of the net proceeds, will be used for expanding our workforce in Hong Kong and the PRC;
- approximately HK\$24.1 million, representing approximately 18.5% of the net proceeds, will be used for renovation and re-design of our existing production facilities;
- approximately HK\$5.0 million, representing approximately 3.8% of the net proceeds, will be used for purchasing delivery trucks;
- approximately HK\$3.5 million, representing approximately 2.7% of the net proceeds, will be used for upgrading our information technology system and equipment; and
- approximately HK\$13.0 million, representing approximately 10.0% of the net proceeds, will be used as our general working capital.

The above allocation of the net proceeds from the Global Offering will be adjusted on a pro-rata basis. If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.90 per Share, the net proceeds to be received by us from the Global Offering will increase by approximately HK\$9.5 million as compared to the mid-point of the indicative Offer Price range. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.80 per Share, the net proceeds to be received by us from the Global Offering will decrease by approximately HK\$9.5 million as compared to the mid-point of the indicative Offer Price range. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest of the indicative Offer Price range.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares to be received by us, after deducting underwriting fees and estimated expenses payable by us, will be approximately (i) HK\$34.2 million, assuming the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$0.90 per Share; (ii) HK\$23.7 million, assuming the Offer Price is fixed at the mid-point of the indicative Offer Price

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## FUTURE PLANS AND USE OF PROCEEDS

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range, being HK\$0.85 per Share; and (iii) HK\$13.3 million, assuming the Offer Price is fixed at the low-end of the indicative Offer Price range, being HK\$0.80 per Share. Any additional proceeds received by us from the exercise of the Over-allotment Option will also be allocated to the above purposes and projects on a pro-rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong.

### REASONS FOR LISTING

Our Directors consider that the Listing will benefit our Group in different aspects as discussed below:

**(i) To enhance our corporate profile**

Our Directors believe that by way of Listing, we can elevate our corporate image and status, and the listing status can enhance our credibility with our customers, suppliers and subcontractors. To distinguish our Group from other subcontractors or steel and metal engineering companies, we believe that pursuing the Listing is in the interest of our Group as it will enable us to enjoy several competitive advantages, such as transparent financial disclosures. We believe main contractors and customers would give weight to these competitive edges when they select and engage subcontractors or engineering companies for steel and metal services.

**(ii) To facilitate the implementation of our business strategies**

During the Track Record Period, our production facilities located in Huizhou, the PRC, supplied all steel and metal products required by our customers. As at the Latest Practicable Date, we had 45 on-going projects with a total contract sum of approximately HK\$430.4 million and there were nine newly awarded project with the estimated contract sum of approximately HK\$75.7 million. As at the Latest Practicable Date, there were 19 tenders for the engineering services which we were yet to be notified of the tenders results, with an estimated contract sum of approximately HK\$95.3 million. To accommodate our customers' tight working schedule, our Directors consider that it is one of our competitive strengths in providing timely steel and metal engineering services. See "Business — Our projects — On-going projects" and "Business — Our projects — Newly awarded projects" for details. Our Directors believe, and as supported by the Frost & Sullivan Report, that the construction industry in Hong Kong will continue to grow due to the large number of current and upcoming infrastructure projects of various scale and nature. For potential construction projects relevant to our track records in particular, the Hong Kong Government has adopted the public housing supply target of 280,000 units for the ten-year period from 2017/18; whereas for the private sector, the Hong Kong Government is expected to provide 28 residential sites, approximately 200,000 units for the supply of private residential units. Our Directors consider that these projects will create stimulus for the steel and metal works industry in Hong Kong, and therefore the Listing will allow us to access the capital market for fund raising and we plan to use the net proceeds from the Global Offering for our expansion plans, including to acquire machinery and equipment and to expand our labour readily available to meet the future market demand. During the Track Record Period, our Group had expanded our business by

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## FUTURE PLANS AND USE OF PROCEEDS

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various means including but not limited to purchasing machines and equipment of approximately HK\$6.2 million, and we had 302 employees at as 31 March 2016 and the number of employees was increased to 335 as at 31 March 2018, and therefore our Directors consider that the expansion plan is consistent with our business strategy.

**(iii) To strengthen our financial position**

During the Track Record Period, our financing source was limited to cash generated from operations.

Our Group is able to expand our business using internally generated funds and bank borrowings, however we plan to seek equity or equity-linked financing as it would ease our cash flow instead of debt financing from banks or financial institutions for the reasons that:

- (a) debt financing from banks or financial institutions normally requires collaterals, such as cash deposit, properties and/or personal guarantee from our Group and/or our Controlling Shareholders in order to secure bank borrowing for our Group, which would increase our reliance on our Controlling Shareholders and negatively affect our liquidity of cash, in case of cash deposits collaterals. Our Directors provided that, for instance, our Group was requested to provide the personal guarantee from our Controlling Shareholders or collaterals of an amount higher than the amount of such debt financing, which the opportunity cost of obtaining debt financing was high and it also affected our liquidity position, and, save for the production facilities in the PRC, our Group did not have properties or fixed assets to be used as collaterals and therefore was required to bear a higher interest rate. Also, it is considered that the production facilities in the PRC is not high in asset value and therefore the value of loan that can be obtained by using such production facilities as collateral would not be sufficient to meet our expansion plan;
- (b) that our Group before Listing, is a private company group, which would be generally difficult to obtain the banking facilities of expected amount equivalent to the proceeds for our expansion plan, and also it would be difficult for our Group, without a listing status, to obtain bank borrowings at a competitive rate without guarantee to be provided by our Controlling Shareholders or without any collaterals. Our Directors consider that our expansion plan, including purchase of machines, recruitment of management and staff and renovation of our production facilities, is considered as a whole and for accommodating our increasing number of construction projects in the next few years and the estimated increase in demands in our existing and potential customers in the future, which should not be undertaken in separate stages. Our Directors believe that if our Group can only obtain funds with a lesser amount through debt financing and/or internal resources, and our expansion plan may not be in the same scale as expected and we may not be able to accommodate the increasing number of construction projects;
- (c) a significant amount of proceeds will be used for our expansion plan of production facilities in the PRC, and if our Group obtains the debt financing from the financial institutions in

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## FUTURE PLANS AND USE OF PROCEEDS

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the PRC, the interest rate is higher than that offered by the financial institutions Hong Kong. On the other hand, without the Listing status, it may be more difficult for our Group to obtain the debt financing from financial institutions in Hong Kong if it is used for the expansion plan in the PRC;

- (d) heavy reliance on debt financing would subject our Group to the inherent risks of higher interest rate and finance costs and our Group's financial performance, our Group's liquidity may be negatively affected due to principal and interest payments if we proceed with debt financing to fund our business expansion; and
- (e) our Directors believe that the interest rate environment is low currently however it is expected to increase in a long run.

Taking into account the above reasons, and the fact that it is necessary to maintain a disciplined financial strategy without exposing our Group to aggressive gearing in order to achieve sustainable growth in the long run, our Directors consider that fund raising from the Global Offering are the best option for the implementation of our business plans and in the best interest to our Group. In addition, Listing will allow us to access capital market to raise further funds for our expansion in the long run, which would improve our operating and financial performance in a maximum return for our Shareholders. Our Directors believe that, with the listing status and enlarged capital structure, our Group would be in a better position to negotiate with banks and financial institutions when we choose to obtain certain amount of banking facilities after the Listing alongside with equity financing.

As such, our Directors consider that it is in the interest of our Group to proceed with the equity financing by way of the Global Offering for the purpose of our business expansion as opposed to a debt financing in the long run.

**(iv) To enhance the liquidity of our Shares**

Our Directors consider that the Listing will enhance the liquidity of our Shares which will be listed on the Stock Exchange when compared to the limited liquidity of the shares that are privately held before the Listing. Furthermore, Listing will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the Listing of our Shares.



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## UNDERWRITING

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### HONG KONG UNDERWRITERS

China Industrial Securities International Capital Limited  
Fortune (HK) Securities Limited  
Promising Securities Company Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 19,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme) as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered but 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 on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

##### *Grounds for Termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time before 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
  - (i) any change or development involving a prospective change, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal, regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any foreign

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## UNDERWRITING

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currencies) in or affecting Hong Kong, China, the United States, any member of the European Union, Singapore, Japan, the United Kingdom, the Cayman Islands, the BVI or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”); or

- (ii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any governmental authority (the “**Law**”) or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application of the Law by any court or other competent authority in any of the Relevant Jurisdictions; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemics, pandemics, outbreak of diseases, breakdown in computer or communication or telecommunication network or system, civil commotion, riot, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or
- (iv) 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, declaration of a national or international emergency or war, or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) (1) any, moratorium, suspension of, or restriction or limitation on, trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange or (2) a general moratorium on commercial banking activities in New York (imposed at Federal or New York State level or other competent authority), London, any member of the European Union, Japan, Hong Kong or China, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or by any member of the European Union on any of the Relevant Jurisdictions; or
- (vii) any material change or prospective material change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions (including without limitation a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) or the implementation of any exchange control in any of the Relevant Jurisdictions; or

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## UNDERWRITING

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- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk Factors” in this prospectus; or
- (ix) the commencement by any state, governmental, judicial, law enforcement agency, regulatory or political body or organisation (collectively, the “**Organisations**”) of any action, proceedings, investigation or enquiry, or any sanction, penalty or reprimand imposed or issued by any of the Organisations, against any member of our Group or any Director or an announcement by any of the Organisations that it intends to take any such action; or
- (x) any litigation or claim being threatened or instigated against any member of our Group or any Director; or
- (xi) a Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xii) the Chairman or chief executive officer of our Company vacating his office; or
- (xiii) a contravention by any member of our Group of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Listing Rules or any applicable Law; or
- (xiv) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares (including any additional Shares issued under the exercise of the Over-allotment Option) under the terms of the Global Offering; or
- (xv) non-compliance of this prospectus, the relevant offering circulars (or any other documents used in connection with the subscription and purchase of the Offer Shares) or any aspect of the Global Offering with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Listing Rules or any other applicable Law; or
- (xvi) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or to any other documents used in connection with the subscription or sale of the Offer Shares) under the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable before its stated maturity; or
- (xviii) any material loss or material damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

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## UNDERWRITING

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(xix) a petition is presented for the winding up or liquidation of any member of our Group or bankruptcy of any Director, or any member of our Group or any Director makes any composition or arrangement with its or his creditors or enters into a scheme of arrangement, or any resolution is passed for the winding up of any member of our Group, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or any Director or any analogous matter occurs in respect of any member of our Group or any Director,

and which, in any such case and in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters),

- (1) is or will or may or is likely to be materially adverse to, or materially and prejudicially affect, the business, management, general affairs, financial or trading position or prospects of our Group as a whole; or
  - (2) has or will have or may have or is likely to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or
  - (3) makes or will or may make or is likely to make it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
  - (4) makes or will or may make or is likely to make it impracticable, inadvisable or inexpedient for any part of the Hong Kong Underwriting Agreement (including underwriting), the Hong Kong Public Offering and/or the Global Offering (including processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof) to be performed or implemented as envisaged; or
- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) any statement or information, or any matter or circumstance that renders or could render any statement or information, contained in this prospectus, the Application Forms, the formal notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering and/or the International Placing (including any supplement or amendment to any of the documents) (collectively, the “**Offer Documents**”) was or has or may become, untrue, incorrect or misleading in any respect or that any estimate, forecast, expression of opinion, intention or expectation expressed in any Offer Document is not or may not be, in the sole and absolute opinion of the Joint Global Coordinators, fair and honest and based on reasonable assumptions; or

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## UNDERWRITING

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- (ii) any matter or circumstance has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute an omission from any of the Offer Documents and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (iii) any breach of, or any event rendering untrue, incorrect or misleading in any respect, any of the warranties or confirmations given by our Company, the executive Directors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (iv) any breach of any of the obligations, warranties or undertakings of our Company, our Controlling Shareholder or the Executive Directors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (v) any event, act or omission which gives or may give or is likely to give rise to any liability of any of our Controlling Shareholders, Executive Directors and our Company pursuant to the indemnity provisions under the Hong Kong Underwriting Agreement; or
- (vi) any information, matter or event which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters);
  - (1) is inconsistent in any respect with any information contained in Form B in Appendix 5 to the Listing Rules given by our Directors; or
  - (2) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group; or
- (vii) any material adverse change or development or prospective material adverse change or development in the conditions, business, general affairs, management, prospects, assets, liabilities, shareholders' equity, profits, losses, operating results, the financial or trading position or performance of any member of our Group; or
- (viii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) our Company withdraws any of the Offer Documents (and any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or the Global Offering; or
- (x) any person (other than the Joint Global Coordinators and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents.

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## UNDERWRITING

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### UNDERTAKINGS TO THE STOCK EXCHANGE UNDER THE LISTING RULES

#### Undertakings by our Company

Under Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering and Capitalisation Issue (including the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) or for the circumstances provided under Rule 10.08 of the Listing Rules.

#### Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange and our Company that he/she/it will not and will procure that the relevant registered holder(s) will not:

- (i) in the period commencing on the date by reference to which disclosure of his/its holding of Shares is made in this prospectus and ending on the date which is six months from the Listing Date, either directly or indirectly, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; and
- (ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, either directly or indirectly, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder of our Company,

in each case, save as permitted under the Listing Rules.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange and our Company that, within the period commencing on the date by reference to which disclosure of his/her/its holding of Shares is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will:

- (1) when he/she/it pledges or charges any Shares beneficially owned by him/her/it in favor of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and

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## UNDERWRITING

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- (2) when he/she/it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by our Controlling Shareholders.

### UNDERTAKINGS UNDER THE HONG KONG UNDERWRITING AGREEMENT

#### Undertakings under the Hong Kong Underwriting Agreement

##### *Undertaking by our Company*

We have undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters that at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”), our Company will not (except for the issue of Shares under the Capitalisation Issue, the Global Offering, the Over-allotment Option and any options which may be granted under the Share Option Scheme) without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (unless in compliance with the requirements set out in the Listing Rules):

- (a) offer, accept subscription for, pledge, charge, mortgage, allot, issue, sell, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital or securities of our Company or any interest in our securities or any voting right or any other right attaching thereto (including but not limited any securities convertible into, exercisable or exchangeable for, or that represent the right to receive such share capital or securities or any interest in our share or debt capital); 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 such share or debt capital or securities or any interest in our securities or any voting right or any other right attaching thereto; or
- (c) offer or agree or contract to enter or enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) publicly announce any intention to enter into any transaction described in (a), (b) or (c) above,

whether any of the foregoing transactions described in (a), (b) or (c) above is to be settled by delivery of share capital or such other securities, in cash or otherwise. We further agree that in the event of an issue or a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the First Six-month Period, we will take all reasonable steps to ensure that such an issue or a disposal will not create a disorderly or false market for the Shares.

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## UNDERWRITING

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### *Undertaking by our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken with our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilising Manager or its agent, our Controlling Shareholders will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), at any time:

- (i) during the First Six-month Period:
  - (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or grant, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interest or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, or cause us to repurchase, any of our share or debt capital or our other securities or any interest in our share or debt capital or any voting right or any other right attaching thereto (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any of our share or debt capital or our other securities or any interest in our share or debt capital whether now owned or subsequently acquired, owned directly by our Controlling Shareholders (including holding as a custodian) or with respect to which our Controlling Shareholders have beneficial ownership (collectively, the “**Lock-up Shares**”)). The foregoing restriction is expressly agreed to preclude our Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than our Controlling Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; 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 any of our share or debt capital or our other securities or any interest in our share or debt capital or any voting right or any other right attaching thereto; or
  - (c) offer or agree or contract to enter or enter into any transaction with the same economic effect as any transaction described in (i)(a) or (i)(b) above; or
  - (d) publicly announce any intention to enter into, any transaction described in (i)(a), (i)(b) or (i)(c) above,



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## UNDERWRITING

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whether any transaction described in (i)(a), (i)(b) or (i)(c) above is to be settled by delivery of Shares or such other securities in cash or otherwise; and

- (ii) during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”) enter into any of the transactions in paragraphs (i)(a), (i)(b) or (i)(c) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, our Controlling Shareholders will cease to be our Controlling Shareholders. Each of our Controlling Shareholders further agrees that in the event of a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the Second Six-month Period, our Controlling Shareholders will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares.

Each of our Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters that at any time during the period from the commencement of the First Six-month Period to the date on which the Second Six-month Period expires, he/she/it shall:

- (a) if he/she/it pledges or charges or otherwise creates encumbrances over any Shares or securities of our Company or interests therein in respect of which he/she/it is the beneficial owner, whether directly or indirectly, immediately inform each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters in writing of any such pledges or charges or encumbrances and the number of Shares or securities of our Company so pledged or charged or encumbered; and
- (b) if he/she/it receives any indication, either verbal or written, from any pledgee or chargee or encumbrance or such third party that any of the pledged, charged, encumbered Shares or other securities of our Company will be disposed of, immediately inform each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters in writing of any such indication.

### **Indemnity**

We and our Controlling Shareholders have agreed to indemnify the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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### **International Placing**

#### *International Underwriting Agreement*

In connection with the International Placing, we and our Controlling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or themselves purchase, their respective proportions of the International Placing Shares being offered under the International Placing.

Under the International Underwriting Agreement, we expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 28,500,000 additional new Shares, representing in aggregate 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued and sold at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Placing.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We and our Controlling Shareholders will agree to indemnify the International Underwriters against certain liabilities.

#### **Commissions and expenses**

The Hong Kong Underwriters are expected to receive a commission of 4.2% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commissions.

For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

The commissions payable to the Underwriters will be borne by our Company in relation to the new Shares to be issued under the Global Offering. Our Company may also in its sole discretion pay the Joint Global Coordinators an additional incentive fee calculated based on the total number of the Offer Shares.

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## UNDERWRITING

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The aggregate commissions (inclusive of any discretionary incentive fees), together with listing fees, SFC transaction levy and Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to be approximately HK\$31.0 million (assuming an Offer Price of HK\$0.85, which is the mid-point of the indicative Offer Price range, and that the Over-allotment Option is not exercised) in total and are payable by us.

### **Underwriters' interest in our Group**

Other than disclosed in the preceding paragraph, the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the stock borrowing arrangement that may be entered into between the Stabilising Manager or its agent with our Controlling Shareholders, none of the Underwriters has any shareholding interests 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.

### **Sole Sponsor's independence**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### STRUCTURE OF THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. China Industrial Securities, Fortune Securities and Promising Securities is the Joint Global Coordinators and the Joint Bookrunners in respect of the Hong Kong Public Offering and the International Placing.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (a) the Hong Kong Public Offering of 19,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described in “The Hong Kong Public Offering” below; and
- (b) the International Placing of 171,000,000 Shares (subject to adjustment as mentioned below) outside the United States (including to professional, institutional and corporate investors and other investors within Hong Kong) in offshore transactions in reliance on Regulation S as described in “The International Placing” in this section.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to professional, institutional and corporate investors and other investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to professional, institutional and corporate investors and other investors expected to have a sizeable demand for the International Placing Shares. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the International Placing Shares. Prospective investors will be required to specify the number of International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Placing Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively, may be subject to reallocation as described in “Pricing and allocation” in this section.

### PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Thursday, 4 October 2018 and, in any event, not later than Wednesday, 10 October 2018. The Offer Price will be not more than HK\$0.90 and is currently expected not to be less than HK\$0.80, unless otherwise announced, as further explained below not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. 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. If, for any reason, the Offer Price is not agreed by 6:00 p.m. on Wednesday, 10 October 2018 between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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If, based on the level of interest expressed by prospective professional, institutional and corporate investors and other investors during the book-building process, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced 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 Thursday, 4 October 2018, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk), and on our Company's website at [www.hy-engineering.com](http://www.hy-engineering.com) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set out in "Summary" in this prospectus and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

If the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application may or may not (depending on the information contained in the announcement) be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

The Hong Kong Offer Shares and the International Placing Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Placing at the discretion of the Joint Global Coordinators.

Allocation of the International Placing Shares pursuant to the International Placing will be determined by the Joint Global Coordinators 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 Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and other investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Allocation of the 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 the Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on Thursday, 11 October 2018 through a variety of channels as described in “How to Apply for Hong Kong Offer Shares — 11. Publication of Results”.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- the Listing Committee granting the listing of, and permission to deal in, our Shares in issue (including our Shares that may be sold pursuant to any exercise of the Over-allotment Option) and our Shares being offered pursuant to the Global Offering (subject only to allotment);
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators, for itself and on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective 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 the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.hy.engineering.com](http://www.hy.engineering.com) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest,

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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on the terms set out in “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Thursday, 11 October 2018 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Friday, 12 October 2018, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements have been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares Initially Offered

Our Company is initially offering 19,000,000 Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 190,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares initially offered under the Hong Kong Public Offering will represent 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Placing Shares will not be allotted International Placing Shares in the International Placing.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

#### Offer Price Range

The Offer Price is expected to be fixed by agreement between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Thursday, 4 October 2018 and, in any event, not later than Wednesday, 10 October 2018. The Offer Price will be not more than HK\$0.90 and is currently expected to be not less than HK\$0.80. Applicants under the Hong Kong Public Offering are

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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required to pay, on application, the maximum Offer Price of HK\$0.90 per Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than the maximum Offer Price, we will refund the respective difference (including the brokerage, 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 “How to Apply for Hong Kong Offer Shares” in this prospectus.

### **Allocation**

For allocation purposes only, the 19,000,000 Shares initially being offered for subscription 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 Placing) will be divided equally into two pools (subject to adjustment at odd lot size). Pool A comprising 9,500,000 Hong Kong Offer Shares and Pool B comprising 9,500,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools, and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is oversubscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. Multiple or suspected multiple applications and any application for more than 9,500,000 Hong Kong Offer Shares are liable to 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 Placing, 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) or he has been or will be placed or allocated Offer Shares under the International Placing.

### **Reallocation and Clawback**

The allocation of Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment and reallocation on the following basis.



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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- (a) Where the International Placing Shares are fully subscribed or oversubscribed:
- (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deems appropriate;
  - (ii) if the Hong Kong Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 19,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 38,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
  - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 38,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 57,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
  - (iv) 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 the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 57,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 76,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and
  - (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 76,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 95,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

- (b) Where the International Placing Shares are undersubscribed:
- (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
  - (ii) if the Hong Kong Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 19,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 38,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances where (x) the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (y) the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.80 per Offer Share) stated in this prospectus.

In addition, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may reallocate the Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 38,000,000 Offer Shares.)

In the event of a reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### THE INTERNATIONAL PLACING

#### Number of International Placing Shares Offered

The number of International Placing Shares to be initially offered for subscription under the International Placing will be 171,000,000 Offer Shares representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent approximately 90% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

#### Allocation

Under the International Placing, the International Underwriters will conditionally place our Offer Shares with professional, institutional and corporate investors and other investors who we anticipate to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of International Placing Shares under the International Placing will be effected in accordance with the “book-building” process described in “Pricing and allocation” in this section and 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 Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional Shareholder base for the benefit of our Company and our Shareholders as a whole.

#### Reallocation

The total number of International Placing Shares to be transferred pursuant to the International Placing may change as a result of the clawback arrangement described in “The Hong Kong Public Offering — Reallocation and clawback” in this section, exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Placing.

#### Over-allotment Option

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at its sole and absolute discretion for itself and on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require our Company to issue up to an aggregate of 28,500,000 Shares, representing in aggregate approximately 15% of the initial number of the Offer Shares under the Global Offering, at the Offer Price to cover over-allocations in the International

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Placing, if any. The Joint Global Coordinators may also cover any over-allocations by purchasing 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, regulations and rules.

### STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Placing, the Stabilising Manager or any person acting for it may choose to borrow Shares from our Controlling Shareholders, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercise of the Over-allotment Option. The Stock Borrowing Agreement will comply with the requirements set out in Rule 10.07(3) of the Listing Rules.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the Underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilising transactions with a view to stabilising 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 after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days after 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 exceed the number of Shares that may be issued under the Over-allotment Option, namely 28,500,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilising action will be entered into in accordance with the laws, regulations and rules in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;
- (c) liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of our Shares;
- (d) no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Friday, 2 November 2018, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- (e) the price of our Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- (f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 28,500,000 Shares and cover such over-allocations by various methods including the exercise of the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Stabilising Manager may borrow up to 28,500,000 Shares from our Controlling Shareholders, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 12 October 2018, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 12 October 2018.

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## **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

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Our Shares will be traded in board lots of 5,000 Shares each. The stock code of our Shares is 1894.

### **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 us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date.

We expect that our Company will, on or about Thursday, 4 October 2018, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Placing. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in “Underwriting” in this prospectus.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing 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 Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for 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:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept or reject your application 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 the **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 our subsidiaries;
- a director or chief executive officer of our Company and/or any of our subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for or indicated an interest in any International Placing Shares or otherwise participate in the International Placing.

### 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**.

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 Friday, 28 September 2018 till 12:00 noon on Thursday, 4 October 2018 from:

- (i) any of the following offices of the Hong Kong Underwriters:

China Industrial Securities International Capital Limited  
7/F, Three Exchange Square  
8 Connaught Place  
Central  
Hong Kong



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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Fortune (HK) Securities Limited  
Units 4301-08 & 13  
43/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

Promising Securities Company Limited  
22/F Chun Wo Commercial Centre  
23-27 Wing Wo Street  
Central  
Hong Kong

(ii) any of the following branches of the receiving bank, DBS Bank (Hong Kong) Limited:

	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Head Office	G/F, The Center, 99 Queen's Road Central, Central
	Aberdeen Branch	Shops A&B, G/F., Units A&B, 1/F., On Tai Building, 1-3 Wu Nam Street, Aberdeen
<b>Kowloon</b>	Amoy Plaza Branch	Shops G193-195, Amoy Plaza, 77 Ngau Tau Kok Road, Ngau Tau Kok
	Mei Foo Branch	Shops N26A & N26B, Stage V, Mei Foo Sun Chuen, 10 & 12 Nassau Street
<b>New Territories</b>	Ma On Shan Branch	Shop 205-206, Level 2, Ma On Shan Plaza, Ma On Shan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 28 September 2018 till 12:00 noon on Thursday, 4 October 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### 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 "Ting Hong Nominees Limited — Hang Yick 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:

**Friday, 28 September 2018 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 29 September 2018 — 9:00 a.m. to 1:00 p.m.**  
**Tuesday, 2 October 2018 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 3 October 2018 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 4 October 2018 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 4 October 2018, the last application day or such later time as described in "Effect of bad weather on the opening of the application lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (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 of Association;
- (ii) agree to comply with the Cayman Companies Law, the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (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 Joint Global Coordinators, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties 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 International Placing Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters and/or their respective directors, officers, employees, partners, agents, advisers and any other parties 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 Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers and any other parties 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;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the 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;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (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) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any 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 and the Joint Global Coordinators 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.

## **5. APPLYING THROUGH HK EIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in "Who can apply" section, may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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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 at **www.hkeipo.hk**, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for Submitting Applications under the HK eIPO White Form Service**

You may submit your application to the **HK eIPO White Form** service at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 28 September 2018 until 11:30 a.m. on Thursday, 4 October 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon Thursday, 4 October 2018 or such later time under the “Effect of Bad Weather on the Opening of the Applications Lists” below.

### **No Multiple Applications**

If you apply by means of the **HK eIPO White Form** service, 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** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the 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.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Centre

1/F, One & Two Exchange Square

8 Connaught Place, Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and the 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;
- (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 International Placing Shares under the International Placing;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Joint Global Coordinators 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;
- authorise 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 Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties 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, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters and/or its respective advisers 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;
- 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

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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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 our Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Cayman Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the WHITE Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 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<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

**Friday, 28 September 2018 — 9:00 a.m. to 8:30 p.m.**  
**Saturday, 29 September 2018 — 8:00 a.m. to 1:00 p.m.**  
**Tuesday, 2 October 2018 — 8:00 a.m. to 8:30 p.m.**  
**Wednesday, 3 October 2018 — 8:00 a.m. to 8:30 p.m.**  
**Thursday, 4 October 2018 — 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Friday, 28 September 2018 until 12:00 noon on Thursday, 4 October 2018 (24 hours daily, except on 4 October 2018, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 4 October 2018, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” below.

*Note:*

1. The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

### 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

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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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 bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the 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 Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any 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 Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 4 October 2018 or such later time under “Effect of bad weather on the opening of the application lists” in this section.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### 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 (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or through the **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 our company;
- control more than half of the voting power of our company; or
- hold more than half of the issued share capital of our 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.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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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 5,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 5,000 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**.

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 “Structure and Conditions of the Global Offering — Pricing and allocation” 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. to 12:00 noon on Thursday, 4 October 2018. Instead they will open between 11:45 a.m. to 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. to 12:00 noon.

If the application lists do not open and close on Thursday, 4 October 2018 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 “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 11 October 2018 on our Company’s website at **www.hy-engineering.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the 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.hy-engineering.com** and the Stock Exchange’s website at **www.hkexnews.hk** by no later than 8:00 a.m. on Thursday, 11 October 2018;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- 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 9:00 a.m. on Thursday, 11 October 2018 to 12:00 midnight on Wednesday, 17 October 2018;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 11 October 2018 to Tuesday, 16 October 2018 on a Business Day (excluding Saturday, Sunday and Public Holiday in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 11 October 2018 to Monday, 15 October 2018 at all the receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure and Conditions 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 the **HK eIPO White Form** service, 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.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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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 announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(ii) **If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, 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 does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- Our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, regulations or rules; or

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- your application is for more than 9,500,000 Hong Kong Offer Shares 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\$0.90 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 “Structure and Conditions 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, 11 October 2018.

### 14. DESPATCH/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).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application.

If you apply by **WHITE** or **YELLOW** Application Forms, 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 favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the 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, 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).

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or about Thursday, 11 October 2018. 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, 12 October 2018 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section 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, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 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, 11 October 2018, 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, 11 October 2018, 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, 11 October 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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(iii) ***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.

(iv) ***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 "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 11 October 2018 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.

(v) ***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, from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2018, or such other date as notified by our Company, as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 11 October 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(vi) ***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.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### *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, 11 October 2018, 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 "11. Publication of Results" above on Thursday, 11 October 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. Thursday, 11 October 2018 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, 11 October 2018. 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 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 of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 11 October 2018. No interest will be paid thereon.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### 15. ADMISSION OF OUR 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 adviser 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 pages I-1 to I-59, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION  
TO THE DIRECTORS OF HANG YICK HOLDINGS COMPANY LIMITED AND FORTUNE  
FINANCIAL CAPITAL LIMITED****Introduction**

We report on the historical financial information of Hang Yick Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-59, which comprises consolidated statements of financial position of the Group as at 31 March 2016, 2017 and 2018, the statement of financial position of the Company as at 31 March 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 March 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-59 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 September 2018 (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 (the "Stock Exchange").

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of 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 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 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 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 of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 March 2018 and the Group's financial position as at 31 March 2016, 2017 and 2018 and of the Group's financial performance and cash flows for the Track Record Period 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 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 11 to the Historical Financial Information which contains information about the dividends paid by a subsidiary of the Company and states that no dividend has been paid by the Company in respect of the Track Record Period.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
28 September 2018

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	NOTES	Year ended 31 March		
		2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	4	122,698	161,483	199,199
Direct costs		<u>(82,606)</u>	<u>(107,712)</u>	<u>(124,840)</u>
Gross profit		40,092	53,771	74,359
Other income and other gains and losses	7	720	524	7,784
Administrative expenses		(5,265)	(7,675)	(13,091)
Finance costs	8	(116)	(132)	(121)
Listing expenses		<u>—</u>	<u>—</u>	<u>(6,397)</u>
Profit before taxation	9	35,431	46,488	62,534
Income tax expense	10	<u>(6,025)</u>	<u>(8,395)</u>	<u>(10,310)</u>
Profit for the year		29,406	38,093	52,224
Other comprehensive income (expense) for the year				
Item that may be subsequently reclassified to profit or loss:				
Exchange difference arising on translation of foreign operation		<u>250</u>	<u>(293)</u>	<u>429</u>
Total comprehensive income for the year		<u>29,656</u>	<u>37,800</u>	<u>52,653</u>
Earnings per share				
Basic (HK cents)	12	<u>5.2</u>	<u>6.7</u>	<u>9.2</u>

## STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP			THE
		As at 31 March			COMPANY
		2016	2017	2018	As at
		HK\$'000	HK\$'000	HK\$'000	31 March
		HK\$'000	HK\$'000	HK\$'000	2018
					HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	13	11,460	11,420	13,153	—
Investment properties	14	8,208	7,943	—	—
Prepaid lease payments	15	4,770	4,167	4,368	—
Unlisted investment in a subsidiary		—	—	—	—*
		<u>24,438</u>	<u>23,530</u>	<u>17,521</u>	<u>—</u>
<b>Current assets</b>					
Inventories	16	20,678	26,415	18,674	—
Prepaid lease payments	15	201	183	201	—
Trade receivables	17	20,579	27,178	17,850	—
Retention receivables	17	14,586	16,299	18,152	—
Other receivables, deposits and prepayments	18	1,449	1,759	4,333	2,132
Contract assets	19	9,230	8,036	8,938	—
Amounts due from related companies	20	7,292	9,603	—	—
Bank balances and cash	21	25,384	31,387	28,603	—
		<u>99,399</u>	<u>120,860</u>	<u>96,751</u>	<u>2,132</u>
Assets classified as held for sale	14	—	—	3,410	—
		<u>99,399</u>	<u>120,860</u>	<u>100,161</u>	<u>2,132</u>
<b>Current liabilities</b>					
Trade and other payables and accruals	22	5,157	14,916	11,658	2,640
Amount due to a subsidiary	20	—	—	—	5,889
Amount due to a related company	20	273	273	—	—
Amounts due to Controlling Shareholders	20	51,221	42,058	—	—
Tax payable		6,900	12,626	4,721	—
Obligations under finance leases	23	475	974	661	—
Bank borrowings	24	2,497	1,936	1,357	—
		<u>66,523</u>	<u>72,783</u>	<u>18,397</u>	<u>8,529</u>
<b>Net current assets (liabilities)</b>		<u>32,876</u>	<u>48,077</u>	<u>81,764</u>	<u>(6,397)</u>
<b>Total assets less current liabilities</b>		<u>57,314</u>	<u>71,607</u>	<u>99,285</u>	<u>(6,397)</u>

\* Amount less than HK\$1,000



	NOTES	THE GROUP			THE
		As at 31 March			COMPANY
		2016	2017	2018	As at
				31 March	
		HK\$'000	HK\$'000	HK\$'000	2018
					HK\$'000
<b>Non-current liabilities</b>					
Provisions	25	348	327	254	—
Deferred tax liabilities	26	232	358	122	—
Obligations under finance leases	23	630	1,018	352	—
		<u>1,210</u>	<u>1,703</u>	<u>728</u>	<u>—</u>
<b>Net assets (liabilities)</b>		<u>56,104</u>	<u>69,904</u>	<u>98,557</u>	<u>(6,397)</u>
<b>Capital and reserves</b>					
Share capital	27	10	10	—*	—*
Reserves		<u>56,094</u>	<u>69,894</u>	<u>98,557</u>	<u>(6,397)</u>
<b>Equity attributable to owners of the Company</b>		<u>56,104</u>	<u>69,904</u>	<u>98,557</u>	<u>(6,397)</u>

\* Amount less than HK\$1,000.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2015	10	—	83	26,355	26,448
Profit for the year	—	—	—	29,406	29,406
Exchange differences arising on translation of foreign operation	—	—	250	—	250
Total comprehensive income for the year	—	—	250	29,406	29,656
At 31 March 2016	10	—	333	55,761	56,104
Profit for the year	—	—	—	38,093	38,093
Exchange differences arising on translation of foreign operation	—	—	(293)	—	(293)
Total comprehensive (expense) income for the year	—	—	(293)	38,093	37,800
Dividends paid (note 11)	—	—	—	(24,000)	(24,000)
At 31 March 2017	10	—	40	69,854	69,904
Profit for the year	—	—	—	52,224	52,224
Exchange differences arising on translation of foreign operation	—	—	429	—	429
Total comprehensive income for the year	—	—	429	52,224	52,653
Group reorganisation	(10)	10	—	—	—
Dividends paid (note 11)	—	—	—	(24,000)	(24,000)
At 31 March 2018	—*	10	469	98,078	98,557

\* Amount less than HK\$1,000

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation	35,431	46,488	62,534
Adjustments for:			
Depreciation on property, plant and equipment	1,850	1,981	2,685
Depreciation on investment properties	265	265	253
Amortisation of prepaid lease payments	201	190	190
Finance costs	116	132	121
Bank interest income	(1)	(4)	(10)
Gain on disposal of property, plant and equipment	(92)	(48)	(50)
Gain on disposal of investment properties	—	—	(6,320)
Operating cash flows before movements in working capital	37,770	49,004	59,403
(Increase) decrease in trade receivables	(8,217)	(6,621)	9,358
Increase in retention receivables	(1,596)	(1,713)	(1,853)
Increase in other receivables, deposits and prepayments	(1,371)	(442)	(2,442)
Decrease (increase) in inventories	82	(7,670)	9,567
(Increase) decrease in contract assets	(6,648)	1,194	(902)
Increase (decrease) in trade and other payables and accruals	214	10,116	(3,756)
(Increase) decrease in amounts due from related companies	(3,562)	(2,311)	9,603
Increase (decrease) in provisions	5	(21)	(73)
Cash generated from operations	16,677	41,536	78,905
Income tax paid	(4,461)	(2,543)	(18,457)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>12,216</b>	<b>38,993</b>	<b>60,448</b>
<b>INVESTING ACTIVITIES</b>			
Bank interest received	1	4	10
Purchases of property and equipment	(2,949)	(1,297)	(3,294)
Proceeds from disposal of property, plant and equipment	92	200	50
Proceeds from disposal of investment properties	—	—	10,600
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(2,856)</b>	<b>(1,093)</b>	<b>7,366</b>
<b>FINANCING ACTIVITIES</b>			
Interests paid	(116)	(132)	(121)
Dividends paid	—	(24,000)	(24,000)
Repayments to Controlling Shareholders	(5,014)	(7,003)	(45,014)
Advances from Controlling Shareholders	370	643	368
Repayment to a related company	—	—	(273)
Repayments of bank borrowings	(541)	(561)	(579)
Repayments of obligations under finance leases	(195)	(642)	(1,279)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(5,496)</b>	<b>(31,695)</b>	<b>(70,898)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,864</b>	<b>6,205</b>	<b>(3,084)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>21,270</b>	<b>25,384</b>	<b>31,387</b>
Effect of foreign exchange rate changes	250	(202)	300
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<b>25,384</b>	<b>31,387</b>	<b>28,603</b>

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office and the principal place of business is disclosed in the section headed "Corporate Information" of the Prospectus.

Prior to a group reorganisation as detailed below (the "Group Reorganisation"), Mr. Lee Pui Sun ("Mr. PS Lee") and Ms. Lau Lai Ching, the spouse of Mr. PS Lee ("Ms. LC Lau") (collectively referred to as the "Controlling Shareholders") held 70% and 30% of the equity interests of Hang Yick Gate Engineering Limited ("Hang Yick"). Mr. PS Lee and Ms. LC Lau are acting in concert, throughout the Track Record Period and beyond, on their ownerships and exercise their control collectively over the companies now comprising the Group.

In preparation of the listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing"), the companies now comprising the Group underwent the Group Reorganisation as described below.

**(1) Incorporation of the Company**

The Company is an exempted company incorporated in the Cayman Islands with limited liability and 1 nil-paid initial share was issued to the initial subscriber and transferred to Mr. PS Lee on 6 March 2018. The Company has an authorised share capital of HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each. On the same date, 1 nil-paid share of the Company was allocated and issued at par to Ms. LC Lau.

**(2) Incorporation of HY Metal Company Limited ("HY Metal")**

HY Metal is a company limited by shares incorporated in the BVI on 15 March 2018. HY Metal is authorised to issue a maximum of 50,000 shares each with a par value of US\$1.00, of which 1 share (representing the entire issued capital of the HY Metal) was allotted and issued as fully paid to the Company at par. HY Metal became a directly wholly-owned subsidiary of the Company since then.

**(3) Acquisition of the Company by HY Steel Company Limited ("HY Steel")**

On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of the Company to HY Steel at nominal consideration. The Company became a wholly-owned subsidiary of HY Steel.

**(4) Acquisition of Hang Yick by HY Metal**

On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of Hang Yick to HY Metal. In consideration of the acquisition, the Company created, allotted and issued 98 new shares, credited as fully paid, to HY Steel. Hang Yick became an indirectly wholly-owned subsidiary of the Company since then.

Pursuant to the Group Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group on 28 March 2018. The Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. Accordingly, the Historical Financial Information has been prepared under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting For Common Control Combinations” issued by the HKICPA.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 March 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

**2. ADOPTION OF NEW AND REVISED HKFRSs**

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA that are effective for the Group’s financial year beginning on 1 April 2017 throughout the Track Record Period. In addition, the Group has early applied HKFRS 15 “Revenue from Contracts with Customers” throughout the Track Record Period.

Upon application of HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. For further details, please refer to notes 3 and 4.

The Group has not early applied the following new and revised HKFRSs and interpretations which are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>4</sup>

HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2021.

### HKFRS 9 “Financial Instruments”

HKFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are described below:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are

measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 March 2018, the management of the Group anticipates the following potential impact on initial application of HKFRS 9:

*Classification and measurement:*

Financial assets classified as loan and receivables carried at amortised cost as disclosed in notes 17, 18, 20 and 21: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

*Impairment:*

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment of the directors of the Company on the Group’s financial assets classified as loan and receivable as at 31 March 2018, the application of the expected credit loss model of HKFRS 9 has no material impact on the financial position of the Group as at 1 April 2018.

The Group intends to apply practical expedients prescribed in the standard upon the first adoption of HKFRS 9.

The Group expects to apply HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial

application) and will not apply the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 will be recognised in the opening retained profits without restating comparative information.

It is also expected that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 March 2018.

### **HKFRS 16 “Leases”**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are currently presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2018, the Group as lessee has non-cancellable operating lease commitments of approximately HK\$1,557,000 as disclosed in note 34(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group may result in recognising a significant right-of-use asset and a corresponding significant liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. However, the directors of the Company do not expect the adoption of HKFRS 16, as compared to the current accounting policy of the Group, would result in significant impact on the results and the net assets of the Group. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.



In addition, the directors of the Company anticipate that the application of the other new and revised HKFRSs and interpretations will have no material impact on the financial statements of the Group in the future.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The Historical Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

**Basis of consolidation**

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Merger accounting for business combination involving entities under common control**

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under control of the controlling entity.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's prospective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where is a shorter period.

**Investment in a subsidiary**

Investment in a subsidiary included in the Company's statement of financial position at cost less any identified impairment losses.

**Revenue recognition**

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

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

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group recognises revenue from the following major sources: 1) provision of steel and metal engineering services and 2) sales of steel and metal products.

***Provision of steel and metal engineering services******Recognition***

The Group provides engineering services on steel and metal works under long-term contracts with customers. Such contracts are entered into before the engineering services begin. Under the terms

of the contracts, the Group is contractually restricted from redirecting the steel and metal works to another customer and has an enforceable right to payment for work completed to date. Revenue from provision of steel and metal engineering services is therefore recognised over time using output method, i.e. based on surveys of steel and metal work completed by the Group to date as certified by architects, surveyors or other representatives appointed by the customer or estimated with reference to the progress payment application submitted by the Group to the customer in relation to the work completed by the Group. The directors of the Company consider that output method would faithfully depict the Group's performance towards complete satisfaction of these performance obligations under HKFRS 15.

In determining the transaction price (i.e. consideration of an engineering service contract), the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

#### *Contract assets*

The Group has enforceable rights to considerations from customers for the provision of steel and metal engineering services. Contract assets arise when the Group completed the steel and metal work under such engineering services contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the progress payment exceeds the revenue recognised to date under the output method then the Group recognises a contract liability for the difference.

#### *Sales of steel and metal products*

##### *Recognition*

The Group sells steel and metal products to customers. Revenue is recognised when control of the goods has transferred according to respective agreed terms of delivery.

##### *Other income*

The Group also has the following sources of major other income.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of lease.

Revenue from the sales of scrap materials is recognised when control of the scrap materials has transferred to the customer, being at the point the scrap materials are delivered to the customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

**Investments properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

**Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Impairment loss on assets other than financial assets**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

*Financial assets*

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, amounts due from related companies and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### ***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### ***Financial liabilities***

The Group's financial liabilities including trade and other payables and accruals, amount due to a related company, amounts due to Controlling Shareholders and bank borrowings and the Company's financial liabilities including other payables and accruals and amount due to a subsidiary are subsequently measured at amortised cost, using the effective interest method.



***Derecognition***

The Group and the Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group and the Company derecognise financial liabilities when, and only when, the Group's/the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Retirement benefits costs**

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong and state-managed retirement benefit schemes in the People's Republic of China (the "PRC") are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term and other long-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

**Leasehold land and building**

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

**Taxation**

Taxation represents the sum of the income tax expense currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax***

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Borrowing costs**

All borrowing costs other than those directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**4. REVENUE**

Revenue represents the fair value of amounts received and receivable from the provision of engineering service or sales of goods by the Group to external customers. The Group's revenue is mainly derived from provision of steel and metal engineering services and sales of steel and metal products in Hong Kong during the Track Record Period.

	Year ended 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
<i>Timing of revenue recognition and category of revenue</i>			
Recognised over time and long-term contracts			
— provision of steel and metal engineering services	<u>96,130</u>	<u>103,291</u>	<u>140,620</u>
Recognised at a point in time and short-term contracts			
— sales of steel and metal products			
• standardised collapsible gates	5,240	34,022	42,821
• other steel and metal products	<u>21,328</u>	<u>24,170</u>	<u>15,758</u>
	<u>26,568</u>	<u>58,192</u>	<u>58,579</u>
	<u><u>122,698</u></u>	<u><u>161,483</u></u>	<u><u>199,199</u></u>

The customers of the Group are mainly construction companies, contractors and engineering companies in Hong Kong. All of the Group's provision of steel and metal engineering services and sales of steel and metal products are made directly with the customers. Contracts with the Group's customers are mainly fixed-price contracts.

*Transaction price allocated to the remaining performance obligations*

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of each reporting period.

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Provision of steel and metal engineering services	<u>167,211</u>	<u>238,423</u>	<u>236,454</u>

Based on the information available to the Group at the end of each reporting period, the directors of the Company expect the transaction price allocated to the above unsatisfied (or partially unsatisfied) contracts in respect of provision of steel and metal engineering services as of 31 March 2016, 2017 and 2018 will be recognised as revenue during the years ended/ending 31 March 2017 to 2020.

## 5. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision makers (“CODM”) (being the executive directors of the Company) review the segment results of the Group. Specifically, the Group’s reportable segments are provision of steel and metal engineering services and sales of steel and metal products. However, no analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM of the Group on making decision for resources allocation and performance assessment.

**Segment revenue and profit**

The following is an analysis of the Group’s revenue to external customers and results by operating and reportable segment.

**Year ended 31 March 2016**

	<b>Provision of steel and metal engineering services</b>	<b>Sales of steel and metal products</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>96,130</u>	<u>26,568</u>	<u>122,698</u>
Segment results	<u>32,599</u>	<u>7,493</u>	40,092
Other income and other gains and losses			720
Administrative expenses			(5,265)
Finance costs			<u>(116)</u>
Profit before taxation			<u>35,431</u>

Year ended 31 March 2017

	<b>Provision of steel and metal engineering services</b>	<b>Sales of steel and metal products</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>103,291</u>	<u>58,192</u>	<u>161,483</u>
Segment results	<u>37,685</u>	<u>16,086</u>	53,771
Other income and other gains and losses			524
Administrative expenses			(7,675)
Finance costs			<u>(132)</u>
Profit before taxation			<u>46,488</u>

Year ended 31 March 2018

	<b>Provision of steel and metal engineering services</b>	<b>Sales of steel and metal products</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>140,620</u>	<u>58,579</u>	<u>199,199</u>
Segment results	<u>57,089</u>	<u>17,270</u>	74,359
Other income and other gains and losses			7,784
Administrative expenses			(13,091)
Finance costs			(121)
Listing expenses			<u>(6,397)</u>
Profit before taxation			<u>62,534</u>

The accounting policies of the operating segments are the same as the Group's accounting policies set out in note 3. Segment results mainly represented profit earned by each segment, excluding other income and other gains and losses, administrative expenses, finance costs, listing expenses and income tax expense.

**Other segment information**

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts included in the measures of segment profits:			
Depreciation and amortisation			
— Provision of steel and metal engineering services	1,049	687	1,032
— Sales of steel and metal products	461	646	842
— Unallocated	806	1,103	1,254
	<u>2,316</u>	<u>2,436</u>	<u>3,128</u>

**Entity-wide information****Geographical information**

The Group's revenue are derived from Hong Kong and the PRC based on the location of goods delivered and services provided as follows:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	120,832	158,443	198,569
The PRC	<u>1,866</u>	<u>3,040</u>	<u>630</u>
	<u>122,698</u>	<u>161,483</u>	<u>199,199</u>

The Group's non-current assets are located in Hong Kong and the PRC by physical location of assets as follows:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	11,244	11,903	3,122
The PRC	<u>13,194</u>	<u>11,627</u>	<u>14,399</u>
	<u>24,438</u>	<u>23,530</u>	<u>17,521</u>



**Information about major customers**

Revenues attributed from customers that accounted for 10% or more of the Group's total revenue during the Track Record Period are as follows:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Revenue from provision of steel and metal engineering services</i>			
Customer A	40,948	47,630	19,861
Customer B	27,074	N/A*	N/A*
Customer C	N/A*	N/A*	51,555
<i>Revenue from sales of steel and metal products</i>			
Customer A	491	1,110	367
Customer B	3,145	N/A*	N/A*
Customer D	N/A*	N/A*	21,445

\* Revenue from the customer is less than 10% of the Group's total revenue in the respective year

**6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS****(a) Directors' and chief executive's emoluments**

Mr. PS Lee and Ms. LC Lau were appointed as directors of the Company on 6 March 2018 and redesignated as executive directors on 14 May 2018. Mr. Lee Ka Chun Benny ("Mr. Benny Lee") was appointed as director of the Company on 6 March 2018 and redesignated as a non-executive director of the Company on 14 May 2018. Mr. Au Yeung Wai Key, Hon Cheung Kwok Kwan, JP and Mr. Tse Ka Ching Justin were appointed as independent non-executive directors of the Company on 19 September 2018 and no emoluments were paid or payable to them during the Track Record Period. The emoluments paid or payable to the executive directors, non-executive director and chief executive of

the Company (including the emoluments for services as directors of the group entities prior to becoming the director of the Company) by entities now comprising the Group during the Track Record Period as follows:

	Mr. PS Lee <i>HK\$'000</i>	Ms. LC Lau <i>HK\$'000</i>	Mr. Benny Lee <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 March 2016</b>				
Fees	—	—	N/A	—
Other emoluments				
Salaries and other benefits	180	—	N/A	180
Retirement benefit scheme contributions	9	—	N/A	9
Total emoluments	<u>189</u>	<u>—</u>	<u>N/A</u>	<u>189</u>
<b>Year ended 31 March 2017</b>				
Fees	—	—	N/A	—
Other emoluments				
Salaries and other benefits	180	—	N/A	180
Retirement benefit scheme contributions	9	—	N/A	9
Total emoluments	<u>189</u>	<u>—</u>	<u>N/A</u>	<u>189</u>
<b>Year ended 31 March 2018</b>				
Fees	—	—	—	—
Other emoluments				
Salaries and other benefits	180	180	45	405
Retirement benefit scheme contributions	9	9	2	20
Total emoluments	<u>189</u>	<u>189</u>	<u>47</u>	<u>425</u>

*Note:* Mr. PS Lee also acts as chief executive of the Group.

During the Track Record Period, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during the Track Record Period.

(b) **Employees' emoluments**

The five highest paid individuals are all non-director employees for each of the years ended 31 March 2016, 2017 and 2018. Their emoluments were as follow:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	2,113	2,212	2,348
Discretionary bonus (note)	—	—	653
Retirement benefit scheme contributions	85	88	73
	<u>2,198</u>	<u>2,300</u>	<u>3,074</u>

*Note:* The discretionary bonuses are determined with references to the performance of individual employee and of the Group.

Their emoluments are within the following bands:

	<b>Year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>Number of employees</i>	<i>Number of employees</i>	<i>Number of employees</i>
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other income</b>			
Interest income from bank deposits	1	4	10
Rental income from investment properties	376	341	395
Sales of scrap materials	209	127	771
Others	47	11	161
	<u>633</u>	<u>483</u>	<u>1,337</u>
<b>Other gains and losses</b>			
Net exchange (losses) gains	(5)	(7)	77
Gain on disposal of property, plant and equipment	92	48	50
Gain on disposal of investment properties	—	—	6,320
	<u>87</u>	<u>41</u>	<u>6,447</u>
	<u>720</u>	<u>524</u>	<u>7,784</u>

## 8. FINANCE COSTS

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests on bank borrowings	94	75	56
Interests on finance leases	22	57	65
	<u>116</u>	<u>132</u>	<u>121</u>

## 9. PROFIT BEFORE TAXATION

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):			
Auditor's remuneration	65	65	466
Depreciation on property, plant and equipment	1,850	1,981	2,685
Depreciation on investment properties	265	265	253
Cost of inventories recognised as an expense	19,075	42,106	41,309
Amortisation of prepaid lease payments	201	190	190
Staff costs (including directors' emoluments):			
Directors' emoluments (note 6)	189	189	425
Other staff costs:			
Salaries and other benefits	23,454	30,483	48,048
Retirement benefits scheme contributions	2,006	2,295	2,863
	25,460	32,778	50,911
Gross rental income from investment properties	(376)	(341)	(395)
Less: direct operating expense incurred for investment properties that generate rental income during the year	317	317	305
	(59)	(24)	(90)
Minimum lease payments under operating leases in respect of warehouse premises	62	68	210

## 10. INCOME TAX EXPENSE

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:			
Hong Kong Profits Tax	6,052	8,237	10,249
The PRC Enterprise Income Tax	—	—	297
Underprovision in prior years	—	32	—
	6,052	8,269	10,546
Deferred taxation (note 26)	(27)	126	(236)
	6,025	8,395	10,310

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for the Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Profit before taxation	<u>35,431</u>	<u>46,488</u>	<u>62,534</u>
Tax at the Hong Kong Profits Tax rate of 16.5%	5,846	7,671	10,318
Tax effect of income not taxable for tax purpose	—	—	(792)
Tax effect of expenses not deductible for tax purpose	199	227	1,209
Tax effect of estimated tax losses not recognised	—	485	—
Tax effect of utilisation of tax losses previously not recognised	—	—	(485)
Underprovision in prior years	—	32	—
Effect of different tax rate of a subsidiary operating in other jurisdiction	—	—	90
Others	<u>(20)</u>	<u>(20)</u>	<u>(30)</u>
Income tax expense for the year	<u>6,025</u>	<u>8,395</u>	<u>10,310</u>

The Group had unused tax losses of approximately HK\$2,940,000 as at 31 March 2017. No deferred tax assets have been recognised in respect of such unused tax losses due to the unpredictability of future profit streams of respective group entity. Such tax losses will expire within five years.

## 11. DIVIDENDS

During the years ended 31 March 2017 and 2018, Hang Yick declared and paid dividends of HK\$24,000,000 and HK\$24,000,000 in respect of the years ended 31 March 2017 and 2018, respectively to the then shareholders of Hang Yick. The rate of dividends and the numbers of shares ranking for the above dividends are not presented as such information is not considered meaningful.

Other than as disclosed above, no dividend was paid or declared by the companies comprising the Group during the Track Record Period.

On 29 August 2018, the Company declared and paid a special dividend of HK\$240,000 per share amounting to HK\$24,000,000 in aggregate to the then shareholder.

**12. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the following data:

	<b>For the year ended 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings:			
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>29,406</u>	<u>38,093</u>	<u>52,224</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>
Number of shares (note):			
Number of ordinary shares for the purpose of calculating basic earnings per share	<u>570,000</u>	<u>570,000</u>	<u>570,000</u>

*Note:* The number of ordinary shares for the purpose of calculating basis earnings per share has been determined on the assumption that the Group Reorganisation as set out in note 1 and the capitalisation issue as described in the section headed "Share Capital" in the Prospectus have been effective on 1 April 2015.

No diluted earnings per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>					
At 1 April 2015	8,794	4,474	2,454	137	15,859
Additions	—	1,728	2,521	—	4,249
Disposal	—	(142)	—	—	(142)
At 31 March 2016	8,794	6,060	4,975	137	19,966
Additions	—	2,052	774	—	2,826
Disposal	—	(380)	—	—	(380)
Exchange realignment	(774)	—	(304)	(3)	(1,081)
At 31 March 2017	8,020	7,732	5,445	134	21,331
Additions	—	587	2,915	92	3,594
Disposal	—	(203)	—	—	(203)
Exchange realignment	774	17	478	9	1,278
At 31 March 2018	8,794	8,133	8,838	235	26,000
<b>DEPRECIATION</b>					
At 1 April 2015	2,424	3,814	489	71	6,798
Provided for the year	529	831	468	22	1,850
Eliminated on disposal	—	(142)	—	—	(142)
At 31 March 2016	2,953	4,503	957	93	8,506
Provided for the year	499	798	666	18	1,981
Eliminated on disposal	—	(228)	—	—	(228)
Exchange realignment	(277)	—	(69)	(2)	(348)
At 31 March 2017	3,175	5,073	1,554	109	9,911
Provided for the year	499	1,308	854	24	2,685
Eliminated on disposal	—	(203)	—	—	(203)
Exchange realignment	336	5	110	3	454
At 31 March 2018	4,010	6,183	2,518	136	12,847
<b>CARRYING AMOUNTS</b>					
At 31 March 2016	<u>5,841</u>	<u>1,557</u>	<u>4,018</u>	<u>44</u>	<u>11,460</u>
At 31 March 2017	<u>4,845</u>	<u>2,659</u>	<u>3,891</u>	<u>25</u>	<u>11,420</u>
At 31 March 2018	<u>4,784</u>	<u>1,950</u>	<u>6,320</u>	<u>99</u>	<u>13,153</u>



The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of lease or 20 years
Motor vehicles	20.0% to 30.0%
Plant and machinery	10.0% to 20.0%
Office equipment, furniture and fixtures	20.0% to 33.3%

The Group was in the progress of obtaining the building certificates for the buildings in the PRC with carrying amounts of approximately HK\$5,841,000 and HK\$4,845,000 as at 31 March 2016 and 2017, respectively. These building certificates were obtained during the year ended 31 March 2018.

As at 31 March 2016, 2017 and 2018, the carrying amounts of the Group's motor vehicles included amounts of approximately HK\$1,209,000, HK\$2,593,000 and HK\$1,306,000 respectively in respect of assets held under finance leases (as disclosed in note 23).

#### 14. INVESTMENT PROPERTIES/ASSETS CLASSIFIED AS HELD FOR SALE

Investment properties	HK\$'000
<b>COST</b>	
At 1 April 2015, 31 March 2016 and 2017	11,357
Disposal	(7,359)
Transfer to assets classified as held for sale	<u>(3,998)</u>
At 31 March 2018	<u>—</u>
<b>DEPRECIATION</b>	
At 1 April 2015	2,884
Provided for the year	<u>265</u>
At 31 March 2016	3,149
Provided for the year	<u>265</u>
At 31 March 2017	3,414
Provided for the year	253
Eliminated upon disposal	(3,079)
Eliminated upon transfer to assets classified as held for sale	<u>(588)</u>
At 31 March 2018	<u>—</u>
<b>CARRYING AMOUNTS</b>	
At 31 March 2016	<u>8,208</u>
At 31 March 2017	<u>7,943</u>
At 31 March 2018	<u>—</u>

The above investment properties are located in Hong Kong and are depreciated on a straight-line basis over the shorter of the term of lease and 50 years.

The fair value of the Group's investment properties was approximately HK\$13,738,000 and HK\$14,870,000 as at 31 March 2016 and 2017, respectively. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Limited, independent valuers not connected with the Group whose address is 6/F, Three Pacific Place, 1 Queen's Road East, Hong Kong.

The fair value of the investment properties were determined based on direct comparison approach assuming sale of property interest in the existing state with the benefit of immediate vacant possession or subject to the existing tenancies and by making reference to comparable sales transactions as available in the relevant market.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. All of the fair value measurement of the Group's investment properties were categorised into level 3 of the fair value hierarchy.

As at 31 March 2016 and 2017, all of the Group's investment properties were pledged as securities for bank borrowings of the Group (as disclosed in note 24).

#### Assets classified as held for sale

As at 31 March 2018, the assets classified as held for sale represented an property of the Group with carrying amount of HK\$3,410,000. In March 2018, the Group has entered into a provisional sales and purchase contract with an independent third party for the disposal of such property at a cash consideration of approximately HK\$4,800,000. Accordingly, such property was transferred from investment properties to assets classified as held for sale in March 2018 at its carrying amount of HK\$3,410,000 with no gain or loss upon such transfer. Such disposal of property was subsequently completed on 21 May 2018 and resulted in a gain on disposal of approximately HK\$1,339,000 recognised in the profit or loss of the Group.

#### 15. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise leasehold land in the PRC.

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed for reporting purpose:			
Non-current asset	4,770	4,167	4,368
Current asset	201	183	201
	<u>4,971</u>	<u>4,350</u>	<u>4,569</u>

## 16. INVENTORIES

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Raw materials	16,981	20,359	12,676
Work-in-progress	3,393	5,700	5,158
Finished goods	<u>304</u>	<u>356</u>	<u>840</u>
	<u>20,678</u>	<u>26,415</u>	<u>18,674</u>

## 17. TRADE RECEIVABLES/RETENTION RECEIVABLES

## Trade receivables

For customers that the Group provides engineering services on steel and metal works, the Group normally grants credit terms of 30 days from the date of invoices on progress payments of contract works. For customers that the Group sells metal and steel products, except for certain major customers of which the Group grants a credit period of up to 60 days from the delivery of goods, the Group grants no credit terms to other customers and they are to settle payment in full upon delivery of goods. The following is an ageing analysis of the trade receivables presented based on the invoice date at the end of the reporting period:

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
0 - 30 days	15,043	19,666	15,407
31 - 60 days	1,078	3,624	543
61 - 90 days	1,940	1,237	325
Over 90 days	<u>2,518</u>	<u>2,651</u>	<u>1,575</u>
	<u>20,579</u>	<u>27,178</u>	<u>17,850</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. Approximately 74.4%, 73.6% and 87.2% of trade receivables as at 31 March 2016, 2017 and 2018, respectively, that are neither past due nor impaired have good credit quality. These customers have no default of payment in the past.

The Group has a policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the creditworthiness and the past collection history of each customer.

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK\$5,271,000, HK\$7,185,000 and HK\$2,289,000 which are past due at 31 March 2016, 2017 and 2018, respectively, for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivables and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The following is an ageing analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Overdue by:			
1 - 30 days	1,136	3,478	678
31 - 60 days	2,023	1,246	246
61 - 90 days	526	527	140
Over 90 days	<u>1,586</u>	<u>1,934</u>	<u>1,225</u>
	<u><u>5,271</u></u>	<u><u>7,185</u></u>	<u><u>2,289</u></u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or there were no history of default of payments by the respective customers and the directors of the Company believe that no impairment is required.

### **Retention receivables**

Retention receivables represents the monies withheld by customers of contract works and are unsecured, interest-free and recoverable after the completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from 1 to 2 years from the date of completion of respective engineering service projects.

The retention receivables are to be settled, based on the expiring of the defect liability period, at the end of each reporting period as follows:

	As at 31 March		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
On demand or within one year	2,192	5,310	5,355
After one year	<u>12,394</u>	<u>10,989</u>	<u>12,797</u>
	<u>14,586</u>	<u>16,299</u>	<u>18,152</u>

#### 18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP			THE COMPANY
	As at 31 March			As at 31 March
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2018 HK\$'000
Other receivables	702	1,198	907	—
Deposits	152	59	443	—
Prepayments	595	502	851	—
Deferred listing expenses	<u>—</u>	<u>—</u>	<u>2,132</u>	<u>2,132</u>
Total	<u>1,449</u>	<u>1,759</u>	<u>4,333</u>	<u>2,132</u>

#### 19. CONTRACT ASSETS

	As at 31 March		
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Engineering services contracts	<u>9,230</u>	<u>8,036</u>	<u>8,938</u>

Amounts represent the Group's rights to considerations from customers for the provision of steel and metal engineering services, which arise when the Group completed the steel and metal work under such contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

There were no impairment losses recognised on any contract asset in the Track Record Period.

## 20. AMOUNTS DUE FROM/TO RELATED COMPANIES/CONTROLLING SHAREHOLDERS/ A SUBSIDIARY

### Amounts due from related companies

	As at				Maximum amount outstanding during the year ended 31		
	1 April		As at 31 March		March		
	2015	2016	2017	2018	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hang Yick Gate Engineering Co.	621	1,070	1,308	—	1,070	1,308	1,308
Hang Yick Metal Products	<u>3,109</u>	<u>6,222</u>	<u>8,295</u>	<u>—</u>	<u>6,222</u>	<u>8,295</u>	<u>8,295</u>
	<u>3,730</u>	<u>7,292</u>	<u>9,603</u>	<u>—</u>			

Balances with i) Hang Yick Gate Engineering Co., which was an unlimited company controlled by Mr. PS Lee and ii) Hang Yick Metal Products, which was an unlimited company controlled by Ms. LC Lau, are trade in nature, unsecured, interest-free and with no fixed repayment term. Approximately HK\$4,001,000 and HK\$2,311,000 of such trade balances were aged within 90 days and approximately HK\$3,291,000 and HK\$7,292,000 of such trade balances were aged over 90 days based on the invoice date at 31 March 2016 and 2017, respectively. During the year ended 31 March 2018, all these balances were fully settled.

### Amounts due to Controlling Shareholders

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Mr. PS Lee	44,440	31,328	—
Ms. LC Lau	<u>6,781</u>	<u>10,730</u>	<u>—</u>
	<u>51,221</u>	<u>42,058</u>	<u>—</u>

The amounts were non-trade nature, unsecured, interest-free and repayable on demand.

### Amount due to a subsidiary and a related company

The amounts are non-trade nature, unsecured, interest-free and repayable on demand. The related company is controlled by close family members of the Controlling Shareholders.

**21. BANK BALANCES AND CASH**

As at 31 March 2016, 2017 and 2018, bank balances and cash comprise of cash held and short term bank deposits with an original maturity of three months or less which carry interest at prevailing market rate of 0.01% per annum.

**22. TRADE AND OTHER PAYABLES AND ACCRUALS**

	THE GROUP			THE COMPANY
	As at 31 March			As at 31 March
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	2,043	6,624	2,170	—
Accrued staff costs	2,188	5,328	5,709	—
Accrued listing expenses	—	—	2,640	2,640
Receipts in advance	109	926	676	—
Accruals and others	817	2,038	463	—
	<u>5,157</u>	<u>14,916</u>	<u>11,658</u>	<u>2,640</u>

The credit period granted to the Group by suppliers normally ranges from 0 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
0 - 30 days	1,923	1,069	1,740
31 - 60 days	3	171	430
61 - 90 days	—	5,384	—
Over 90 days	117	—	—
	<u>2,043</u>	<u>6,624</u>	<u>2,170</u>

## 23. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 March					
	2016		2017		2018	
	HK\$'000		HK\$'000		HK\$'000	
Analysed for reporting purposes as:						
Current liabilities	475		974		661	
Non-current liabilities	630		1,018		352	
	<u>1,105</u>		<u>1,992</u>		<u>1,013</u>	
	<b>Present value of minimum</b>					
	<b>Minimum lease payments</b>			<b>lease payments</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Obligations under finance leases payable:						
Within one year	511	1,037	687	475	974	661
More than one year but not more than two years	471	742	353	456	716	352
More than two years but not more than five years	<u>177</u>	<u>306</u>	<u>—</u>	<u>174</u>	<u>302</u>	<u>—</u>
	1,159	2,085	1,040	1,105	1,992	1,013
Less: future finance charges	<u>(54)</u>	<u>(93)</u>	<u>(27)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
	<u>1,105</u>	<u>1,992</u>	<u>1,013</u>	1,105	1,992	1,013
Less: amount due for settlement within 12 months (shown under current liabilities)				<u>(475)</u>	<u>(974)</u>	<u>(661)</u>
Amount due for settlement after 12 months				<u>630</u>	<u>1,018</u>	<u>352</u>

The Group leased certain of its motor vehicles under finance leases. The lease term ranged from 2 to 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.0% to 2.5% per annum, 2.0% to 2.5% per annum and 2.0% to 2.3% per annum as at 31 March 2016, 2017 and 2018, respectively. All leases were on a fixed repayment basis and no arrangement was entered into for contingent rental payments.



During the year ended 31 March 2018, the Group has early repaid certain of the obligations under finance leases with carrying amount of approximately HK\$467,000.

The Group's obligations under finance leases were secured by the lessors' charge over the Group's leased assets (as disclosed in note 13) and guaranteed by a director of the Company. The directors of the Company have represented that they expect that such personal guarantee will be released on or before the completion of the Listing.

#### 24. BANK BORROWINGS

	As at 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Carrying amounts (shown under current liabilities) that contain a repayment on demand clause but repayable based on scheduled repayment terms:			
- Within one year	561	579	600
- More than one year but not exceeding two years	579	600	757
- More than two years but not exceeding five years	1,311	757	—
- More than five years	46	—	—
	<u>2,497</u>	<u>1,936</u>	<u>1,357</u>

The bank borrowings are at floating rate which carry interest at Hong Kong dollar prime rate minus 1.50% or 1.75% per annum. The weighted average effective interest rate on the Group's bank borrowings was 3.37%, 3.36% and 3.35% per annum as at 31 March 2016, 2017 and 2018, respectively.

The bank borrowings are guaranteed by personal guarantees from Mr. PS Lee and Ms. LC Lau with limited amount and secured by (i) the Group's investment properties with carrying amount of approximately HK\$8,208,000 and HK\$7,943,000 as at 31 March 2016 and 2017 respectively; (ii) the Group's property classified as held for sale with carrying amount of approximately HK\$3,410,000 as at 31 March 2018 and (iii) certain properties of Mr. PS Lee and Ms. LC Lau as of 31 March 2016, 2017 and 2018.

In May 2018, the Group early repaid all outstanding carrying amounts of its bank borrowings upon the completion of the disposal of the Group's property classified as held for sales as disclosed in note 14 and all outstanding personal guarantee and securities from Mr. PS Lee and Mr. LC Lau were also released in the same month.

## 25. PROVISIONS

	<b>Long service payments HK\$'000</b>
At 1 April 2015	343
Addition	<u>5</u>
At 31 March 2016	348
Reversal on provision	<u>(21)</u>
At 31 March 2017	327
Reversal on provision	<u>(73)</u>
At 31 March 2018	<u><u>254</u></u>

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. Provisions recognised in respect of long service payments are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to end of each reporting period. Any changes in the provisions' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss.

## 26. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, deferred tax asset and liability have been offset. The following are the deferred tax liability and asset recognised and movements thereon during the Track Record Period:

	<b>Accelerated tax depreciation HK\$'000</b>	<b>Provision for long service HK\$'000</b>	<b>Total HK\$'000</b>
At 1 April 2015	(316)	57	(259)
Credit to profit or loss	<u>26</u>	<u>1</u>	<u>27</u>
At 31 March 2016	(290)	58	(232)
Charged to profit or loss	<u>(122)</u>	<u>(4)</u>	<u>(126)</u>
At 31 March 2017	(412)	54	(358)
Credit (charged) to profit or loss	<u>248</u>	<u>(12)</u>	<u>236</u>
At 31 March 2018	<u><u>(164)</u></u>	<u><u>42</u></u>	<u><u>(122)</u></u>

## 27. SHARE CAPITAL

**The Group**

The share capital as at 1 April 2015 and 31 March 2016 and 2017 represented the share capital of Hang Yick. The share capital as at 31 March 2018 represented the share capital of the Company.

**The Company**

Details of movements of share capital of the Company are as follows:

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 6 March 2018 (date of incorporation) and 31 March 2018	<u>38,000,000</u>	<u>380</u>
Issued:		
At date of incorporation	2	—*
Issue of shares	<u>98</u>	<u>—*</u>
At 31 March 2018	<u>100</u>	<u>—*</u>

\* Amount less than HK\$1,000

The Company was incorporated on 6 March 2018 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

At the date of incorporation, one share of the Company was allotted and issued nil-paid to the initial subscriber of our Company, an independent third party, and was transferred to Mr. PS Lee on the same date. On the same date, 1 nil-paid share of the Company was allocated and issued at par to Ms. LC Lau.

On 28 March 2018, as part of the Group Reorganisation as disclosed in note 1, HY Metal acquired from Mr. PS Lee and Ms.LC Lau all of their shares in Hang Yick. In consideration thereof, the Company allotted and issued as fully paid 98 shares to HY Steel. The new shares rank pari passu with the then existing share in all aspects.

**28. OPERATING LEASE COMMITMENTS****The Group as lessor**

Property rental income earned during the Track Record Period were approximately HK\$376,000, HK\$341,000 and HK\$395,000. Certain of the Group's properties held for rental purposes, with a carrying amount of approximately HK\$8,208,000, HK\$7,943,000 and HK\$3,410,000 as at 31 March 2016, 2017 and 2018. All of the properties held have committed tenants for next one to two years.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	<b>As at 31 March</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	264	220	138
In the second to fifth year inclusive	<u>88</u>	<u>55</u>	<u>81</u>
	<u><u>352</u></u>	<u><u>275</u></u>	<u><u>219</u></u>

**The Group as lessee**

Details of the Group's operating lease commitment as lessee for a lease entered into with a related company are disclosed in note 34(b).

**29. RETIREMENT BENEFITS SCHEMES**

The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years. The cap of contribution amount is HK\$1,500 per employee per month.

The retirement benefits schemes contributions arising from the MPF Scheme charged to the consolidated statements of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The PRC subsidiary is required to make contributions to the state-managed retirement schemes operated by the local governments based on certain percentage of the monthly salaries of their current employees to fund the benefits.

The only obligation of the Group with respect to the above defined contribution retirement benefit schemes are to make the required contributions under the respective schemes.

The contributions paid and payable to the schemes by the Group during the Track Record Period were HK\$2,015,000, HK\$2,304,000 and HK\$2,883,000, respectively.

### **30. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of debt, which includes bank borrowings, amounts due to related companies and Controlling Shareholders as disclosed in respective notes, and equity of the Group, comprising issued share capital and reserves.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of borrowings or the repayment of the existing borrowings.

## 31. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

	THE GROUP			THE COMPANY
	As at 31 March			As at
	2016	2017	2018	31 March
	HK\$'000	HK\$'000	HK\$'000	2018
				HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>54,109</u>	<u>69,425</u>	<u>47,803</u>	<u>—</u>
Financial liabilities				
Amortised cost	<u>59,039</u>	<u>58,257</u>	<u>12,339</u>	<u>8,529</u>

## (b) Financial risk management objectives and policies

The Group's financial instruments include trade receivables, other receivables and deposits, amounts due from related companies, bank balances and cash, trade and other payables and accruals, amount due to a related company, amounts due to Controlling Shareholders and bank borrowings. The Company's financial instruments include other payables and accruals and amount due to a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Market risk**Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate obligations under finance leases, currently, the Group has not used any derivative contracts to hedge these exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arises.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 21 and 24 for details of the bank balances and bank borrowings respectively). The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arises.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong dollar prime rate arising from the Group's variable-rate bank borrowings.

No sensitivity analysis is provided on variable-rate bank balances and bank borrowings as the management of the Group considers that the interest rate fluctuation on bank balances and bank borrowings is minimal.

(ii) *Credit risk*

The Group's credit risk is primarily attributable to trade receivables, retention receivables, other receivables and deposits, amount due from related companies and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position at the end of the reporting period.

Management adopted a policy on providing credit facilities to customers. A credit investigation, including assessment of financial information, advice from business partners in relation to potential customers and credit search, would be required to be launched. The level of credit granted must not exceed a predetermined level set by the management. Credit evaluation is performed on a regular basis.

The Group has concentration of credit risks with exposure limited to certain customers. The top debtor comprised approximately 39.2%, 30.4% and 23.1% of the Group's trade receivables and 51.9%, 42.9% and 29.3% of the Group's retention receivables as at 31 March 2016, 2017 and 2018 respectively. The top five debtors comprised approximately 82.6%, 73.0% and 70.5% of the Group's trade receivables and 92.0%, 85.2% and 79.9% of the Group's retention receivables as at 31 March 2016, 2017 and 2018 respectively. All these top five debtors are customers located in Hong Kong. The directors of the Company closely monitor the settlement of the customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk for bank balances is considered not material as such amounts are placed in banks with good reputations.

(iii) *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specially, bank borrowings with a repayment on demand clause are included in the earliest time bend regardless of the probability of the banks choosing to exercise their rights.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Within 3 months HK\$'000	4 - 12 months HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>THE GROUP</b>							
As at 31 March 2016							
<b>Non-derivative financial liabilities</b>							
Trade and other payables and accruals	N/A	297	4,751	—	—	5,048	5,048
Amount due to a related company	N/A	273	—	—	—	273	273
Amounts due to Controlling Shareholders	N/A	51,221	—	—	—	51,221	51,221
Bank borrowings	N/A	2,497	—	—	—	2,497	2,497
Obligations under finance leases	2.31	—	128	383	648	1,159	1,105
		<u>54,288</u>	<u>4,879</u>	<u>383</u>	<u>648</u>	<u>60,198</u>	<u>60,144</u>
As at 31 March 2017							
<b>Non-derivative financial liabilities</b>							
Trade and other payables and accruals	N/A	534	13,456	—	—	13,990	13,990
Amount due to a related company	N/A	273	—	—	—	273	273
Amounts due to Controlling Shareholders	N/A	42,058	—	—	—	42,058	42,058
Bank borrowings	N/A	1,936	—	—	—	1,936	1,936
Obligations under finance leases	2.33	—	269	768	1,048	2,085	1,992
		<u>44,801</u>	<u>13,725</u>	<u>768</u>	<u>1,048</u>	<u>60,342</u>	<u>60,249</u>
As at 31 March 2018							
<b>Non-derivative financial liabilities</b>							
Trade and other payables and accruals	N/A	853	10,129	—	—	10,982	10,982
Bank borrowings	N/A	1,357	—	—	—	1,357	1,357
Obligations under finance leases	2.25	—	216	471	353	1,040	1,013
		<u>2,210</u>	<u>10,345</u>	<u>471</u>	<u>353</u>	<u>13,379</u>	<u>13,352</u>



	Weighted average effective interest rate %	Repayable on demand HK\$'000	Within 3 months HK\$'000	4 - 12 months HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>THE COMPANY</b>							
As at 31 March 2018							
<b>Non-derivative financial liabilities</b>							
Other payables and accruals	N/A	—	2,640	—	—	2,640	2,640
Amount due to a subsidiary	N/A	5,889	—	—	—	5,889	5,889
		<u>5,889</u>	<u>2,640</u>	<u>—</u>	<u>—</u>	<u>8,529</u>	<u>8,529</u>

Bank borrowings with a repayment on demand clause are included in the “Repayment on demand” time band in the above maturity analysis. As at 31 March 2016, 2017 and 2018, the aggregate carrying amount of these bank borrowings of approximately HK\$2,497,000, HK\$1,936,000 and HK\$1,357,000, respectively. Taking into account the Group’s financial position, management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Management of the Group believes that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

For the purpose of managing liquidity risk, management of the Group reviews the expected cash flow information of the Group’s bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements as set out in the table below:

	Weighted Average effective interest rate %	Within 3 months HK\$'000	4 - 12 months HK\$'000	1 year to 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
Bank borrowings:							
As at 31 March 2016	3.37	<u>159</u>	<u>477</u>	<u>2,005</u>	<u>46</u>	<u>2,687</u>	<u>2,497</u>
As at 31 March 2017	3.36	<u>159</u>	<u>477</u>	<u>1,416</u>	<u>—</u>	<u>2,052</u>	<u>1,936</u>
As at 31 March 2018	3.35	<u>159</u>	<u>477</u>	<u>780</u>	<u>—</u>	<u>1,416</u>	<u>1,357</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

**Fair value measurement**

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

**32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Amount due to a related company <i>HK\$'000</i>	Amounts due to Controlling Shareholders <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Bank borrowings <i>HK\$'000</i>	Dividend payable <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>At 1 April 2015</b>	273	55,865	—	3,038	—	59,176
Financing cash flows	—	(4,644)	(217)	(635)	—	(5,496)
Finance costs	—	—	22	94	—	116
Purchase of property, plant and equipment	—	—	1,300	—	—	1,300
Exchange realignment	—	—	—	—	—	—
<b>At 31 March 2016</b>	273	51,221	1,105	2,497	—	55,096
Financing cash flows	—	(6,360)	(699)	(636)	(24,000)	(31,695)
Finance costs	—	—	57	75	—	132
Purchase of property, plant and equipment	—	—	1,529	—	—	1,529
Dividend declared	—	—	—	—	24,000	24,000
Exchange realignment	—	(2,803)	—	—	—	(2,803)
<b>At 31 March 2017</b>	273	42,058	1,992	1,936	—	46,259
Financing cash flows	(273)	(44,646)	(1,344)	(635)	(24,000)	(70,898)
Finance costs	—	—	65	56	—	121
Purchase of property, plant and equipment	—	—	300	—	—	300
Dividend declared	—	—	—	—	24,000	24,000
Exchange realignment	—	2,588	—	—	—	2,588
<b>At 31 March 2018</b>	—	—	1,013	1,357	—	2,370

**33. RESERVE OF THE COMPANY****Movement in the Company's reserve**

	<b>Accumulated losses</b> <i>HK\$'000</i>
At 6 March 2018 (date of incorporation)	—
Loss and total comprehensive expense for the period	<u>6,397</u>
At 31 March 2018	<u><u>6,397</u></u>

**34. RELATED PARTY TRANSACTIONS**

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

	<b>Year ended 31 March</b>		
	<b>2016</b> <i>HK\$'000</i>	<b>2017</b> <i>HK\$'000</i>	<b>2018</b> <i>HK\$'000</i>
Sales to related companies <sup>(Note a)</sup>	<u>4,001</u>	<u>2,311</u>	<u>—</u>
Rental expenses to a related company <sup>(Note b)</sup>	<u>—</u>	<u>—</u>	<u>142</u>

Notes:

- (a) These related companies are controlled by directors of the Company.
- (b) At the end of each reporting period, the Group had commitments for future minimum payments under non-cancellable operating lease for a warehouse premises with a company controlled by Mr. PS Lee, which fall due as follows:

	<b>As at 31 March</b>		
	<b>2016</b> <i>HK\$'000</i>	<b>2017</b> <i>HK\$'000</i>	<b>2018</b> <i>HK\$'000</i>
Within one year	—	—	566
In the second to fifth year inclusive	<u>—</u>	<u>—</u>	<u>991</u>
	<u>—</u>	<u>—</u>	<u><u>1,557</u></u>

The above lease is negotiated for a fixed term of 3 years with fixed rental during the lease term.

During the year ended 31 March 2018, the Group disposed of investment properties with aggregate carrying amount of HK\$4,280,000 to a related party (being the son of Mr. PS Lee and Ms. LC Lau) for a cash consideration of HK\$10,600,000.

During the Track Record Period, certain premises held by Mr. PS Lee and Ms. LC Lau (either individually or jointly) were used by the Group as office and showroom without consideration. Subsequently on 7 May 2018, the Group entered into lease agreements with Mr. PS Lee and Ms. LC Lau in respect of such premises for a term of approximately 35 months commencing from 7 May 2018 to 31 March 2021 at an aggregate monthly rental of HK\$53,000.

Details of the balances with related companies and Controlling Shareholders of the Company at the end of the reporting period are disclosed in the statements of financial position and note 20.

### Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record Period were as follows:

	Year ended 31 March		
	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000
Short-term benefits	904	909	2,471
Retirement benefit scheme contributions	<u>44</u>	<u>44</u>	<u>78</u>
	<u>948</u>	<u>953</u>	<u>2,549</u>

### 35. MAJOR NON-CASH TRANSACTIONS

During the Track Record Period, the Group entered into finance lease arrangements in respect of certain motor vehicles with a total capital value at inception of the respective leases of approximately HK\$1,300,000 HK\$1,529,000 and HK\$300,000 respectively.

## 36. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at the end of each reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and full paid share capital/ registered capital	Attributable equity interest of the Group as at 31 March			date of this report	Principal activities	Notes
				2016	2017	2018			
Hang Yick	Hong Kong 20 January 1993	Hong Kong	Ordinary share of HK\$10,000	100%	100%	100%	100%	Design, manufacture, supply and installation of steel and metal products for construction projects	(a)
惠州恒益五金 製品有限公司 Huizhou Hengyi Wujin Zhipin Limited ("Huizhou Hengyi")	The PRC 27 August 2010	The PRC	Registered capital of HK\$10,000,000	100%	100%	100%	100%	Manufacture and sales of steel and metal products	(b)
HY Metal	British Virgin Islands 15 March 2018	Hong Kong	Ordinary share of US\$1	n/a	n/a	100%	100%	Investment holding	(c)

Except for Huizhou Hengyi which have a financial year end of 31 December, all subsidiaries now comprising the Group are limited liability companies and have adopted 31 March as their financial year end date. Except for HY Metal which is a directly wholly-owned subsidiary of the Company, all other subsidiaries are indirectly held by the Company.

*Notes:*

- (a) The statutory financial statements of Hang Yick for the years ended 31 March 2016 and 2017 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by Roger K.C. Tou & Co., certified public accountants and Lau Chung Wai (Certified Public Accountant (Practising)) respectively. The statutory financial statements of Hang Yick for the year ended 31 March 2018 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by us.
- (b) Huizhou Hengyi is a wholly foreign-owned enterprise established in the PRC. The financial statements of Huizhou Hengyi for the years ended 31 December 2015, 2016 and 2017 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 惠州康海會計師事務所(普通合伙), certified public accountants registered in the PRC.
- (c) No audited financial statements have been prepared for HY Metal since its date of incorporation as it was incorporated in jurisdiction where there is no statutory audit requirement.

**37. SUBSEQUENT EVENTS**

Save as disclosed elsewhere in the Historical Financial Information, subsequent events of the Group are details as below:

**(a) Increase of authorised and issued share capital of the Company**

On 19 September 2018, the shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$380,000 to HK\$38,000,000 by the creation of 3,762,000,000 additional shares, each ranking pari passu with the shares of the Company then in issue in all respects.

Pursuant to the written resolutions of the shareholder of the Company passed on 19 September 2018, subject to the share premium account of the Company being credited as a result of the global offering and listing of the Company's share on the Stock Exchange, the directors of the Company are authorised to allot and issue a total of 569,999,900 shares of the Company credited as fully paid at par to the holder(s) of shares on the register of members of the Company at the close of business on 19 September 2018 (or as they may direct) in proportion to their shareholdings (save that no shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK\$5,699,999 standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares of the Company.

**(b) Share option scheme**

The Company has conditionally adopted a share option scheme on 19 September 2018. Details of the principal terms of the share option scheme are summarised in "Statutory and General Information — D. Share Option Scheme" in appendix IV to the Prospectus.

**38. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 March 2018.

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*The information set forth in this appendix does not form part of the accountants' report on the historical financial information of the Group (the "Accountants' Report") from Deloitte Touche Tohmatsu, 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 information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and "Accountants' Report" set forth in Appendix I to this prospectus.*

**A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to owners of the Company as if the Global Offering had taken place at 31 March 2018.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2018 or any future date following the Global Offering.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<b>Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 per Share</b>
	<i>HK\$'000 (Note 1)</i>	<i>HK\$'000 (Note 2)</i>	<i>HK\$'000</i>	<i>HK\$ (Note 3)</i>
Based on the Offer Price of HK\$0.80 per Share	<u>98,557</u>	<u>127,796</u>	<u>226,353</u>	<u>0.30</u>
Based on the Offer Price of HK\$0.90 per Share	<u>98,557</u>	<u>145,998</u>	<u>244,555</u>	<u>0.32</u>

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*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 190,000,000 new Shares at the Offer Price of lower limit and upper limit of HK\$0.80 and HK\$0.90 per Share, respectively, after taken into account the estimated underwriting fees and other related expenses to be incurred by the Group (excluding listing expenses which have been charged to profit or loss up to 31 March 2018) assuming that the Over-allotment Option is not exercised. The calculation of such estimated net proceeds does not take into account any Shares (i) which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 per Share is calculated based on that 760,000,000 Shares in issue assuming that the Global Offering and the Capitalisation Issue had been completed on 31 March 2018 and that the Over-allotment Option is not exercised. It does not take into account any Shares (i) which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2018.
- (5) Assuming the special dividend of HK\$24,000,000 declared on 29 August 2018 had been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 would have been HK\$202,353,000 and HK\$220,555,000, whereas the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 per Share would have been HK\$0.27 and HK\$0.29, at the Offer Price of HK\$0.80 and HK\$0.90 per Share, respectively. Such calculation is based on 760,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering, taking into consideration the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 of HK\$98,557,000 adjusted for (i) the estimated net proceeds from the Global Offering, and (ii) the declaration of the special dividend of HK\$24,000,000.



**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**Deloitte.**

**德勤**

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF HANG YICK HOLDINGS COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hang Yick Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 March 2018 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 28 September 2018 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed global offering of the shares of the Company (the "Global Offering") on the Group's financial position as at 31 March 2018 as if the Global Offering had taken place at 31 March 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended 31 March 2018, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2018 would have been as presented.

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A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information of the Group 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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
28 September 2018

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 Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 March 2018 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 19 September 2018 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) subdivide 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 cancelled.

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 recognise 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 favour 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 the 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 instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay

interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(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 the 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 travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration 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 favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company 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 authorised 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 authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given 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 authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the 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 and extraordinary 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.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

**(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, among 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 or by advertisement in newspapers in accordance with the requirements 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 authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(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 authorised 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 authorised 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 summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. 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 may 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, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.



Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(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 summarised 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 authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(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 authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company 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 authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) 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 the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (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 11 April 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments 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) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

**(q) 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 authorising 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 authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.



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 authorised by the company's articles of association and published in the Gazette.

(r) **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.

(s) **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.

(t) **Indemnification**

The 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 the Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of the Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 March 2018. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 April 2018 and our principal place of business in Hong Kong is at Unit B, Upper G/F, Stage 4, Yau Tong Industrial Building, 18-20 Sze Shan Street, Yau Tong, Kowloon, Hong Kong. Mr. PS Lee of G-2/F, 101 Shok Wu Wai, San Tin, Yuen Long, New Territories, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the relevant laws of the Cayman Islands and the constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation of our Company, the authorised share capital was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. One nil-paid Share was allotted and issued to the subscriber on 6 March 2018, which was subsequently transferred to Mr. PS Lee on the same date. On the same date, one nil-paid Share was allotted and issued at par to Ms. LC Lau.
- (b) On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of our Company to HY Steel at consideration of HK\$1.00 each.
- (c) On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of Hang Yick to HY Metal. In consideration of the acquisition, our Company created, allotted and issued 98 new Shares, credited as fully paid, to HY Steel; and credited one nil paid share owned by Mr. PS Lee and one nil paid share owned by Ms. LC Lau as fully paid. Mr. PS Lee and Ms. LC Lau transferred the Shares to HY Steel at nominal consideration.
- (d) On 19 September 2018, our Shareholder resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$38,000,000 by the creation of 3,762,000,000 additional Shares, each ranking pari passu with our Shares then in issue in all respects.
- (e) Immediately following the completion of the Global Offering and the Capitalisation Issue, and taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, 760,000,000 Shares will be issued fully paid or credited as fully paid, and 3,040,000,000 Shares will remain unissued.

- (f) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our existing Shareholder passed on 19 September 2018” in this appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares which would effectively alter the control of our Company will be made.
- (g) Save as disclosed in “Share Capital” and “History, Reorganisation and Corporate Structure” to this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

### 3. Written resolutions of our existing Shareholder passed on 19 September 2018

On 19 September 2018, resolutions in writing were passed by our Shareholders pursuant to which, among other things:

- (a) our Company approved and adopted the Memorandum with immediate effect and the Articles conditionally with effect from the Listing Date, the terms of which are summarised in Appendix III to this prospectus;
- (b) the authorised share capital of our Company be increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$38,000,000 divided into 3,800,000,000 Shares of HK\$0.01 each by the creation of an additional 3,762,000,000 Shares of HK\$0.01 each, ranking pari passu with the existing Shares in all respects;
- (c) conditional on the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this prospectus, including any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme, and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
  - (i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering to rank pari passu with the then existing Shares in all respects;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Share Option Scheme to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

- (iii) conditional further on the share premium account of our Company being credited as a result of the Global Offering, the Capitalisation Issue be approved, and our Directors were authorised to capitalise an amount of HK\$5,699,999 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 569,999,900 Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of our Company at the close of business on 19 September 2018 in proportion (as nearly as possible without involving fractions) to its/ their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the Shares then in issue, and the Directors were authorised to give effect to such capitalisation and distributions;
- (d) 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 or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Memorandum and the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the Global Offering, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and Capitalisation Issue but excluding or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on Main Board or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately

following completion of the Global Offering or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
  - (iii) the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

#### **4. Corporate Reorganisation**

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. See “History, Reorganisation and Corporate Structure — Business and corporate development — Reorganisation” for further details.

#### **5. Changes in share capital of subsidiaries**

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

Save for the alterations described in “History, Reorganisation and Corporate Structure”, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

## 6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our Shares by our Company.

### (a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

#### (i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a specific transaction.

*Note:* Pursuant to the written resolutions passed by our Shareholder on 19 September 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

#### (ii) *Source of funds*

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules. Our Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits, out of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) *Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a “core connected person” (as defined in the Listing Rules), which includes a director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders.

(c) *Exercise of the Repurchase Mandate*

On the basis of 760,000,000 Shares in issue immediately after the completion of the Global Offering, our Directors would be authorised under the Repurchase Mandate to repurchase up to 76,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(d) *Funding of repurchase*

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) **General**

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase our Shares 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 core connected person (as defined in the Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## **B. FURTHER INFORMATION ABOUT THE BUSINESS**

### **1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Group within two years immediately preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

- (a) an agreement for the sale and purchase dated 28 March 2018 entered into between Mr. PS Lee and Ms. LC Lau as vendors and HY Steel as purchaser, in relation to the sale and purchase of two Shares of our Company in consideration of HK\$1.00 each;
- (b) an agreement for the sale and purchase dated 28 March 2018 entered into between Mr. PS Lee and Ms. LC Lau as vendors and HY Metal as purchaser, in relation to the sale and purchase of the entire issued share capital of Hang Yick. In consideration, our Company allotted and issued 98 new Shares, credited as fully paid, to HY Steel;
- (c) the Deed of Non-competition dated 19 September 2018 given by Mr. PS Lee, Ms. LC Lau and HY Steel in favour of our Company;







- (d) the Deed of Indemnity dated 19 September 2018 given by Mr. PS Lee, Ms. LC Lau and HY Steel in favour of our Company; and
- (e) the Hong Kong Underwriting Agreement dated 27 September 2018 relating to the Hong Kong Public Offering and entered into between our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriter, details of which are summarised in “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering”.

## 2. Intellectual property rights of our Group

### (a) Trademark

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks in Hong Kong that is considered to be or may be material to our business and with which we conduct the majority of our business:

Trademark	Applicant	Class	Application number
	Hang Yick Gate Engineering Limited	6, 17, 37, 40 & 42	304410143
			
			
			

### (b) Patent

As at the Latest Practicable Date, our Group has registered the following patent:

Patent	Registrant	Patent number	Expiry Date
Fire-rated Door	Hang Yick Gate Engineering Limited	HK1176513	8 February 2021

(c) *Domain names*

As at the Latest Practicable Date, our Group has registered the following domain names:

<b>Domain name</b>	<b>Registrant</b>	<b>Expiry date</b>
www.hy-engineering.com	Hang Yick Gate Engineering Limited	20 March 2020

### C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

#### 1. Disclosure of interests

##### (a) *Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following the completion of the Global Offering or upon the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the Main Board, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Rules 5.46 to 5.67 of the Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, will be as follows:

##### (i) Long position in the Shares

<b>Name of Director/ chief executive</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares held/interested immediately following completion of the Global Offering and the Capitalisation Issue (Note 1)</b>	<b>Percentage of shareholding immediately following completion of the Global Offering and the Capitalisation Issue</b>
Mr. PS Lee (Note 2)	Interest in a controlling corporation/Interest of spouse	570,000,000	75%
Ms. LC Lau (Note 3)	Interest in a controlling corporation/Interest of spouse	570,000,000	75%

*Notes:*

- (1) All interests stated are long positions.
- (2) Mr. PS Lee beneficially owns 70% of the issued share capital of HY Steel. Mr. PS Lee is the spouse of Ms. LC Lau and is deemed to be interested in 30% of the issued share capital of HY Steel. Therefore, Mr. PS Lee is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Mr. PS Lee is also a director of HY Steel.
- (3) Ms. LC Lau beneficially owns 30% of the issued share capital of HY Steel. Ms. LC Lau is the spouse of Mr. PS Lee and is deemed to be interested in 70% of the issued share capital of HY Steel. Therefore, Ms. LC Lau is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Ms. LC Lau is also a director of HY Steel.

(b) *Interests of substantial and other Shareholders in our Shares and underlying Shares*

So far as is known to our Directors and taking no account of any Shares which may be taken up under the Global Offering, or pursuant to options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Global Offering, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/nature of interest	Number of Shares (Note 1)	Percentage of shareholding
HY Steel	Beneficial owner	570,000,000	75%

*Note:*

- (1) All interests stated are long positions.

**2. Particulars of service agreements**

None of our Directors has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**3. Remuneration of Directors**

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the Track Record Period were approximately HK\$189,000, HK\$189,000 and HK\$425,000, respectively.

- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 March 2019 will be approximately HK\$3.0 million.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

HK\$

**Executive Directors**

Mr. PS Lee	1,200,000
Ms. LC Lau	1,200,000

**Non-executive Director**

Mr. Benny Lee	600,000
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**Independent non-executive Directors**

Mr. Au Yeung Wai Key	180,000
Hon Cheung Kwok Kwan, <i>JP</i>	180,000
Mr. Tse Ka Ching Justin	180,000

- (d) Each of our Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice served by either party on the other, and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles.

**4. Fees or commission received**

Save as disclosed in "Underwriting" in this prospectus, none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix had received any agency fee or commissions from our Group within the three years preceding the date of this prospectus.

**5. Related party transactions**

Details of the related party transactions are set out under note 34 to the Accountants' Report set out in Appendix I to this prospectus.

**6. Disclaimers**

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandates as referred to in “A. Further information about our Company” in this appendix, and taking no account of Shares which may be taken up under the Global Offering, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, have an interest or short position in our Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to 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 or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (b) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be 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, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange;
- (c) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group;
- (g) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

#### D. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholder passed on 19 September 2018 are set out below:

##### 1. Purpose of the Share Option Scheme

The Share Option Scheme is an incentive scheme and is established to recognise the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:

- (a) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of our Group; and
- (b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, “**Eligible Participants**” means any person who satisfies the eligibility criteria in paragraph 2 below.

##### 2. Who may join and basis of eligibility

The Board may at its discretion grant options to:

- (i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or a company in which our Group holds an interest or a subsidiary of such company (“**Affiliate**”); or

- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate; or
- (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to our Group or an Affiliate.

and, for the purposes of the Share Option Scheme, options may be granted to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

### **3. Subscription Price of Shares**

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day in Hong Kong and a day on which the Stock Exchange is open for the business of dealing in securities (a "**Trading Day**"); (ii) an amount equivalent to the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of a Share on the date of grant.

### **4. Grant of options and acceptance of offers**

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Eligible Participant.

### **5. Maximum number of Shares**

- (i) Subject to sub-paragraphs (ii) to (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the "**Scheme Mandate Limit**"), being 76,000,000 Shares, unless approved by the Shareholders pursuant to sub-paragraph (iii) below. Options lapsed in accordance with the terms of the scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

- (ii) Subject to sub-paragraphs (iii) and (iv) below, the Scheme Mandate Limit may be renewed by the Shareholders in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Share in issue as at the date of approval of such renewal by the Shareholders in general meeting. Upon such renewal, all options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to the Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.
- (iii) Subject to sub-paragraph (iv) below, the Board may seek separate Shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (iv) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by our Group if such grant will result in the said 30% limit being exceeded.

#### **6. Maximum entitlement of each participant**

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period must not exceed 1% of the Shares (or the subsidiary) in issue. Where any further grant of options to an Eligible Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over above this limit, such further grant shall be subject to the following requirements:

- (i) approval of the Shareholders at general meeting, with such Eligible Participant and its close associates abstaining from voting;
- (ii) a circular in relation to the proposal for such further grant must be sent by our Company to its Shareholders with such information from time to time as required by the Listing Rules;



- (iii) the number and terms of the options to be granted to such proposed grantee shall be fixed before the Shareholders' approval mentioned in (i) above; and
- (iv) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.

#### **7. Requirements on granting options to certain connected persons**

Any grant of options to any director, chief executive or substantial shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive Directors (excluding an independent non-executive director who is a proposed grantee).

Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of the options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

- (i) representing in aggregate over 0.1% of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by the Shareholders on a poll in a general meeting where all core connected persons must abstain from voting in favour at such general meeting. Our Company will send a circular to the Shareholders containing the information required under the Listing Rules.

#### **8. Restrictions on the time of grant of options**

No option shall be granted after inside information has become the subject of a decision until our Company has announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce its results for any year or half-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. "Inside information" has the meaning defined in the SFO.

The Board may not make any offer to an Eligible Participant who is a Director during the period in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

**9. Time of exercise of option**

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of termination thereof.

**10. Performance targets**

Save as determined by the Board and provided in the offer of grant of the options, there is no performance target that must be achieved before the options can be exercised.

**11. Ranking of Shares**

The Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the allotment date. Any Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of our Company as the holder thereof.

**12. Rights are personal to grantee**

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

**13. Rights on cessation of employment**

- (i) In the event of death of the grantee (being an individual) before exercising the option in full, his legal personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine;
- (ii) Subject to sub-paragraphs (iii) to (iv) below, in the event of the grantee who is an employee ceasing to be an employee for any reason other than his death or his disability or the termination of his employment pursuant to paragraph 18(v), the grantee may exercise the option (to the extent exercisable as at the date of the relevant event and not exercised) within 30 days following such cessation;

- (iii) Where the grantee is a director, employee, consultant, professional, agent, partner, adviser of or contractor to the Group or its Affiliate at the time of the grant of the relevant option(s) and his employment or service to the Company is terminated on the ground of his disability, the grantee may exercise the option (to the extent exercisable as at the date on which such grantee ceases to be a director, employee, consultant, professional, agent, partner, adviser of or contractor to the Group or its Affiliate and not exercised) within the period of 6 months following such cessation or such longer period as the Board may determine;
- (iv) where the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate, then the option (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) shall be exercised within period of 3 months following the date of such cessation or such longer period as the Board may determine; and
- (v) in the event of the grantee, who is a director, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate but not an employee, ceasing to be a director, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate (as the case may be) for any reason other than his death or his disability, the option (to the extent exercisable as at the date of such cessation and not exercised) shall be exercised within 30 days following the date of such cessation or such longer period as the Board may determine.

#### 14. Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company while an option remains exercisable, and such event arises from, including a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of the share capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the options so far as unexercised; and/or the exercise price; and/or the method of the exercise of the options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must be made in compliance with the Listing Rules, give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that shares would be issued at less than their nominal value unless with the prior approval of the shareholders' meeting, no such adjustments may be made to the advantage of the grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the auditor or the independent financial adviser of our Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

**15. Rights on a general offer**

If a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within 1 month after the date on which the offer becomes or is declared unconditional.

**16. Rights on winding-up**

In the event notice is given by our Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option shall be entitled to exercise all or any of his/her options (to the extent exercisable as at the date of the notice to the grantee and not exercised) not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

**17. Rights on compromise or arrangement**

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantee on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon the grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option shall be entitled to exercise all or any of his/her option(s) (to the extent exercisable as at the date of the notice to the grantee and not exercised) not later than two Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

**18. Lapse of options**

An option shall lapse and not be exercisable on the earliest of:

- (i) the expiry of the option period as set out in paragraph 9 above;

- (ii) the expiry of any of the periods referred to in paragraph 13 above;
- (iii) subject to paragraph 16 above, the date of the commencement of the winding-up of our Company;
- (iv) subject to the scheme becoming effective, the expiry of the period referred to in paragraph 17 above;
- (v) the date on which the grantee who is an employee or officer of our Group ceases to be an employee by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty;
- (vi) the happening of any of the following events, unless otherwise waived by the Board:
  - (a) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the grantee (being a corporation);
  - (b) the grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within a meaning of section 178 of the Companies Ordinance or any similar provisions under the Companies Law) or otherwise become insolvent;
  - (c) there is unsatisfied judgment, order or award outstanding against the grantee or our Company has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
  - (d) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of type mentioned in subparagraph (a), (b) and (c) above;
  - (e) a bankruptcy order has been made against the grantee or any director of the grantee (being a corporation) in any jurisdiction; or
  - (f) a petition for bankruptcy has been presented against the grantee or any director of the grantee (being a corporation) in any jurisdiction;
- (vii) the date on which the grantee in any way sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option;
- (viii) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise resolved to the contrary by the Board; or
- (ix) the date on which the Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria.

**19. Cancellation of options granted but not yet exercised**

The Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued Shares (excluding the cancelled options) within the limits approved by the Shareholders as mentioned in the Share Option Scheme from time to time.

**20. Period of the Share Option Scheme**

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years, after which no further options may be issued but the provisions of the Share Option Scheme shall remain full force and effect.

The Board may impose such terms and conditions of the offer of grant either on a case-by-case basis including but not limited to the minimum period for which an option must be held.

**21. Alteration to the Share Option Scheme**

The Share Option Scheme may be altered in any respect by resolution of the Board except those specific provisions relating to matters set out in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) which cannot be altered to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of our Company in general meeting. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantee as would be required of the Shareholders under the Articles for the time being of our Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Directors or administrators of the Share Option Scheme in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

The amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the Listing Rules as may be amended.

Subject to the above paragraphs, the Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme such that the provisions of the Share Option Scheme would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by the Board to implement the terms of the Share Option Scheme.

**22. Termination of the Share Option Scheme**

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the Listing Rules which are granted during the life of the Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

**23. Conditions of the Share Option Scheme**

The Share Option Scheme is conditional upon the Stock Exchange granting the approval of the listing of and permission to deal in any Shares to be issued and allotted pursuant to the exercise of any options in accordance with the terms and conditions under the Share Option Scheme up to 10% of the Shares in issue as at the Listing Date.

**24. Present status of the Share Option Scheme**

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be allotted and issued within the Scheme Mandate Limit pursuant to the exercise of options that may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

**E. OTHER INFORMATION****1. Tax and other indemnities**

Our Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred in “B. Further information about the business — 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things, against taxation, together with all damages which any of the members of the Group may incur in respect of or arising directly or indirectly from or on the basis of or in connection with (i) the investigation, assessment, contesting or the settlement of any claim under the deed of indemnity; (ii) any legal proceedings in which any of the members of the Group claims under or in respect of deed of indemnity and in which judgment, award or decision is given for any of the members of the Group; or (iii) the enforcement of any such settlement or judgment referred to in (i) and (ii) above, falling on any of the members of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Global Offering becomes unconditional or any event or transaction, act, omission or event entered into or occurring

on or before the Global Offering becomes unconditional whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company. The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such taxation liability or taxation claim in the audited consolidated financial statements of any member of our Group for the Track Record Period; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Global Offering becomes unconditional; or
- (c) the taxation liability arises in the ordinary course of business of our Group after 31 March 2018 up to and including the date of which the Global Offering becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

## **2. Litigation**

Our Director confirmed that as at the Latest Practicable Date, save as disclosed in “Business – Litigation and claims”, no member of our Group was 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 any member of our Group.

## **3. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein including any Shares falling to be issued pursuant to the exercise of any options which may be under the Share Option Scheme.

The Sole Sponsor’s fees are HK\$4.5 million and are payable by our Company.

## **4. Compliance adviser**

We have appointed Fortune Financial Capital Limited as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules. Further details of the appointment are set out in “Directors and Senior Management — Compliance adviser”.

## **5. Preliminary expenses**

The preliminary expenses relating to the incorporation of our Company are approximately HK\$42,588 and are payable by our Company.



**6. Promoter**

Our Company has no promoter for the purpose of the Listing Rules.

**7. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Fortune Financial Capital Limited	A licensed corporation to engage in type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Khoo & Co.	Legal adviser as to Hong Kong law
Deheng Law Offices (Shenzhen)	Legal adviser as to the PRC law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Frost & Sullivan Limited	Independent industry consultant
Ms. Sabrina S.Y. Ho	Barrister-at-law in Hong Kong

**8. Consents of experts**

Each of Fortune Financial Capital Limited, Deloitte Touche Tohmatsu, Khoo & Co., Deheng Law Offices (Shenzhen), Conyers Dill & Pearman, Frost & Sullivan Limited and Ms. Sabrina S.Y. Ho has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letters and/or reports and/or valuation certificates and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

**9. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**10. Registration procedures**

The principal register of members of our Company in the Cayman Islands will be maintained by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

**11. Material adverse change**

Our Directors confirm that, save for the matters disclosed in "Financial Information — Material adverse changes", there has not been any material adverse change in the financial or trading position or prospects of our Group since 31 March 2018 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this prospectus.

**12. 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.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(b) *Cayman Islands***

No stamp duty is payable in the Cayman Islands on the transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(c) *Consultation with professional advisers***

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the Global Offering accepts 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.

**13. Miscellaneous**

1. Save as disclosed in this prospectus:
  - (a) Within the two years immediately preceding the date of this prospectus:
    - (i) no share or loan capital of our Company or any of the 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 than cash;
    - (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any capital of our Company or any of the subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of the subsidiaries;
    - (iii) no commission has been paid or is payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
    - (iv) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
    - (v) no share or loan capital of our Company or any of the subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
  - (b) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;
  - (c) none of the experts:
    - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
    - (j) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
  - (d) our Company and its subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;

- (e) our Directors have been advised that, under the Cayman Islands law, the use of a Chinese name approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands law;
- (f) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (g) our Group has no outstanding convertible debt securities; and
- (h) the English text of this prospectus shall prevail over the Chinese text.

### 13. **Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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## **APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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### **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the Application Forms;
- (b) copies of the material contracts referred to in “Statutory and General Information — B. Further information about the business — 1. Summary of material contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this prospectus.

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Khoo & Co. 2nd, 5th and 16th Floor, Tern Centre Tower 2, 251 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountants’ Report and the independent reporting accountants’ assurance report on the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this prospectus, respectively;
- (c) the audited consolidated financial statements of our Group for each of the three years ended 31 March 2018;
- (d) the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal adviser, summarising certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;
- (e) the material contracts referred in “Statutory and General Information — B. Further information about the business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (f) the service agreements and letters of appointment referred in “Statutory and General Information — C. Further information about substantial Shareholders, Directors and experts”;
- (g) the rules of the Share Option Scheme;

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- (h) the written consents referred in “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this prospectus;
- (i) the Companies Law;
- (j) the legal opinion issued by Ms. Sabrina S.Y. Ho, a barrister-at-law in Hong Kong advising on the Inland Revenue Ordinance;
- (k) the legal opinion issued by Khoo & Co., our legal adviser as to Hong Kong Law, advising on certain aspects on Hong Kong laws; and
- (l) the independent industry report issued by Frost & Sullivan.

# 恒益控股有限公司

HANG YICK HOLDINGS COMPANY LIMITED

