



BEST LINKING GROUP HOLDINGS LIMITED

永聯豐集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8617

SHARE OFFER



Sole Sponsor



LY CAPITAL LIMITED
絡繹資本有限公司

Sole Bookrunner and Sole Lead Manager



統一證券(香港)有限公司
PRESIDENT SECURITIES (HONG KONG) LTD.

IMPORTANT

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

BEST LINKING GROUP HOLDINGS LIMITED

永聯豐集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares : 100,000,000 Shares
Number of Public Offer Shares : 10,000,000 Shares (subject to reallocation)
Number of Placing Shares : 90,000,000 Shares (subject to reallocation)
Offer Price : Not more than HK\$0.60 per Offer Share and
expected to be not less than HK\$0.50 per
Offer Share plus brokerage 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)
Nominal Value : HK\$0.01 per Share
Stock Code : 8617

Sole Sponsor



Sole Bookrunner and Sole Lead Manager



Co-lead Managers



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

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

The Offer Price is expected to be determined by an agreement between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Wednesday, 6 November 2019 and in any event no later than Thursday, 7 November 2019.

The Offer Price will not be more than HK\$0.60 per Offer Share and is currently expected to be not less than HK\$0.50 per Offer Share unless otherwise announced. The Sole Bookrunner (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time not later than the morning of the last day for lodging applications under the Public Offer. If this occurs, a notice of reduction of the number of Offer Shares and/or the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.blg.hk. Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Sole Bookrunner (for itself and on behalf of the Underwriters) by Thursday, 7 November 2019, the Share Offer will not become unconditional and will lapse.

Prior to making any investment decision, prospective investors should consider carefully all the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk Factors" of this prospectus.

Prospective investors of the Share Offer should note that the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement are subject to termination by the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) upon occurrence of any of the events set out in "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) terminate the Public Offer Underwriting Agreement, the Share Offer will not become unconditional and will lapse. Further details of these termination provisions are set out in the section headed "Underwriting" of this prospectus. It is important that prospective investors refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or 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 applicable U.S. state securities laws. The Offer Shares may only be offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

31 October 2019

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Share Offer, our Company will issue an announcement in Hong Kong to be published on the websites of the Stock Exchange (www.hkexnews.hk) and of our Company (www.blg.hk).⁽¹⁾

Public Offer commences and **WHITE** and

YELLOW Application Forms available from 9:00 a.m. on Thursday,
31 October 2019

Latest time for completing electronic applications under the

HK eIPO White Form service through one of the below ways⁽²⁾

(1) the designated website at www.hkeipo.hk

(2) the Tricor IPO App, which can be downloaded by searching

“**Tricor IPO App**” in App Store or Google Play or downloaded

at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp 11:30 a.m. on
Tuesday, 5 November 2019

Application lists of the Public Offer open⁽³⁾ 11:45 a.m. on
Tuesday, 5 November 2019

Latest time for lodging **WHITE** and **YELLOW** Application Forms

and giving **electronic application instructions**

to HKSCC⁽⁴⁾ 12:00 noon on
Tuesday, 5 November 2019

Latest time for completing payments of **HK eIPO White Form**

applications by effecting internet banking transfer(s)

or PPS payment transfer(s)⁽²⁾ 12:00 noon on
Tuesday, 5 November 2019

Application lists of the Public Offer close⁽³⁾ 12:00 noon on
Tuesday, 5 November 2019

Expected Price Determination Date on or around⁽⁵⁾ Wednesday, 6 November 2019

Announcement of the final Offer Price, the level of indications of interest

in the Placing, the level of applications in the Public Offer and

the basis of allocation of the Public Offer Shares to be published

(i) on the Stock Exchange’s website at www.hkexnews.hk; and

(ii) on our Company’s website at www.blg.hk⁽⁶⁾ on or before Thursday, 14 November 2019

Results of allocations in the Public Offer (with successful applicants’

identification document numbers or Hong Kong

business registration numbers, where applicable) to be

available through a variety of channels as described in

“How to Apply for Public Offer Shares —

11. Publication of results” from Thursday, 14 November 2019

EXPECTED TIMETABLE

Results of allocations in the Public Offer will be available at

www.tricor.com/hk/ipo/result and www.hkeipo.hk/IPOResult

or the “Allotment Result” in the Tricor IPO App with a

“search by ID” function from Thursday, 14 November 2019

Despatch/collection of Share certificates or deposit of the Share

certificates into CCASS in respect of wholly or partially successful

applications pursuant to the Public Offer on⁽⁷⁾⁽⁹⁾ Thursday, 14 November 2019

Despatch/collection of refund cheques and **HK eIPO White Form**

e-Auto Refund payment instructions in respect of wholly or partially

successful applications (if applicable) or wholly or partially unsuccessful

applications pursuant to the Public Offer on⁽⁷⁾⁽⁸⁾ Thursday, 14 November 2019

Dealings in the Shares on GEM expected to commence

at 9:00 a.m. on Friday, 15 November 2019

Notes:

- (1) All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Share Offer, including its conditions of the Public Offer are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus. If there is any change in the above expected timetable, an announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and of our Company (www.blg.hk).
- (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 or the Tricor IPO App 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 or the Tricor IPO App prior to 11:30 a.m. on the last day for submitting applications, you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a “black” rainstorm warning signal, a tropical cyclone warning signal number eight or above or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 5 November 2019, the application lists will not open and close on that day. For details, please refer to the section headed “How to Apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” of this prospectus.
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Wednesday, 6 November 2019 and in any event not later than Thursday, 7 November 2019. If, for any reason, the Offer Price is not agreed by Thursday, 7 November 2019 between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company, the Share Offer will not become unconditional and will lapse.
- (6) None of the information contained on any website forms part of this prospectus.
- (7) Applicants who apply on **WHITE** Application Forms or through the **HK eIPO White Form** service or Tricor IPO App for 1,000,000 or more Public Offer Shares and have provided all information required by their Application Forms may collect Share certificates (if applicable) and refund cheques (if applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 November 2019 or any other date as notified by us. Applicants being individuals who are eligible for personal collection must not authorise any other person to collect on their behalf. Applicants being corporations who are eligible for personal collection must collect by sending their authorised representatives bearing a letter of

EXPECTED TIMETABLE

authorisation from the 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, Tricor Investor Services Limited.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares and have provided all information required by their Application Forms may collect their refund cheques (if applicable) but may not elect to collect their Share certificates in person as such Share certificates will be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to their CCASS Investor Participant stock accounts or the stock accounts of their designated CCASS Participants as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Public Offer Shares — 14. Despatch/collection of Share certificates and refund monies" of this prospectus for details.

Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through a single bank account may have refund monies (if any) despatched to their application payment bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their **electronic application instructions** in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected Share certificates and/or 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 the section headed "How to Apply for Public Offer Shares" of this prospectus.

- (8) Refund cheques or e-Auto Refund payment instructions will be used 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 price 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 the section headed "How to Apply for Public Offer Shares" of this prospectus.
- (9) All Share certificates will only become valid certificates of title of the Shares to which they relate provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

The above expected timetable is a summary only. Further details of the structure of the Share Offer, including its conditions thereto, are set out in the section headed "Structure and Conditions of the Share Offer" of this prospectus. For further details about the procedures for application for the Public Offer Shares, please refer to the section headed "How to Apply for Public Offer Shares" of this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

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

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

Our Group is principally a slewing ring manufacturer in the PRC and the slewing rings we produce are the necessary transmission part for some large-size machineries and equipment. Slewing rings have a wide application in many areas such as construction machineries and equipment, wind turbines, military equipment and machineries, robotics, etc.. We position ourselves as a premium manufacturer of slewing rings as we are able to produce slewing rings that conform to applicable Japanese Industrial Standards (JIS), which has higher product requirements for slewing rings than many countries in the world according to the Industry Report. We have a diverse customer base which includes customers from Hong Kong and the PRC, as well as overseas customers from countries such as Singapore, Malaysia, Northern Ireland, the United States, Japan and Thailand. Our quality assurance department is responsible for the quality testing of all finished products upon completion of the manufacturing process. Our in-house inspection checklists are based on primarily JIS, and in some circumstances other standards such as JB or JB/T. Our quality assurance department ensures that our products are in compliance with the required standards. For further details on the product standards compliance checking process, please refer to the section headed “Business — Quality assurance” of this prospectus. According to the Industry Report, our Group ranked fifth among the slewing ring manufacturers in the PRC in 2018 in terms of sales revenue to overseas markets, accounted for approximately 1.3% of the market share in China in 2018. Based on internal records, of all slewing rings produced, the revenue derived from the sales of slewing rings that solely conform with JIS amounted to approximately HK\$29.2 million, HK\$29.9 million and HK\$10.6 million, which accounted for approximately 79.0%, 72.4% and 62.2% of our total revenue, for FY2017, FY2018 and 4M2019, respectively. The production volume in terms of number of sets of slewing rings accounted for approximately 82.6%, 86.8% and 85.4% of our total production volume for the same year/period. We are also the largest slewing ring manufacturer in South China⁽¹⁾ in 2018 in terms of sales revenue to overseas markets. According to the same report, we accounted for approximately 0.5% of the slewing ring market in China in terms of sales revenue in 2018. Since we commence our business in 2007, we have accumulated in-depth industry experience and know-how for production of slewing rings catering for both local and international market.

We manufacture slewing rings for local and overseas customers primarily on an ODM basis. Our ODM customers include companies engaged in general wholesale trading and distributor of machineries and equipment or their parts, which will re-sell our products to the end-users in the market and may provide the related after-sales service. The products sold under this mode of operation are either for replacement of a worn out slewing ring of an existing machinery, or for assembly of a new machinery. Our ODM business leverages on our in-depth market knowledge and know-how accumulated through years of experience since our inception. We are able to produce different models of slewing rings for our customers’ selection. In the case of replacement of slewing rings, we can manufacture slewing rings which already ceased production.

We also manufacture for some overseas customers on an original equipment manufacturing (OEM) basis. Some of the leading Japanese manufacturers of various machineries and equipment or their affiliates are our OEM customers. Our OEM business includes the manufacture and sale of products based on customers’ specifications and guidelines. We also derive our revenue from sales of our proprietary branded products under an original brand manufacturer (OBM) basis.

In addition, we also source other slewing rings and other mechanical parts and components of machineries for customers who have purchased slewing rings from us. We maintain such line of business to complement our main line of business which is the manufacture and sale of slewing rings to enable

Note: (1) South China means Guangdong Province, the Guangxi Zhuang Autonomous Region, Hainan Province, Hong Kong, and Macau.

SUMMARY

our customers to enjoy a more comprehensive “one-stop service” from us. The slewing rings that we source for our customers are mainly (i) models which we do not currently produce; and (ii) those which would not be commercially sound for our Group to produce ourselves when compared to sourcing due to small scale orders or low profit margin.

The following table sets forth a breakdown of our revenue by product category during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Slewing rings								
— ODM	27,588	62.7	31,114	67.3	7,013	52.3	13,221	76.3
— OEM	1,403	3.2	1,272	2.7	551	4.1	379	2.2
— OBM	3,897	8.9	1,304	2.8	127	0.9	967	5.6
— Others <i>(Note)</i>	4,008	9.1	7,620	16.5	4,613	34.4	2,439	14.1
	36,896	83.9	41,310	89.3	12,304	91.7	17,006	98.2
Other machinery parts	7,076	16.1	4,957	10.7	1,118	8.3	325	1.8
Total	<u>43,972</u>	<u>100.0</u>	<u>46,267</u>	<u>100.0</u>	<u>13,422</u>	<u>100.0</u>	<u>17,331</u>	<u>100.0</u>

Note: Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

For further details, please refer to the section headed “Business — Business model” of this prospectus.

The following table sets out the range of selling price of our slewing rings by mode of operation for the Track Record Period:

	Range of selling price (per set) <i>(unaudited)</i>			
	FY2017	FY2018	4M2018	4M2019
	HK\$	HK\$	HK\$	HK\$
ODM	2,339 – 296,020	2,415 – 164,640	3,433 – 164,266	2,755 – 145,225
OEM	2,260 – 6,670	2,597 – 3,814	2,706 – 3,324	2,821 – 3,492
OBM	4,440 – 183,000	5,057 – 43,000	8,128 – 43,000	3,780 – 31,734
Others <i>(Note)</i>	2,600 – 67,500	392 – 192,080	2,819 – 191,835	7,183 – 55,735

Note: Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

The following table sets forth a breakdown of our sales of slewing rings by product size during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	Quantities sold		Quantities sold		Quantities sold		Quantities sold	
	Pcs	%	Pcs	%	Pcs	%	Pcs	%
	<i>(unaudited)</i>							
Slewing Rings <i>(Note)</i>								
Small size	1,770	56.2	1,932	59.1	640	68.9	800	58.3
Medium size	1,299	41.3	1,295	39.6	278	29.9	488	35.6
Large size	78	2.5	40	1.3	11	1.2	84	6.1
	<u>3,147</u>	<u>100.0</u>	<u>3,267</u>	<u>100.0</u>	<u>929</u>	<u>100.0</u>	<u>1,372</u>	<u>100.0</u>

Note: Small, medium and large size represents the inner diameter of slewing rings of less than approximately 0.9 meter, approximately 1.0 meter to 1.3 meter and more than approximately 1.4 meter, respectively.

SUMMARY

The following table sets forth a breakdown of the gross profit and gross profit margin of slewing rings by product category during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Slewing rings								
ODM	14,493	52.5	17,149	55.1	3,382	48.2	7,018	53.1
OEM	250	17.8	223	17.6	75	13.6	80	21.1
OBM	1,611	41.4	609	46.7	57	44.9	479	49.5
Other rings <i>(Note)</i>	<u>1,089</u>	<u>27.2</u>	<u>2,654</u>	<u>34.8</u>	<u>1,503</u>	<u>32.6</u>	<u>838</u>	<u>34.4</u>
	17,443	47.3	20,635	50.0	5,017	40.8	8,415	49.5
Other machinery parts	<u>1,077</u>	<u>15.2</u>	<u>1,073</u>	<u>21.6</u>	<u>29</u>	<u>2.6</u>	<u>30</u>	<u>9.2</u>
Total	<u><u>18,520</u></u>	<u><u>42.1</u></u>	<u><u>21,708</u></u>	<u><u>46.9</u></u>	<u><u>5,046</u></u>	<u><u>37.6</u></u>	<u><u>8,445</u></u>	<u><u>48.7</u></u>

Note: Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

OUR PRODUCTION FACILITY

Our Group's production facility is located in Changping of Dongguan and is leased from an Independent Third Party. Our production facilities, office, dormitory and building surrounding land, occupy a total gross floor area of approximately 7,463.9 sq.m. For FY2017, FY2018 and 4M2019, the depreciation charged against the right of use of such production facility were approximately HK\$411,000, HK\$424,000 and HK\$138,000, respectively.

BUSINESS STRATEGIES AND FUTURE PLANS

Our goal is to strengthen our position as a premium slewing ring manufacturer, and to leverage on our competitive advantages to expand the scale of our operation and increase our profit margin. In addition, we plan to embrace 4th Industrial Revolution (Industry 4.0) and shift towards high-technology means of production mainly driven by our desire to switch to a more interconnected, efficient and flexible business model which will increase our competitiveness in this fragmented slewing rings manufacturing industry by (i) increasing our efficiency and productivity; (ii) raising the quality of our products; and (iii) reducing our costs of production and our reliance on manpower. Our executive Directors are of the view that these future plans would accelerate the development of our Group's business and are strategically critical to the long-term growth of our Group.

We plan to achieve these goals by (i) acquiring and replacing machineries and equipment with an aim to enhance and expand our production capacity at our production facilities in Dongguan, the PRC; (ii) enlarging our market share and strengthening our marketing efforts; (iii) increasing our level of automation; (iv) establishing our enterprise resource planning (ERP) system; (v) expanding our finance department; and (vi) enhancing staff training. For further details, please refer to the sections headed "Business — Business strategies and future plans" and "Future Plans and Use of Proceeds" of this prospectus.

REASONS FOR THE SHARE OFFER

Our Directors believe that the Listing is beneficial to our Group as the Listing could enhance our corporate image and strengthen our competitiveness and expand our market share to increase revenue and financial return to Shareholders, particularly as some of our international customers favor contracting with public companies. Following the Listing, our access to capital markets will also bring about additional avenues for future fundraising such as by equity financing, a simpler and quicker fundraising method that would allow our Group to react promptly to changing market conditions and business opportunities. Furthermore, our Share Option Scheme would become effective upon Listing,

SUMMARY

which would directly assist in strengthening staff morale, improve our ability to retain personnel and attract talents to join our Group. Lastly, the Listing would allow our Company to diversify the risk of ownership by having a broader Shareholder base, which means our Company would be more accountable to our investors and allow for greater democracy and flexibility in making corporate decisions.

For further details, please refer to the section headed “Future Plans and Use of Proceeds — Reasons for the Share Offer and Use of Proceeds” of this prospectus.

CUSTOMERS AND SUPPLIERS

During the Track Record Period, our customers mainly consists of (i) general wholesale traders and distributors, and (ii) leading Japanese manufacturers or their affiliates. The revenue contribution during FY2017, FY2018 and 4M2019 from sales to (i) wholesale traders and distributors were approximately HK\$41.3 million, HK\$44.9 million and HK\$16.9 million, representing 93.8%, 97.0% and 97.5%, of our total revenue of the corresponding year/period; and (ii) manufacturers were approximately HK\$2.7 million, HK\$1.4 million and HK\$0.4 million, representing 6.2%, 2.9% and 2.5%, of our total revenue of the corresponding year/period. Sales to wholesale traders and distributors slightly increased due to the combined effect of several factors, which included the increase in sales to two new customers. Our revenue from sales to wholesale traders and distributors increased by approximately HK\$4.1 million, or 32.0%, from approximately HK\$12.8 million for 4M2018 to approximately HK\$16.9 million for 4M2019. The increase was mainly the combined effect of several factors, which included the increase in sales to several customers. On the other hand, the revenue contribution from manufacturers for FY2018 decreased by 49.2% when compared to FY2017, mainly due to the decrease in purchase orders received from a manufacturer in the PRC. For 4M2018 and 4M2019, sales to manufacturers decreased from approximately 4.5% to approximately 2.5% of the total revenue, respectively, mainly due to the decrease in sales to a customer in the PRC which underwent internal reorganisation in FY2018. For the Track Record Period, sales to our top five customers accounted for approximately 52.1%, 65.9% and 78.0% of our revenue, respectively. In the corresponding years, sales to our largest customer accounted for approximately 24.9%, 20.4% and 33.0% of our revenue, respectively. To the best knowledge, information and belief of our Directors having made all reasonable enquiries, all of our top five customers during the Track Record Period are Independent Third Parties, and none of our Directors, their close associates or any existing Shareholder, who or which, to the best knowledge of our Directors’ knowledge, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in any of our top five customers during the Track Record Period. For further details about our customers, please refer to the section headed “Business — Customers” of this prospectus.

The principal raw materials that we use for the manufacturing of slewing rings include forged rings, steel balls and spacers. Our suppliers of raw materials are located in the PRC and Hong Kong. We had two suppliers or customers with overlapping sales and purchases transactions during the Track Record Period because (i) we needed to purchase sample slewing rings from them in order to fulfil a requested purchase order of a specific model of slewing rings, and (ii) we purchased from a supplier to provide sourcing services for other customers. During the Track Record Period, our purchases from our five largest suppliers represented approximately 83.8%, 85.9% and 83.0% of our total purchase, respectively, and purchases from our single largest supplier accounted for approximately 29.8%, 30.2% and 41.7%, respectively, of our total purchase in the corresponding years. To the best of our Directors’ knowledge, all of our top five suppliers during the Track Record Period are Independent Third Parties and none of our Directors, their close associates or any existing Shareholder, who or which, to the best knowledge of our Directors’ knowledge, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in any of our top five suppliers during the Track Record Period. For further details about our customers and overlapping sales and purchases, please refer to the sections headed “Business — Customers” and “Business — Overlapping sales and purchases transactions with our top-ten supplier and top-ten customer” of this prospectus.

MARKET AND COMPETITION

According to the Industry Report, the market of the manufacturing and sales of slewing rings in China is fragmented, with the top three manufacturers together accounted for approximately 30.6% of the market in 2018. Our Company is a medium sized player in the market. In addition to the competition in China, our Group also faces potential competition from non-PRC players in the overseas markets,

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especially in the developed regions such as Japan and Europe, where local manufacturers have more experience and are more acquainted with the needs of the local markets, and have established business connections. The major entry barriers of the PRC's slewing ring market include (i) the possession of relatively more advanced and profession equipment and technology; (ii) the ability to have strong capital strength; (iii) the ability to retain good relationships with its customers; and (iv) the ability to establish its own brand name.

Supported by China's strategy in revitalising the manufacturing industry, it is expected that there will be a growing demand for the products in the slewing ring industry. Our Directors believe that we are able to compete on the basis of our stringent quality assurance control and in-depth industry understanding. In order to compete effectively against the overseas manufacturers in the overseas market, our Directors will ensure that our Group's products are competitively priced in a bid to attract customers from the overseas. For details of our competitive strengths, please refer to the paragraph headed "Competitive strengths" in this section. Further, we have plans to enhance and expand our production capacity and to upgrade our production machineries. We also endeavour to embrace smart manufacturing and higher level of automation with the application of Industry 4.0. For further details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

- We have an international customer base and are able to produce slewing rings adopting both applicable national JB or JB/T standards and JIS per customers' requests
- We have a strong focus on stringent quality assurance
- We have an experienced and capable management team

KEY OPERATIONAL AND FINANCIAL DATA

Highlights of consolidated statements of comprehensive income

	FY2017	FY2018	4M2018	4M2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Revenue	43,972	46,267	13,422	17,331
Gross profit	18,520	21,708	5,046	8,445
Profit before taxation	14,695	12,467	3,399	252
Profit/(loss) for the year/period	12,463	9,735	2,801	(664)
Total comprehensive income/(loss) for the year/ period	<u>14,369</u>	<u>8,080</u>	<u>3,828</u>	<u>(15)</u>

Non-HKFRS measures

We recognised non-recurring items during the Track Record Period. To supplement our consolidated financial statements which are prepared in accordance with HKFRS, we also present the adjusted profits as non-HKFRS measures.

We present these additional financial measures as they were used by our management to evaluate our financial performance by eliminating the impact of listing expenses. As listing expenses are non-recurring in nature, listing expenses are not indicative for evaluating the actual performance of our business. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

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The following table sets forth the reconciliation between the profit/(loss) for the year/period and the adjusted profit for the year/period indicated:

	FY2017 <i>HK\$'000</i>	FY2018 <i>HK\$'000</i>	4M2018 <i>HK\$'000</i> <i>(unaudited)</i>	4M2019 <i>HK\$'000</i>
Profit/(loss) for the year/period	12,463	9,735	2,801	(664)
Add: Non-recurring items				
— Listing expenses	<u>75</u>	<u>4,681</u>	<u>—</u>	<u>5,875</u>
Adjusted profit for the year/period (<i>Note</i>)	<u><u>12,538</u></u>	<u><u>14,416</u></u>	<u><u>2,801</u></u>	<u><u>5,211</u></u>

Note: Adjusted profit for the year/period refers to profit/(loss) for the year/period excluding non-recurring listing expenses. This non-HKFRS financial data is a supplemental financial measure that is not required by, or presented in accordance with, the HKFRS and is therefore referred to as a “non-HKFRS” financial measure. It is not a measurement of our financial performance under the HKFRS and should not be considered as an alternative measure to profit from operations or any other performance measures derived in accordance with the HKFRS, or as an alternative measure to cash flows from operating activities or as a measure of our liquidity.

The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
					<i>(unaudited)</i>			
Singapore	17,575	40.0	24,082	52.1	6,691	49.9	9,953	57.4
Hong Kong	7,232	16.4	6,445	13.9	2,553	19.0	789	4.6
Malaysia	1,536	3.5	5,603	12.1	1,902	14.2	3,567	20.6
the PRC	4,850	11.0	3,153	6.8	739	5.5	958	5.5
Northern Ireland	772	1.8	2,350	5.1	686	5.1	—	—
the United States	3,846	8.7	1,312	2.8	—	—	744	4.3
Japan	2,976	6.8	961	2.1	178	1.3	409	2.4
Thailand	2,533	5.8	734	1.6	23	0.2	—	—
Others (<i>Note</i>)	<u>2,652</u>	<u>6.0</u>	<u>1,627</u>	<u>3.5</u>	<u>650</u>	<u>4.8</u>	<u>911</u>	<u>5.2</u>
	<u><u>43,972</u></u>	<u><u>100.0</u></u>	<u><u>46,267</u></u>	<u><u>100.0</u></u>	<u><u>13,422</u></u>	<u><u>100.0</u></u>	<u><u>17,331</u></u>	<u><u>100.0</u></u>

Note: Others include Taiwan, Canada, Turkey, the Philippines and New Zealand.

Local (<i>Note</i>)	12,082	27.5	9,598	20.7	3,292	24.5	1,747	10.2
Overseas	<u>31,890</u>	<u>72.5</u>	<u>36,669</u>	<u>79.3</u>	<u>10,130</u>	<u>75.5</u>	<u>15,584</u>	<u>89.8</u>
	<u><u>43,972</u></u>	<u><u>100.0</u></u>	<u><u>46,267</u></u>	<u><u>100.0</u></u>	<u><u>13,422</u></u>	<u><u>100.0</u></u>	<u><u>17,331</u></u>	<u><u>100.0</u></u>

Note: Local includes the PRC and Hong Kong.

Our Group’s revenue increased by approximately HK\$2.3 million, or 5.2%, from approximately HK\$44.0 million for FY2017 to approximately HK\$46.3 million for FY2018. The increase in revenue was mainly contributed by the increase in our sales of ODM slewing rings, which increased by approximately HK\$3.5 million, or 12.7%, from approximately HK\$27.6 million for FY2017 to approximately HK\$31.1 million for FY2018. Our Group’s revenue increased by approximately HK\$3.9 million, or 29.1%, from approximately HK\$13.4 million for 4M2018 to approximately HK\$17.3 million for 4M2019, mainly as a result of the increase in our sales of ODM slewing rings, which increased by approximately HK\$6.2 million, or 88.6%, from approximately HK\$7.0 million for 4M2018 to approximately HK\$13.2 million for 4M2019.

Contribution by customers in Singapore increased by approximately HK\$6.5 million, or 36.9%, from approximately HK\$17.6 million for FY2017 to approximately HK\$24.1 million for FY2018 mainly due to the increase in sales to Customer F, a new customer since second half of FY2017, from

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approximately HK\$1.5 million for FY2017 to approximately HK\$5.8 million for FY2018. Contribution by customers in Singapore increased by approximately HK\$3.3 million, or 49.3%, from approximately HK\$6.7 million for 4M2018 to approximately HK\$10.0 million for 4M2019. This was mainly due to the increase in sales to Customer A from approximately HK\$1.6 million for 4M2018 to approximately HK\$5.7 million for 4M2019. Revenue was recognised upon the delivery of finished goods to Customer A for its purchase orders placed in late 2018.

During the Track Record Period, contribution by customers in the United States decreased by approximately HK\$2.5 million, or 65.8%, from approximately HK\$3.8 million for FY2017 to approximately HK\$1.3 million for FY2018. The decrease was mainly due to the decrease in purchase order from a customer in the United States, which may be caused by the change in its operation model of a customer where a smaller warehouse was maintained by this customer. Contribution by customers in the United States increased by approximately HK\$0.7 million, from nil for 4M2018 to approximately HK\$0.7 million for 4M2019, mainly due to the sales of ODM slewing rings to Customer B. No sales to customer B was recorded in 4M2018. For further details on revenue by geographical location, please refer to the section headed “Financial Information — Description of selected items in consolidated statements of comprehensive income — Revenue” of this prospectus.

Our cost of sales primarily consist of cost of inventories and consumables, depreciation on plant and machinery, overhead and direct labour costs relating to our production. The following table sets forth a breakdown of our cost of inventories and consumables during the Track Record Period:

	FY2017 <i>HK\$'000</i>	FY2018 <i>HK\$'000</i>	4M2018 <i>HK\$'000</i> <i>(unaudited)</i>	4M2019 <i>HK\$'000</i>
Cost of slewing rings				
Raw materials and consumables used	9,900	18,120	8,214	6,449
Change in work-in-progress	667	(2,379)	(1,871)	333
Change in finished goods	<u>2,322</u>	<u>(3,739)</u>	<u>(1,421)</u>	<u>(891)</u>
	12,889	12,002	4,922	5,891
Cost of other machinery parts	<u>5,999</u>	<u>3,884</u>	<u>1,089</u>	<u>295</u>
	<u><u>18,888</u></u>	<u><u>15,886</u></u>	<u><u>6,011</u></u>	<u><u>6,186</u></u>

Highlights of consolidated statements of financial positions

	FY2017 <i>HK\$'000</i>	FY2018 <i>HK\$'000</i>	4M2019 <i>HK\$'000</i>
Non-current assets	12,025	9,357	8,828
Current assets	51,300	40,166	44,586
Current liabilities	(9,837)	(7,333)	(11,129)
Net current assets	41,463	32,833	33,457
Net assets	<u><u>50,995</u></u>	<u><u>39,615</u></u>	<u><u>39,600</u></u>

The decrease of approximately HK\$11.4 million in net assets of our Group from FY2017 to FY2018 was mainly due to the decrease in cash and cash equivalents by approximately HK\$10.5 million, or 61.4%, from approximately HK\$17.1 million as at 31 December 2017 to approximately HK\$6.6 million as at 31 December 2018, which was mainly due to the payments of dividends during FY2018. Between FY2018 and 4M2019, the decrease of approximately HK\$0.02 million in net assets of our Group is mainly due to the (1) decrease of non-current assets by HK\$0.5 million; (2) increase of current liabilities by HK\$3.8 million; which is offset by (3) the increase of current assets by HK\$4.4 million. For further details, please refer to the section head “Financial Information — Net current assets” of this prospectus.

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Highlights of consolidated statement of cash flows

	FY2017 <i>HK\$'000</i>	FY2018 <i>HK\$'000</i>	4M2018 <i>HK\$'000</i> <i>(unaudited)</i>	4M2019 <i>HK\$'000</i>
Operating cash flows before changes in working capital	17,688	15,453	4,153	1,044
Net cash generated from/(used in) operating activities	13,020	9,014	6,483	(1,041)
Net cash used in investing activities	(450)	(485)	(238)	(21)
Net cash used in financing activities	(13,499)	(19,179)	(5,765)	(1,162)
Cash and cash equivalents at beginning of the year/period	18,198	17,104	17,104	6,562
Cash and cash equivalents at end of the year/period	<u>17,104</u>	<u>6,562</u>	<u>17,490</u>	<u>4,312</u>

The decrease in operating cash flows before changes in working capital was mainly attributable to the listing expenses of approximately HK\$4.7 million incurred during FY2018. The decrease in operating cash flows before changes in working capital was mainly attributable to the listing expenses of approximately HK\$5.9 million incurred during 4M2019. During 4M2019, our Group recorded net operating cash outflow in the amount of approximately HK\$1.0 million, which was mainly due to factors such as the listing expenses of HK\$5.9 million that we incurred during 4M2019, and the increase in our trade receivables of approximately HK\$4.4 million as we recorded higher sales in the last month of 4M2019 when compared to that of FY2018 and there were more balances which were not yet due as at 30 April 2019. For further details please refer to the section headed “Financial Information — Analysis of major components of the consolidated balance sheets — Trade receivables — Ageing analysis on trade receivables” of this prospectus. To manage liquidity risk, it is our Group’s liquidity policy to (i) regularly monitor current and expected liquidity requirements to ensure that we maintain sufficient reserves of cash to meet the working capital, financial and liquidity requirements in the short- and long-term; (ii) tighten cost controls over administrative expenses to continue improving liquidity and cash flow position; and (iii) actively following up with trade receivables to expedite collection. For further details, please refer to the liquidity policy under the section headed “Financial Information — Liquidity and capital resources” of this prospectus.

Our cash and cash equivalents decreased by approximately HK\$10.5 million, or 61.4%, from approximately HK\$17.1 million as at 31 December 2017 to approximately HK\$6.6 million as at 31 December 2018 mainly due to the payments of dividends during FY2018. Our cash and cash equivalents decreased by approximately HK\$2.3 million, or 34.8%, from approximately HK\$6.6 million as at 31 December 2018 to approximately HK\$4.3 million as at 30 April 2019. This was mainly due to (a) an increase of approximately HK\$4.4 million in trade receivables; and (b) an increase of approximately HK\$1.3 million in trade payables. For further details about the cash flows, please refer to the section headed “Financial Information — Liquidity and capital resources” of this prospectus.

KEY FINANCIAL RATIOS

The table below sets forth our key financial ratios of our Group for each of the periods indicated:

	FY2017	FY2018	4M2019
Gross profit margin (<i>Note 1</i>)	42.1%	46.9%	48.7%
Net profit margin (<i>Note 2</i>)	28.3%	21.0%	(3.8)%
Adjusted profit margin (<i>Note 3</i>)	28.5%	31.2%	30.1%
Return on total assets (<i>Note 4</i>)	19.7%	19.7%	N/A% ^(Note 9)
Return on equity ratio (<i>Note 5</i>)	24.4%	24.6%	N/A% ^(Note 9)

SUMMARY

The table below sets forth our key financial ratios of our Group as at the dates indicated:

	As at 31 December 2017	As at 31 December 2018	As at 30 April 2019
Current ratio (<i>Note 6</i>)	5.2 times	5.5 times	4.0 times
Quick ratio (<i>Note 7</i>)	3.1 times	1.7 times	1.6 times
Gearing ratio (<i>Note 8</i>)	—	—	—

Notes:

1. The gross profit margin is calculated by dividing the gross profit by the revenue for the respective year multiplied by 100%.
2. The net profit margin is calculated by dividing the net profit by the revenue for the respective year multiplied by 100%.
3. Adjusted profit margin equals adjusted profit for the year/period divided by revenue for the year/period. Please refer to the paragraph headed “Non-HKFRS measures” in this section for details of adjusted net profit.
4. The return on total assets is calculated by the net profit for the year divided by the total assets as at the end of the respective year multiplied by 100%.
5. The return on equity is calculated by the net profit for the year divided by the total equity as at the end of the respective year multiplied by 100%.
6. The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective year.
7. The quick ratio is calculated by dividing current assets (excluding inventory) with current liabilities as at the end of the respective year.
8. Gearing ratio is calculated by dividing net debts (being the total interest-bearing loans including banks and other borrowings less cash and cash equivalents) by total equity as at the respective end of the year.
9. Such ratios for 4M2019 do not reflect a full year of results of operation.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), 75% of the issued share capital of our Company will be owned by C Centrum, which is a company wholly-owned by Mr. YP Chan. In this regard, Mr. YP Chan, together with C Centrum, are our Controlling Shareholders within the meaning of the GEM Listing Rules. For the background of Mr. YP Chan, please refer to section headed “Directors and Senior Management” of this prospectus.

For further details about our Group’s relationship with our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders — Our Controlling Shareholders” of this prospectus.

DIVIDEND

During the Track Record Period, dividend of approximately HK\$19.5 million were declared for FY2018. HK\$7.0 million of such dividend was settled during FY2018 and approximately HK\$12.5 million was offset against the amount due from a shareholder which did not result in any cash outflow. Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by our Company following the Listing. Future dividend payments will also depend upon the availability of dividends we will receive from our subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

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Our Board has absolute discretion in determining whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. We currently do not have a fixed dividend payout ratio.

LEGAL COMPLIANCE

Our Directors confirmed that we have complied with all applicable laws and regulations in relation to our business in all material respects during the Track Record Period and up to the Latest Practicable Date.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Due to the ongoing trade war between the U.S. and the PRC, the U.S. has imposed additional tariff on a range of products imported into the U.S. from the PRC which included slewing rings. The tariff rate of slewing rings produced in the PRC has further risen to 25% in July 2018. In August 2019, the U.S. announced the process of increasing the tariff rate from 25% to 30% on existing duties on USD250 billion worth of PRC's imports including slewing rings, which was expected to be effective from 1 October 2019 according to the United States Trade Representative. However, in September 2019, the U.S. announced to postpone the effective date of the increasing tariff rate on existing duties to 15 October 2019. Then on 12 October 2019, the U.S. and PRC reached a tentative agreement for the trade deal. The U.S. agreed to suspend the tariff hike scheduled for 15 October 2019. Nevertheless, despite the increase in the tariff rate, our Directors consider that there will be no material adverse effect on the results of our Group. This is primarily due to the fact that our sales to the direct customers in the U.S. during the Track Record Period only accounted for approximately HK\$3.8 million, HK\$1.3 million and HK\$0.7 million in FY2017, FY2018 and 4M2019, respectively, representing only about 8.7%, 2.8% and 4.3% of our total revenue during such financial years/period. As further set forth in the section headed "Financial Information — Description of selected items in consolidated statements of comprehensive income — Revenue — Revenue by geographical location — The United States" of this prospectus, the decrease in revenue contribution by customers in the U.S. from approximately HK\$3.8 million for FY2017 to approximately HK\$1.3 million for FY2018 was mainly due to the decrease in purchase order from a customer in the U.S., which may be caused by its change in warehouse. Further, we maintained business relationship with and received purchase orders from these customers even after the imposition of the increased tariff rate. Second, as confirmed by F&S, even if the scheduled imposition of a higher tariff rate would be applied, the slewing rings produced in the PRC are still cheaper when compared with the same products produced in other countries such as Japan and Germany. After the Track Record Period, we have recorded sales to the U.S. of approximately HK\$1.6 million.

The abovementioned situation applies to the indirect sales of our Group as well. Firstly, to the best knowledge of our Directors, even though we have no control over our wholesale traders and distributors customers as to where they re-sell our slewing rings, by virtue of the specifications of some of the slewing rings purchased by them, our slewing rings might be resold to various countries but not only the United States where the higher tariff imposed by the U.S. was inapplicable. Secondly, in connection with the slewing rings exported to the U.S., as confirmed by F&S, even after the imposition of a higher tariff rate, slewing rings produced in the PRC are still cheaper when compared with the same products produced in other countries such as Japan and Germany. In fact, after the U.S. imposed a higher tariff on slewing rings produced in the PRC in July 2018, the quantities of products ordered by our major wholesale traders and distributors customers during the first half of 2019 has gone up as compared to the first half of 2018.

Based on the unaudited consolidated management accounts of our Group for the eight months ended 31 August 2019, our revenue for such period was higher than that for the corresponding period in 2018. The increase was principally attributable to the increase in number of slewing rings delivered to our customers in January and February 2019, the increase in sales of OBM products and the increase in unit selling prices of our slewing rings as compared to corresponding period in 2018.

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To the best knowledge of our Directors, since 30 April 2019 and up to the date of this prospectus (being 31 October 2019), there were no material change to the overall economic and market conditions in China or in the market conditions in the industries where we operate, which had affected or would affect our business, results of operations or financial condition materially and adversely.

Our Directors confirm that, save for the listing expense, as far as they are aware, there had been no material adverse change in our financial or trading position or prospects since 30 April 2019.

LISTING EXPENSES

Our listing expenses mainly consist of the aggregate underwriting commissions and fees paid to the Sole Sponsor and other professional fees, and printing and other expenses relating to the Listing and the Share Offer. Assuming a Share Offer of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share), listing expenses which are payable by us are estimated to be approximately HK\$24.0 million in aggregate. We incurred approximately HK\$14.2 million of listing expenses during the Track Record Period, of which HK\$3.6 million was recorded as prepayments and HK\$10.6 million was charged as expenses to our consolidated statements of comprehensive income. Prior to the Listing, we expect to further charge HK\$5.1 million of estimated listing expenses to our consolidated statements of comprehensive income and to record HK\$4.7 million of the estimated listing expenses as prepayment. We expect that HK\$8.3 million will be accounted for as a deduction from equity following the Listing under the relevant accounting standards. The listing expenses are subject to adjustment based on the actual amount incurred or to be incurred.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer), assuming an Offer Price of HK\$0.55, (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share), will be approximately HK\$31.0 million (equivalent to approximately RMB26.7 million). We currently intend to apply the net proceeds in the following manner:

- (i) approximately HK\$18.8 million (equivalent to approximately RMB16.2 million) or approximately 60.6% of the net proceeds will be used to enhance and expand our production capability;
- (ii) approximately HK\$4.5 million (equivalent to approximately RMB3.9 million) or approximately 14.6% of the net proceeds will be used to enlarge our market share and strengthen our marketing efforts;
- (iii) approximately HK\$2.4 million (equivalent to approximately RMB2.1 million) or approximately 7.6% of the net proceeds will be used to increase our level of automation;
- (iv) approximately HK\$1.9 million (equivalent to approximately RMB1.6 million) or approximately 6.0% of the net proceeds will be used to establish our ERP system;
- (v) approximately HK\$1.5 million (equivalent to approximately RMB1.3 million) or approximately 5.0% of the net proceeds will be used to expand our finance department;
- (vi) approximately HK\$0.3 million (equivalent to approximately RMB0.2 million) or approximately 0.8% of the net proceeds will be used to enhance staff training; and
- (vii) approximately HK\$1.6 million (equivalent to approximately RMB1.4 million) or approximately 5.4% of the net proceeds will be used as general working capital of our Group.

For further details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

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RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business and our industry; (ii) risks relating to the People's Republic of China; and (iii) risks relating to the Share Offer. Among these, certain significant risk factors that you should consider may include:

- Our profitability may be adversely affected by the fluctuations of raw material prices.
- Our five largest customers accounted for an aggregate of 52.1%, 65.9% and 78.0% of our revenue for FY2017, FY2018 and 4M2019, respectively, and if there is any decrease in our business or if we fail to maintain our relationship with them or any of them or other key customers, this could adversely affect our business, results of operations, financial condition and prospects.
- Our customers make purchases from us on an order-by-order basis and there is no certainty on the purchase amount and our revenue.
- The sales and profitability of our products are dependent on our customers' business performance.
- Our marketing plan and sales efforts may not be successful and in such event, we may be unable to recoup our marketing costs and increased staff costs.
- Our purchase of new machineries will result in increased depreciation expenses.
- Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations, profitability and prospects.

Share Offer Statistics

	Based on the Offer Price of HK\$0.50 per Offer Share	Based on the Offer Price of HK\$0.60 per Offer Share
Market capitalisation (<i>Note 1</i>)	HK\$200 million	HK\$240 million
Unaudited pro forma adjusted net tangible assets per Share (<i>Note 2</i>)	HK\$0.19	HK\$0.21

Notes:

1. The calculation of market capitalisation of the Shares is based on the indicative Offer Price range from HK\$0.50 to HK\$0.60 per Offer Share and a total of 400,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the general mandate for the allotment and issue or repurchase of Shares referred to in the section headed "Statutory and General Information" in Appendix IV to this prospectus.
2. For calculation of the unaudited pro forma adjusted net tangible asset value per Share, please refer to the section headed "Unaudited Pro Forma Financial Information" included as Appendix II to this prospectus.

DEFINITIONS

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

“4M2018”	the four months ended 30 April 2018
“4M2019”	the four months ended 30 April 2019
“Accountant’s Report”	the accountant’s report of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN Application Form(s) or, where the context so requires, any of them, which is used in relation to the Public Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on 21 October 2019 to become effective upon the Listing Date, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Best Linking”	Best Linking Limited (永聯豐有限公司), a company incorporated in Hong Kong on 15 September 2010 and an indirect wholly-owned subsidiary of our Company after the completion of the Reorganisation
“Best Linking Holdings”	Best Linking Holdings Limited, a company incorporated in the BVI with limited liability on 14 September 2018 and is wholly-owned by our Company
“Board”	our board of Directors
“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licenced banks in Hong Kong are generally open for normal business to the public
“BVI”	the British Virgin Islands
“C Centrum”	C Centrum Holdings Limited, a company incorporated in the BVI with limited liability on 14 September 2018 and is wholly-owned by Mr. YP Chan, and a Controlling Shareholder
“Capitalisation Issue”	the issue of 299,999,900 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 21 October 2019” in Appendix IV to this prospectus

DEFINITIONS

“Cayman Islands Company Law” or “Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961) of the Cayman Islands as consolidated or revised from time to time
“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 Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and administrative requirement relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Co-lead Managers”	collectively, Lego Securities Limited, LY Capital Limited, Merdeka Capital Limited and Upmax Securities Limited
“Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice”	the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Registry”	the Companies Registry of Hong Kong
“Companies (Winding Up and Miscellaneous Provisions) Ordinance” or “C (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company” or “our Company”	Best Linking Group Holdings Limited (永聯豐集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability under the Cayman Islands Company Law on 26 October 2018
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, in the context of this prospectus, means the controlling shareholders of our Company, namely, Mr. YP Chan and C Centrum
“connected transaction”	has the meaning ascribed to it under the GEM Listing Rules
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 21 October 2019 and executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) containing the indemnities more particularly referred to in “Statutory and General Information — Other information — 14. Tax and other indemnities” in Appendix IV to this prospectus
“Director(s)”	director(s) of our Company
“EIT Law”	the Enterprise Income Tax Law of the PRC (中國企業所得稅法)
“electronic application instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares
“Estate Duty Ordinance”	the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Extreme Conditions”	extreme conditions including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons as announced by the government of Hong Kong
“EXW” or “Ex works”	EX works, means the seller delivers when he places the goods at the disposal of the buyer at the seller’s premises or another named place not cleared for export and not loaded on any collecting vehicle

DEFINITIONS

“F&S”	Frost & Sullivan International Limited, a market research company and an Independent Third Party
“FOB”	free on board, means the seller delivers when the goods pass the ship’s rail at the named port of shipment
“FY”	the financial year ended or ending 31 December
“GDP”	gross domestic product
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “our Group”, “we”, “us” or “our”	our Company and its subsidiaries or any of them, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries such subsidiaries as if they were subsidiaries of our Company at the relevant time
“ HK eIPO White Form ”	the application of the Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk or the Tricor IPO App
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk or the Tricor IPO App
“HKFRSs”	Hong Kong Financial Reporting Standards (including Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office of our Company
“Independent Third Party(ies)”	a person(s) or company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any of the directors, chief executive or substantial shareholders of our Company or its subsidiaries or any of their respective associates
“Industry Report”	the industry report prepared by F&S, which was commissioned by us in relation to the slewing rings market in PRC
“Kyoei Seiki”	Kyoei Seiki Co., Limited* (東莞共榮精密機械有限公司), a company established in PRC on 5 September 2007 and an indirect wholly-owned subsidiary of our Company after the completion of the Reorganisation
“Kyoei Seiki Holdings”	Kyoei Seiki Holdings Limited, a company incorporated in the BVI with limited liability on 14 September 2018 and is wholly-owned by our Company
“Latest Practicable Date”	21 October 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date, expected to be on or about Friday, 15 November 2019, on which the Shares are listed on GEM and from which date dealings in the Shares are permitted to commence on GEM
“LY Capital” or “Sole Sponsor”	LY Capital Limited, a licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Main Board”	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM
“medium sized player”	according to the Industry Report, it means slewing ring manufacturers in the PRC with an annual revenue between RMB10 million to RMB100 million
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted on 21 October 2019 and as supplemented, amended or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus

DEFINITIONS

“MIIT”	the Ministry of Industry and Information Technology of the PRC
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部)
“Mr. HT Chen”	Mr. Chen Hsu Ting (陳旭汀先生), legal owner of all of the shareholding interest in Best Linking before the Reorganisation holding for and on behalf of Mr. YP Chan. Mr. HT Chen is the brother of Mr. LP Chan and Mr. YP Chan
“Mr. LP Chan”	Mr. Chan Lung Pan (陳龍彬先生), an executive Director. He is the brother of Mr. HT Chen and Mr. YP Chan
“Mr. YP Chan”	Mr. Chan Yuk Pan (陳煜彬先生), an executive Director and one of our Controlling Shareholders. He is the brother of Mr. LP Chan and Mr. HT Chen
“NDRC”	the National Development and Reform Commission of PRC (中國國家發展和改革委員會)
“Offer Price”	the offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.60 per Offer Share and expected to be not less than HK\$0.50 per Offer Share, such price to be agreed upon by our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on the Price Determination Date
“Offer Shares”	collectively, the Placing Shares and Public Offer Shares
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price with professional, institutional and other investors, as described in “Structure and Conditions of the Share Offer”
“Placing Shares”	the 90,000,000 new Shares (subject to reallocation) initially offered by our Company for subscription at the Offer Price under the Placing, as described in “Structure and Conditions of the Share Offer”
“Placing Underwriters”	the underwriters of the Placing Shares who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares

DEFINITIONS

“Placing Underwriting Agreement”	the conditional placing underwriting agreement relating to the Placing expected to be entered into by our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Placing Underwriters on or about the Price Determination Date
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“PRC government” or “Chinese government”	the central government of the PRC, including all governmental subdivisions (including provisional, municipal and other regional or local government entities)
“PRC Legal Advisers”	Allbright Law Offices (Shenzhen), the legal advisers of our Company as to PRC law
“Price Determination Date”	the date on which the Offer Price is to be determined, which is expected to be on or about Wednesday, 6 November 2019 and in any event no later than Thursday, 7 November 2019
“Public Offer”	the offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions stated in this prospectus and in the Application Forms, as further described in “Structure and Conditions of the Share Offer”
“Public Offer Shares”	the 10,000,000 new Shares (subject to reallocation) initially offered by our Company for subscription at the Offer Price under the Public Offer, as described in “Structure and Conditions of the Share Offer”
“Public Offer Underwriters”	the underwriters of the Public Offer Shares whose names are set out in “Underwriting — Public Offer Underwriters”
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 30 October 2019 relating to the Public Offer entered into by our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Public Offer Underwriters, details of which are set out in “Underwriting”
“Q”	calendar quarter, and Q1, Q2, Q3 and Q4 shall mean the first calendar quarter, the second calendar quarter, the third calendar quarter and the fourth calendar quarter, respectively

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“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in “History, Reorganisation and Group Structure”
“SAC”	the Standardisation Administration of the PRC (中國國家標準化管理委員會)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAT”	the State Administration of Taxation of the PRC (中國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in Hong Kong dollars and listed on GEM
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 21 October 2019, a summary of its principal terms is set out in the paragraph headed “Statutory and General Information — Share Option Scheme — 13. Share Option Scheme” in Appendix IV to this prospectus
“Sole Bookrunner” or “Sole Lead Manager”	President Securities (Hong Kong) Limited, a licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“State Council”	the State Council of the PRC (中國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber Share”	has the meaning ascribed to it in “History, Reorganisation and Group Structure — Corporate history — Our Company”
“subsidiary” or “subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules unless the context otherwise requires

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“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and details of our Substantial Shareholders are set out in the section headed “Substantial Shareholders” of this prospectus
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two financial years ended 31 December 2018 and four months ended 30 April 2019
“Tricor IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ Tricor IPO APP ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters, details of which are set out in the section headed “Underwriting” of this prospectus
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“Wing Fung”	Wing Fung Machinery Company Limited (榮豐機械有限公司), a company incorporated in Hong Kong on 10 November 2005 and an indirect wholly-owned subsidiary of our Company after the completion of the Reorganisation
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“HK\$” or “HKD” or “Hong Kong dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“sq.ft.”	square feet

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“sq.m.” or “m ² ”	square meter(s)
“US\$” or “U.S. dollar(s)” or “USD”	United States dollars, the lawful currency of the United States
“%”	per cent

All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.

In this prospectus, unless otherwise specified, amounts denominated in Renminbi, U.S. dollars and Japanese Yen have been translated, for the purpose of illustration only, into Hong Kong dollars at an exchange rate of RMB1.00 = HK\$1.15 for the year ended 31 December 2017, RMB1.00 = HK\$1.19 for the year ended 31 December 2018, RMB1.00 = HK\$1.16 for the period commencing on 1 January 2019 and up to the Latest Practicable Date, and US\$1.00 = HK\$7.79, JPY1.00 = HK\$0.07 for the year ended 31 December 2017, US\$1.00 = HK\$7.84, JPY1.00 = HK\$0.07 for the year ended 31 December 2018, US\$1.00 = HK\$7.85, JPY1.00 = HK\$0.07 for the period commencing from 1 January 2019 and up to the Latest Practicable Date. Such conversions shall not be construed as representations that amounts in Renminbi, Hong Kong dollars, U.S. dollars or Japanese Yen were or could have been or could be converted into Renminbi, Hong Kong dollars, U.S. dollars or Japanese Yen (as the case may be) at such rates or any other exchange rates on such date or any other date.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

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

GLOSSARY OF TECHNICAL TERMS

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

“Boring”	boring is the process of enlarging and truing of a hole that has already been drilled or cast by removing material from internal surfaces with a single-point cutter tool (or of a boring head containing several such tools), such as in boring a gun barrel or an engine cylinder
“CNC” or “computer numerical control”	the automation of machine tools (as opposed to manually controlled) that are operated by a computer “controller” that reads programmed commands and drives a machine tool
“ERP system”	enterprise resource planning system
“Forged ring”	a forged ring is a ready-made base plate that comes from a steel manufacturer. It is formed and hot-rolled into a ring shape to meet the specified dimensions for the base plate
“Forging”	forging is a manufacturing process involving the shaping of metal using localised compressive forces. The pounding action of forging deforms and shapes the metal in the form of ring through the ring rolling process
“GB” or “GB/T”	national standards of SAC which are either mandatory (which are prefixed GB) or recommended (which are prefixed GB/T) and may be identical to or modified from or not equivalent to international standards of the ISO
“Heat treatment”	a process by which a metal piece is heated to certain degree for a period of time, and then cooled at a certain rate to room temperature or even lower. Such progress will improve the mechanical properties of the metal piece, such as hardness or durability. Each of quenching and tempering is one of the heat treatment technique
“HRC”	an abbreviation for Rockwell Hardness measured on the C scale. The abbreviation usually appears after a number, e.g. HRC 22. Rockwell C Hardness is a designation of hardness, usually of steel or corrosion resistant alloys, measured by pressing a specially shaped indenter against a clean prepared surface with a specific force

GLOSSARY OF TECHNICAL TERMS

“Induction hardening”	a widely used process for the surface hardening of steel. It refers to the process by which the surface of a metal part is selectively hardened by induction heating and then quenched. The quenched metal undergoes a transformation, increasing the hardness and brittleness of the part, and yet the properties of the part as a whole is not altered
“Industry 4.0”	“Industry 4.0” the 4th Industrial Revolution, meaning the integration of manufacturing machines, robots, digital tools and computer systems, shifting to more interconnected, efficient and flexible business models, which includes a wide range of technological solutions related to big data, autonomous robots, analytics to streamline supply chain processes, cloud, additive manufacturing and internet of things (IoT), to name a few
“ISO”	the International Organisation of Standardisation, world-wide federation of rational standard bodies
“ISO 9001”	one of the management standards and guidelines of ISO which states the requirement for quality management systems and covers the following management principles — customer focus, leadership, involvement of people, process approach, system approach management, continual improvement, factual approach to decision making and mutually beneficial supplier relationship
“JB” or “JB/T”	recommended industry standards issued by the MIIT relating to machinery
“JIS”	stands for Japanese Industrial Standards. It indicates the standards used for industrial activities in Japan. Japanese Industrial Standards Committee (JISC) coordinates the standardisation process and publishes through the Japanese Standards Association (JSA)
“m”	meter
“mm”	millimeter
“OBM”	original brand manufacturing, whereby the manufacturer sells its proprietary branded products
“ODM”	original design manufacturing, whereby we provide the product designs
“OEM”	original equipment manufacturing, whereby our customer provides the product designs and specifications

GLOSSARY OF TECHNICAL TERMS

“Quenching”	a part of heat treatment that processes on the surface of the component on the slewing ring e.g. tooth, raceway, etc.. It is heated to a certain temperature and then rapidly cooled in the air to improve the hardness and strength of the metal in order to increase the life and reliability of the ring
“Tempering”	a heat treatment technique that improves the properties of metallic materials. Low temperature tempering heating temperature is about 150–250°C. The martensite produced by quenching remains unchanged, but the brittleness of the steel and the quenching stress are lowered. It is mainly used for tools, rolling bearings, carburised parts and surface hardened parts that require high hardness and high strength
“Turning”	turning is a process in which a forging ring is attached to a rotating moving part that spins it and at the same time, a cutting tool is used to trim the edge of the forging ring so as to remove the excessive materials and the rusty part of the forging ring. The forging ring is roughly turned into the designed size
“°C”	the degree Celsius (°C) can refer to a specific temperature on the Celsius scale or a unit to indicate a difference between two temperatures or an uncertainty

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that state our Company's belief, expectations, or intentions for the future. The words "aim", "anticipate", "believe", "could", "estimate", "expect", "forecast", "going forward", "intend", "ought to", "may", "plan", "potential", "project", "seek", "should", "will", "would", "wish" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements.

These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

These forward-looking statements reflect the current view of our Company with respect to future events and are, by their nature, subject to significant risks, assumptions and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our operations and business prospects, including development plans for our existing business;
- changes in policies, legislation, regulations or practices in the industry and those countries or territories in which we operate that may affect our business operations;
- our financial condition and results of operations;
- changes in economic conditions and competitions in the area in which we operate, including a downturn in general economy;
- the regulatory environment and industry outlook in general;
- future developments in the competition markets of our industry and actions of our competitors;
- catastrophic losses from fires, floods, wind; and
- other factors beyond our control and other risks and uncertainties described in "Risk Factors".

Subject to the requirements of the applicable laws, rules (including the GEM Listing Rules) and regulations, our Group does not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Group expects, or at all.

Accordingly, you should not place undue reliance on any forward-looking information or statements. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements set forth in this section.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as of the date of this prospectus. Any such intentions may potentially change in light of future developments.

RISK FACTORS

You should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in our Company before making any investment decision in relation to our Company. The business, financial position, or results of business operation of our Group can be materially and adversely affected by any of these risks. The market price of the Offer Shares could fall significantly and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our profitability may be adversely affected by the fluctuations of raw material prices

The raw materials we use in our manufacturing process are primarily forged rings, steel balls and spacers, of which forged rings accounted for most of our total purchases. For FY2017, FY2018 and 4M2019, the total purchases of forged rings accounted for approximately 82.7%, 81.5% and 77.8% of the total purchases of raw materials for the corresponding years/period, respectively. Our forged rings are primarily made from gear steel and carbon round steel. During the Track Record Period, our average purchasing price for forged rings (inclusive of VAT) was approximately RMB7,470 per tonne, RMB8,090 per tonne and RMB7,900 per tonne for FY2017, FY2018 and 4M2019, respectively. Nearly all of our raw materials are sourced from suppliers based in the PRC.

There are many factors which can cause fluctuation in the price of raw materials from time to time, in particular the economic conditions in the PRC, supply and demand of raw materials and international trade. For details of the average unit purchase price of raw materials and certain hypothetical illustrations during the Track Record Period, please refer to the section headed “Financial Information — Description of selected items in consolidated statements of comprehensive income — Cost of sales” of this prospectus. If we cannot pass the increase in the costs of raw materials to our customers, our operating margin and cash flow may be adversely affected, resulting in lower profitability.

Our five largest customers accounted for an aggregate of 52.1%, 65.9% and 78.0% of our revenue for FY2017, FY2018 and 4M2019, and if there is any decrease in our business or if we fail to maintain our relationship with them or any of them or other key customers, this could adversely affect our business, results of operations, financial condition and prospects

A significant part of our revenue is derived from a limited number of customers. For FY2017, FY2018 and 4M2019, sales to our five largest customers collectively accounted for 52.1%, 65.9% and 78.0%, respectively, of our total revenue for the respective periods. For the same periods, sales to our largest customer accounted for 24.9%, 20.4% and 33.0% respectively, of our total revenue for the respective periods.

Our current concentration on a few significant customers exposes us to the risk of substantial loss if any of our key customers, including our top five customers, were (i) to substantially reduce the volume and/or value of the orders to be placed with us or (ii) to terminate its business relationship with us entirely. It is not sure whether we will be in a position to obtain orders from other customers to replace such loss of sales, or even if we can obtain orders from other customers, they will be on commercially reasonable terms.

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Furthermore, if any of our customers fails to settle its invoices in accordance with the agreed credit terms, the working capital position of our Group may be adversely affected. Provision for bad debts or write-offs may also be required for receivables, which will have an adverse effect on our profitability. If we fail to maintain our existing customer relationship and are unable to find new orders, or if there is a change in our customers' creditworthiness, our business, results of operations, financial conditions and prospects could be materially and adversely affected.

Our customers make purchases from us on an order-by-order basis and there is no certainty on the purchase amount and our revenue

During the Track Record Period, the sales agreements we entered into with our top-five customers did not provide for minimum purchase amount. Hence there was no purchase commitment from our customers. Our customers typically placed order with us by placing individual sales orders, and on a case by case basis. There is no guarantee our major customers will continue to place orders with us as in the past or, even so, for the same volume, and/or at similar selling price or profit margin. Given there is no purchase commitment from our customers, the purchase volume or amount of customers' purchase orders we receive may fluctuate from time to time, and it will be difficult for our Group to forecast the future orders with certainty. If we cannot secure purchase orders from our customers continuously, or cannot expand our clientele or secure new customers, our revenue can be materially and adversely affected. There is also no assurance that the volume or margin of purchase orders from our customers will be in line with the expectation of our management. As such, our operation may vary from time to time and may fluctuate significantly in future.

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

We sell our products mainly to (i) wholesale traders and distributors, and (ii) leading Japanese manufacturers or their affiliates. The business performance of our customers will in turn affect their purchases from us. The business performance of our customers can be affected by a number of factors, such as changes in the economic conditions, business strategies, changes in the market demand, etc.. If the business performance of our customers deteriorates, they could reduce their purchases from us, or even terminate their business relationship with us altogether. If the situation gets worse, they can close down for business which could adversely and materially affect our business and financial condition, results of operations and prospects as not only will we lose their orders, we may have difficulty recovering our entitlement on products shipped to them.

Our marketing plan and sales efforts may not be successful and in such event, we may be unable to recoup our marketing costs and increased staff costs

In a bid to capture a larger market share in both the PRC and overseas, we intend to utilise approximately HK\$2.9 million and HK\$1.1 million from the net proceeds of the Share Offer to participate in several trade exhibitions in the PRC and other selected countries, and to hire additional marketing staff in our marketing department, respectively. Please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus for further details. We believe that such marketing plan and increase in sales force is crucial for us to continue our business growth momentum. However, we cannot guarantee that our marketing plan and sales efforts will be successful. For example, our products and marketing campaign may not be well-received by the participants in the trade exhibition, or by the

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potential customers. We may not be able to attract and secure sufficient level of business leads in order for us to recoup our significant marketing costs and increased staff costs. In such event, our results of operation, financial conditions and business prospects may be adversely affected.

Our purchase of new machineries will result in increased depreciation expenses

For FY2017, FY2018 and 4M2019, we recorded depreciation on property, plant and equipment of approximately HK\$2.9 million, HK\$2.9 million and HK\$0.7 million, respectively. We intend to invest approximately HK\$18.8 million to purchase new machineries. It is estimated that the depreciation expense in relation to the new equipment is nil and approximately HK\$1.3 million for FY2019 and FY2020, respectively. As such, it is anticipated that our depreciation expenses will increase after the Listing and may have a material adverse effect on our business, financial position and results of operations in future.

Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations, profitability and prospects

The production of slewing rings is not a fully automated but only a partially mechanised process. It requires skilled workers to operate at various stages of the production process, in particular, turning, heat treatment, gear cutting. To support our business operation, we had a total of 87 full-time employees as at the Latest Practicable Date. For FY2017, FY2018 and 4M2019, our direct labour costs accounted for approximately 10.3%, 16.3% and 16.5% of our total cost of sales, respectively. Our performance partly relies on the steady supply of labour in the PRC. There is no assurance that we can secure sufficient number of workers to meet our production needs, or that our labour costs will not increase substantially. In the event that we fail to retain existing workers, or recruit sufficient qualified workers on a timely basis at reasonable costs, or if the turnover rate of our workers is high and we do not have time to train up a sufficient number of workers in a timely manner, we may suffer material interruption to our production process. If we are unable to meet the schedule of production of our customers, or achieve our target production level, accommodate any sudden increase in the demand for our products, our business, prospects, financial condition and results of operations could be materially and adversely affected.

We face risks associated with sales of our products to the overseas market, in particular the fluctuations in the global economy may affect our ability to maintain profitability and achieve business growth

As our business relies on our sales to the overseas market, any fluctuation in the global economy, especially the economy in Singapore, Malaysia, Northern Ireland, the United States, Japan and Thailand may adversely affect our business operation and profitability. Apart from changes in international trade policies and barriers, our sales to the overseas market are generally subject to certain inherent risks, including but not limited to the changes and development in the geopolitical, regulatory and business conditions, compliance with the requirements of applicable restrictions, sanctions and related laws and regulations, political tension arising from dispute between the PRC and any countries where we sell our products to, and material foreign currency fluctuations. These uncertainties could have a material adverse effect on our business, results of operation and financial conditions, and affect our ability to remain profitable and achieve business growth.

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In particular, there is no assurance that changes in the laws, regulations, government policies or tax sell of the overseas countries on the sale of slewing rings will not affect our ability to continue to export our slewing rings to such markets, or maintain a healthy profit margin, or to effectively compete with the domestic manufacturers in such countries. Should any such event occurs, we may need to stop selling in certain markets. In the event that we fail to open up other markets, or expand our sales in the existing markets, our financial conditions and results of operations may be adversely affected.

Our Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. As at 31 December 2017 and 2018 and as at 30 April 2019, if RMB had strengthened/weakened by 5% against USD with all other variables remaining unchanged, the post-tax profit for the respective FY2017, FY2018 and 4M2019 would have been approximately HK\$105,000, HK\$33,000 and HK\$283,000 lower/higher, mainly as a result of foreign exchange loss/gain on conversion of RMB denominated on cash and cash equivalent, trade and other receivable and trade and other payables. For further details about the foreign exchange risk, please refer to the section headed “Financial Information — Qualitative and quantitative disclosure about financial risk — Foreign exchange risk” and Note 3 to the “Accountant’s Report” in Appendix I to this prospectus. The currency translation differences for FY2017, FY2018 and 4M2019 were approximately HK\$1,906,000, HK\$(1,655,000) and HK\$649,000, respectively. We have not entered into any agreement to hedge our exchange rate exposure in such regard and there is no assurance that we will be able to enter into such agreements on commercially viable terms in future. Accordingly, there can be no assurance that future exchange rate fluctuations will not adversely affect our business.

Our business and results of operations could be adversely affected by import restrictions imposed by global trade policies and trade war

We sell a substantial portion of our products to overseas customers. Sales to these overseas customers may be affected by any adverse change and development in the global trade policies and trade protection measures, such as the imposition of new trade barriers, import quotas, tariffs, sanctions, boycotts, embargo and other measures, all of which are beyond our control. In 2018, as a result of the U.S. and PRC trade war, certain products including slewing rings exported from the PRC to the U.S. have been subject to increased tariff rate. During the Track Record Period, our Group’s revenue generated from direct customers in the U.S. amounted to approximately HK\$3.8 million, HK\$1.3 million and HK\$0.7 million for FY2017, FY2018 and 4M2019, respectively, which accounted for approximately 8.7%, 2.8% and 4.3% of our Group’s total revenue for the same year/period, respectively. Given the increased tariff rate and hence increased purchase costs, our U.S. customers may decide to purchase slewing rings produced in other countries that are not subject to the increased tariff rate in the future instead of from us. In such connection, higher tariff rates may weaken the demand of our products from our customers that are wholesalers and distributors, who in turn re-sell our products to the U.S.. There has been on-going negotiations between the two countries and the situation may improve or get worse over time. If the U.S. and the PRC fail to reach a settlement agreement, or if the tension between the two countries intensifies further, the tariff rate of the slewing rings produced in the PRC can be increased further. If the trade war persists, it may adversely affect our sales to the U.S. as well as the sales of our customers which re-sell our products to the U.S., or if our Group bears a part of the whole burden of the increased tariff rate in order to make us as competitive as before, because of the increased costs, it could have a material adverse impact on the profitability of our Group in respect of our sales to the U.S..

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The delay in payments from customers may adversely affect our sufficiency of working capital to support a relatively high inventory turnover days

In our business operations, there may be time lags between making payments to our suppliers and receiving payments from our customers, resulting in mismatch of timing of settlement with suppliers and receipts of revenue from our customers. On occasion that we place orders with our suppliers to source raw materials such as forged rings, steel balls and spaces, we incur payment obligation before we utilise them for our production of slewing rings. We are in general granted with a credit period of 30 days and in some instance it can be up to 90 days, or no credit period is provided at all.

We rely on timely payment from our customers to meet our payment obligations to our suppliers, in particular when we have a high level of inventory and a long period of inventory turnover days and our production cycle takes a considerable period of time. Our inventories, which comprised raw materials, work in progress and finished goods, was approximately HK\$20.5 million as at 31 December 2017, approximately HK\$27.6 million as at 31 December 2018 and HK\$27.2 million as at 30 April 2019. Further, our inventory turnover days were 281 days for FY2017, 358 days for FY2018 and 369 days for 4M2019, respectively. For further details, please refer to the section headed “Financial Information — Analysis of major components of the consolidated balance sheets — Inventories” of this prospectus. Due to our relative long inventory turnover days, we need sufficient working capital to maintain our inventory level.

During the Track Record Period, we rely on a combination of net cash flow from operating activities and Shareholders equity as our working capital. If our customers delay in payment, or fail to settle our bills at all, we may not have sufficient working capital for normal operation and our business may be adversely affected.

We may be subject to transfer pricing challenge by the relevant tax authorities and hence additional tax liabilities, which could have adverse impacts on the result of our operation

Our Group operates mainly in Hong Kong and the PRC and we have an international customer base. During the Track Record Period, we sold our products to customers located in different countries, for instance Singapore, Malaysia, Northern Ireland and the United States which involve cross-border business arrangements and inter-company buy-sell transaction arrangements in relation to the sale of finished goods from Kyoei Seiki to Best Linking. The value of the slewing rings supplied by Kyoei Seiki to Best Linking for onward sale were HK\$9,332,000, HK\$12,354,000 and HK\$4,208,000 for FY2017, FY2018 and 4M2019, respectively. There were uncertainties associated with the profit allocation and the tax position in respect of the inter-company transaction arrangements. The tax treatments of these transaction arrangements may be subject to the interpretation by respective tax authorities in Hong Kong and the PRC. For details, please refer to the section headed “Business — Regulatory compliance — Transfer pricing arrangement” of this prospectus.

There is no assurance that the tax authorities will not subsequently challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. If any competent tax authorities in Hong Kong or the PRC later find that our transfer pricing arrangements do not comply with the relevant transfer pricing laws and regulations, we may face adverse tax consequences including additional taxes, interests or penalties, which result in a higher overall tax liability for our Group and may adversely affect the business, financial condition and operating results of our Group.

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There is no certificate for lease and permit for construction of our factory premises. In the event that the lease is deemed invalid or there is an order to dismantle our production factory and facilities, we need to relocate to a suitable location and this may materially and adversely affect our profitability

Our Dongguan factory premises were constructed on a property leased from an Independent Third Party during the Track Record Period. The landlord of such property did not possess a valid property ownership certificate and the construction planning permit for the construction of our production factory and utilities. According to our PRC Legal Advisers, the absence of a valid property ownership certificate could deem our lease invalid and the absence of the construction planning permit could lead to our landlord being ordered by the relevant PRC authorities to dismantle our production factory and utilities. For further details, please refer to the section headed “Business — Property interests — Title defect of our Leased Property in Dongguan City” of this prospectus. As a tenant, we are not in a position to apply for the relevant certificate or permit. As advised by the PRC Legal Advisers, (i) the landlord already paid tax on the rent received and (ii) the title defect was reported to and registered with the relevant authority in Dongguan in 2009 and no action has been taken up to the Latest Practicable Date. Nevertheless, if there is an order to dismantle our production factory and facilities, we will be forced to relocate our factory premises and the related facilities to another location. Based on the information currently available, our Directors estimate that the total relocation costs will be approximately RMB1.7 million. If for any reason our production process is put to a halt, or if for any reason we fail to relocate our production factory and facilities within the usual three to six months’ period of compliance with the order, this may impair our ability to meet our customers’ schedule and hence expose us to claims from customers. This can in turn affect our goodwill as well. As a result, our business operation and hence our profitability may be adversely and materially affected.

We do not enter into long-term supply agreements with our suppliers and our production schedule and business may be materially affected if we fail to locate another supplier on substantially the same terms

We do not enter into any long-term supply agreements with our suppliers. We procure our raw materials by individual sales orders on a case by case basis. Since we have not entered into any long term supply agreement, the selling price and quantity of the raw materials required is negotiated on a case by case basis as and when we require the materials to meet a new sales order. Given there is no commitment from our suppliers to supply raw materials to us at an agreed price and to deliver within a scheduled time, the cost of our raw materials is subject to price adjustment, or even cyclical fluctuations and there is no guarantee that we can source raw materials under the same price offered to us in the past when we enter into a new sales order. As there is no long-term commitment between us and our suppliers, our suppliers may decide to substantially reduce the production capacity allocated to us, or not to supply raw materials to us at all. In the event that we are not able to locate another supplier to supply on substantially the same terms and quality and on a timely basis, our production schedule and business could be materially and adversely affected, which could in turn adversely affect our business, financial condition and operation results.

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We may be unable to retain members of our management team and any loss of key personnel may adversely affect our business, financial condition and results of operations

Our management team, which comprises our executive Directors and senior management, has in-depth knowledge of the industry and extensive managerial experience in the manufacture and the sales of slewing rings. Our key personnel include Mr. YP Chan and Mr. LP Chan, our executive Directors, as well as members of our senior management team, namely, Mr. Chan Ho Chee Gilbert and Ms. Chen Fang. For details of our Directors and senior management, please refer to the section headed “Directors and Senior Management” of this prospectus. Our Group’s future performance and success depends significantly on its ability to continue to attract, retain and motivate key personnel. If we are unable to retain members of our management team and other key personnel or recruit additional competent personnel for our business, it may cause material interruption to our business operation, limit our competitiveness, affect our production planning and implementation, lower the manufacturing quality or cause customer dissatisfaction.

Further, should any member of our management team join our competitor, it could lead to our Group losing customers, suppliers and other key staff members. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Any unexpected disruption in our production facilities could have a material and adverse effect on our business, financial condition and operating results

Our production facilities are powered by electricity, which is supplied by the local electricity grid administered by local government. As such, our manufacturing process relies on a consistent and sufficient supply of utilities, in particular electricity. Any power interruption or rationing could disrupt our manufacturing process. However, there is no guarantee that our production facilities will not suffer power failure or water supply failure in future, which may cause a material disruption to our operation.

In addition, in the event of any force majeure event, or other situation beyond our control, such as fire, floods or other natural disasters, outbreak of epidemic, political instability, riots or civil unrest, prolonged and widespread interruption of critical utilities or transportation systems, terrorist attacks or any other events that may limit or disrupt our ability to operate our production facilities, it may substantially and adversely impact our ability to produce. If we fail to fulfil our customers’ orders or meet their delivery schedule, it may affect our business relationship with them. In addition, if our production machineries are impaired or damaged as a result of any of the above incidents, our Group may incur material expenses for carrying out urgent repair, or replacement of machineries. Our business, financial condition, results of operations and prospects will be materially and adversely affected.

We may be unable to maintain our quality assurance systems effectively and any failure to maintain our quality standards may affect our market reputation and results of operations

We position ourselves as a premium manufacturer of slewing rings. We pride ourselves in our ability to produce slewing rings that conform to both PRC’s standards and JIS. Our reputation in the market depends to a large extent on the quality of our products and our ability to effectively maintain our quality assurance systems. If we deliver any products which are not compliant with these standards, our reputation in the market can be adversely impaired, which may in turn affect our ability to continually secure repeat orders from customers, or to enlarge our customer base. Our Group obtained ISO 9001 for the first time in 2008 and continued to the Latest Practicable Date. We also produce

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slewing rings on an OEM basis for leading manufacturers from Japan. We believe that these recognitions and accreditations are pivotal to our past as well as future success. In the event that our products fail to adhere to the requested quality assurance standards which lead to a significant number of product recalls, our market reputation, business operation and results of operation will be adversely affected. Further, we cannot guarantee that our quality assurance system can eliminate all of our product defects. Any significant failure or deterioration of our quality assurance system could result in a loss of such recognitions and certifications, which may translate into loss of customers and hence revenue, and could expose us to claims, and would therefore have a material adverse impact on our business, financial condition and results of operations.

Failure to comply with relevant regulations relating to social insurance and the housing provident fund may subject us to penalties and adversely affect our business, financial condition, results of operations and prospects

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》), we are required to make contributions to the social insurance plans and the housing provident fund under the relevant PRC laws for our employees at Kyoei Seiki. For details relating to these relevant laws, refer to the section headed “Regulatory Overview — Laws and regulations on employment and social welfare — Social insurance and housing fund” of this prospectus. During the Track Record Periods, we did not fully contribute to the social insurance and housing provident fund for our PRC employees.

For FY2017, FY2018 and 4M2019, we estimate that the amount of social insurance payments and housing provident fund contributions that we failed to fully make, to which we may be liable for, were approximately RMB235,000, RMB413,000 and RMB92,000 respectively, in respect of social insurance payments and approximately RMB112,000, RMB137,000 and RMB31,000 respectively, in respect of housing provident fund contributions.

Although we have not received any order or notice from the local authorities nor any claim of or complaint from our current and former employees as at the Latest Practicable Date, regarding shortfall in payments and contributions, we may be subject to future order to rectify such non-compliance. We could also face complaints and/or claims regarding the non-compliance with the social insurance payments or housing provident fund contributions. We may also incur additional costs to comply with such laws and regulations and subject to fines or penalties from the PRC Government or relevant local authorities. Any such development could adversely affect our business, financial condition, results of operations and prospects.

For further details, please refer to the section headed “Business — Employees” of this prospectus.

Our insurance coverage may be insufficient to cover all losses or potential claims from our customers or their end-consumers which would affect our business, financial condition and results of operations

Our Group takes out various insurance policies covering our employees. For each of FY2017, FY2018 and 4M2019, the total insurance cost paid by our Group amounted to approximately HK\$391,000, HK\$474,000 and HK\$191,000, respectively. However we cannot guarantee the insurance that we have taken out is sufficient to cover all losses or potential claims. We do not maintain product liability insurance for our products. Firstly, the maintenance of product liability insurance is not a

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market practice in our trade. Secondly, our products are usually examined by our customers upon delivery. If the customers reject our products, we will at our own costs make repair to the slewing rings, or replace them. Further, we do not maintain business interruption insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. There are certain types of losses, such as from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which we cannot obtain insurance at a reasonable cost. As such, we can be subject to liabilities against which we are not insured sufficiently or we cannot be insured at all. Should an uninsured loss or a loss in excess of insured limits occur, we may have to pay such claims out of our own resources, and any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

We may be subject to liability in connection with industrial accidents at our production facility

The production process of our Group involves the use of tools, and the operation of numerous large-scale production machineries and heavy equipment. Any improper use of these tools, machineries and equipment can cause work-related injuries to our workers, or even death. It is impossible to ensure that our production facility to be accident-free at all times, whether due to improper use or malfunctions of such tools, equipment or machineries or other reasons, like the negligence of the workers. In such event, our Group may be liable for the personal injuries or deaths and subject to claims, fines or penalties or other forms of legal liability. Further, any large-scale industrial accidents may prompt investigation from the PRC Government, or implementation or imposition of safety measures. For example, work safety laws imposed by the PRC Government or authorities could lead to compliance costs or reduce the efficiency of our Group's operations, thereby materially and adversely affecting our business, results of operations and financial condition.

During the Track Record Period, our Group has incurred compliance costs of approximately (i) RMB1,900, RMB3,800 and nil in FY2017, FY2018 and 4M2019, respectively, to carry out the inspection and testing of heavy machineries to ensure we have satisfied our duty to comply with Provisions concerning the Safety Supervision of Lifting Machinery (起重機械安全監察規定); (ii) RMB3,500 in FY2017 to obtain the Work Safety Standardisation Certificate (effective until September 2020) in compliance with the recommendations or proposals issued by the Dongguan City Safety Production Supervision Administration Changping Branch (東莞市安全生產監督管理局常平分局) relating to work and production safety; and (iii) RMB8,900, RMB14,400 and RMB5,500 in FY2017, FY2018 and 4M2019, respectively, for the purchase of labour safety equipment, such as safety helmets, gloves, and goggles.

We are exposed to risk of inventories obsolescence

We had inventories of approximately HK\$20.5 million, HK\$27.6 million, and HK\$27.2 million as at 31 December 2017 and 2018 and 30 April 2019, respectively. Our average inventory turnover days were recorded at approximately 281 days, 358 days and 369 days for FY2017, FY2018 and 4M2019, respectively. The demand for our products depends on the economic condition of the markets as well as the application of our slewing rings to the machineries in use by our clients or their ultimate customers, which are factors beyond our control. We shall have adequate stock of slewing rings which come in different designs and sizes suitable for different machineries or models. Therefore, any unexpected change in the product design and standard of machineries in use by our clients or their ultimate customers may render our inventory obsolete as our slewing rings may not be applicable for such new

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design or standard of machineries. If our slewing rings fail to suit the up-to-date models or standards required for the machineries in future, the volume of obsolete inventory may increase. Such unexpected change in the demand for our slewing rings may result in over-stocked items which may lead to decline in inventory values, and significant write-offs. Furthermore, obsolescent inventories may directly impact our sales and pricing as we may be required to lower the sale price of our products to reduce the inventory level, which may lead to lower profit margin. All of these factors may in turn affect our Group's results of operations and financial position.

We recorded a net operating cash outflow for 4M2019 and there is no assurance that we can meet our debt and payment obligations on a timely basis if we continue to record net operating cash outflow in future

During 4M2019, our Group recorded net operating cash outflow in the amount of approximately HK\$1.0 million. Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Cash flows — Net cash generated from operating activities” of this prospectus for further details.

The fluctuation in our operating cash flow during the Track Record Period was a result of a number of financial activities carried out by our Group, such as the listing expenses of HK\$5.9 million that we incurred during 4M2019 and the increase in our trade receivables of approximately HK\$4.4 million as we recorded higher sales in the last month of 4M2019 when compared to that of FY2018 and there were more balances which were not yet due as at 30 April 2019. For further details please refer to the section headed “Financial Information — Analysis of major components of the consolidated balance sheets — Trade receivables — Ageing analysis on trade receivables” of this prospectus.

We are not in a position to guarantee that there will always be an adequate operating cash inflow at all times in future, or there will not be any change in the market sentiment or economical climate which may adversely affect our operating cash flow position. Net operating cash outflow could adversely affect our liquidity, restrict our ability in making capital expenditure, and the lack of cash flow may adversely affect the flexibility of our operation. If we continue to encounter a net operating cash outflow in future, we may not have sufficient working capital to fund our operating costs or other capital expenditure, to pay our trade payables or meet our debt obligations when they become due. We may need to obtain bank borrowings or secure other external financing under such circumstances. The fact that we may not secure any bank borrowings or other external financing at terms favourable to us, or at all, may materially and adversely affect our liquidity position and we may have to delay or downsize our operation and expansion plan. Under such circumstances, our business, financial condition, and results of operations could be materially and adversely affected.

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RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantial amount of our business assets and operations are in the PRC. During the Track Record Period, our slewing rings production lines were located in Kyoei Seiki in Dongguan, the PRC. Accordingly, our results of operations, financial position, performance and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC, including the following risks:

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect our business, financial condition and results of operations

As most of our assets are located in the PRC and all of our products are manufactured in the PRC, our business and results of operations are subject to the economic, political, and social policies and conditions of the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including the extent of its government involvement, its development, its growth rate and its control over foreign exchange. The PRC economy has been undergoing transition, implementing measures emphasising market forces for economic reform, as well as reducing State ownership of productive assets and establishing sound corporate governance in business enterprises.

Despite the significant growth in the PRC during the past 20 years, these reforms are experimental in nature and are expected to be adjusted and modified from time to time. Thus, the PRC government continues to play a significant role in regulating industrial development and exercises significant control over the PRC's economic growth through its allocation of resources, restricting payment of foreign currency-denominated obligations, setting monetary policies, providing preferential treatments to particular industries or companies and imposing additional import restrictions. All these factors could detrimentally affect the economic conditions in the PRC, consequently our business.

Furthermore, the PRC's economic growth has been unevenly distributed across both the geographic regions and various sectors of the economy, and thus, the growth may not subsist. We cannot predict whether our results of operations and financial condition could be materially and adversely effected by changes in the economic conditions in the PRC, or the PRC governmental monetary policies, interest rate policies, tax regulations or other policies and regulations.

In addition, our products are mainly for use in the construction industry. Any economic downturn in China and globally may lead to a negative effect to the construction industry. As construction projects involves huge capital and investment, any cyclical trends in the economy, fluctuation in the interest rates and availability of new development initiatives by the government could affect the progress and scale of a construction project, which may in turn affect the demand for our products. If China experiences any adverse economic conditions due to events beyond our control, our overall business and results of operations and profits could be materially and adversely affected.

We may experience a decrease or discontinuation of export VAT tax refund towards exported goods

Exported goods from the PRC is entitled to a refund of VAT based on a range from 0%–16%. These goods include raw materials and supplies used for our production in the PRC, as our products are subsequently exported to overseas countries. During the Track Record Period, we obtained export VAT tax refund from the PRC tax authority at the rate of 15%, which has been raised to 16% since 1

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November 2018 for our products exported from the PRC, which was determined on a prescribed formula. There is no guarantee that we will continue to obtain similar tax refund from the PRC tax authority and that there will be no change to the relevant PRC government policies on tax refund which may materially affect our business and financial position. In the event that there is any decrease or discontinuation of export VAT tax refund, we will be subject to increase in tax liability and our business and results of operations will be adversely affected.

We may be deemed a PRC “resident enterprise” under the EIT Law and be subject to PRC taxation on our worldwide income

The EIT Law and its implementation regulations issued by the State Council defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises.” Under the EIT Law, a foreign enterprise whose “de facto management bodies” are located in the PRC is considered a “resident enterprise” and thus will be subject to the enterprise income tax rate of 25% on its global income. In April 2009, the SAT further specified certain criteria for the determination of what constitutes “de facto management bodies” for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in the PRC and therefore, be considered a PRC resident enterprise. These criteria comprise whether (i) the enterprise’s day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

We are currently not treated as a PRC resident enterprise by the relevant tax authorities in the PRC. Since our production plant, the daily management of our operation, and assets are all based in the PRC, we cannot give any assurance that we will not be considered as a “resident enterprise” under the EIT Law and not be subject to the enterprise income tax of 25% on our global income. If we are subsequently treated as a PRC resident enterprise by the relevant tax authorities, our financial condition and results of operation may be adversely affected.

If our preferential tax treatments become unavailable, our net profits and profitability may be materially and adversely affected

Under the EIT Law, the applicable income tax rate for Kyoei Seiki in the PRC is 25%. Our principal operating subsidiary in the PRC, Kyoei Seiki has been recognised as a High and New Technology Enterprise since 2017. As a result, Kyoei Seiki has been subject to a preferential rate of 15%. During the Track Record Period, income tax expense incurred in the PRC was approximately about HK\$0.5 million, HK\$0.9 million and HK\$0.6 million for FY2017, FY2018 and 4M2019, respectively. If our Group were not entitled to the preferential tax rate, our income tax rate would have been 25% and our income tax expense in the PRC would have been approximately HK\$0.8 million, HK\$1.5 million and HK\$0.9 million instead for FY2017, FY2018 and 4M2019, respectively. For further details regarding the breakdown of income tax expenses during the Track Record Period, please refer to section headed “Financial Information — Income tax expense” of this prospectus.

RISK FACTORS

The qualification of a High and New Technology Enterprise is subject to review by the relevant PRC authorities every three years. Such qualification of Kyoei Seiki will expire in 2020. If it fails to renew its High and New Technology Enterprise status, or ceases to be entitled to any other preferential tax treatment that it may then become entitled to, or if such preferential tax treatment becomes less favourable, Kyoei Seiki will be subject to income tax up to the ordinary rate of 25%. In such event our income tax expenses may increase, which will adversely affect our results of operations.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our indirect PRC subsidiary

In utilising the proceeds from the Share Offer, as an offshore holding company of our indirect PRC subsidiary, we may make loans or additional capital contributions to our indirect PRC subsidiary. However, any loans made to a PRC subsidiary are subject to PRC regulations and approvals. There is no guarantee we will be able to obtain these government registrations or approvals on a timely basis, on our future loans or capital contributions to our subsidiary. If we fail to receive such registration or approval, our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be adversely affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company and we may rely on dividend payments from indirect subsidiary for funding, which is subject to restrictions under PRC law

We are a holding company incorporated in the Cayman Islands, and we manage our operation through Kyoei Seiki, our indirect subsidiary in the PRC. The availability of funds for us to pay dividends to our Shareholders and to service our indebtedness will depend upon dividends from Kyoei Seiki. If Kyoei Seiki incurs debt or loss, its ability to pay dividends or other distributions to us may be impaired. As a result, our ability to pay dividends and to repay our indebtedness may be affected.

In addition, under PRC law, our Company can only pay dividends out of distributable profits. Distributable profits are our net profits as determined under PRC accounting principles, International Financial Reporting Standards or HKFRS, whichever is lower, plus undistributed profit at the beginning of the period and less any recovery of accumulated loss and appropriation to statutory and other reserves that we are required to make. As PRC laws also require enterprises established in the PRC to set aside part of their after-tax profits as statutory reserves, these statutory reserves are not available for distribution as cash dividends. Thus, we may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even though our financial statements may show that our business is generating profits. Furthermore, our ability to pay dividends may also be restricted due to the existence of restrictive covenants in banking facilities or other agreements which we may enter in future. Thus, these restrictions on the availability of our funding may impact our ability to pay dividends to our Shareholders and to deal with our indebtedness.

An outbreak of any severe communicable disease in the PRC may have an adverse effect on the economies of certain countries and may adversely affect our results of operations

An outbreak of any widespread public health problem in the PRC could have a negative effect on our operations and results. Thus, if our employees are affected by any severe communicable disease, we may be required to close our facilities, implement quarantine or institute other measures to prevent the

RISK FACTORS

spread of the disease, which may disrupt our operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may lead to reduced orders or scarcity of raw materials and supplies.

We may be subject to liability under, and may make substantial future expenditures to comply with, environmental laws and regulations

We are subject to laws, rules and regulations concerning the discharge of effluent water and solid waste during our manufacturing processes. Any violation of these regulations may result in substantial fines, criminal sanctions, revocation of operating permits, shutdown of our facilities with obligations to take corrective measures. Furthermore, the cost of complying with current and future environmental protection laws, rules and regulations and the liabilities which may potentially arise from the discharge of effluent water and solid waste may materially increase our costs thereby materially decrease our profit.

Certain environmental laws impose liability, sometimes regardless of fault, for investigating or cleaning up contamination on or emanating from our currently or formerly owned, leased or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to third-party disposal or treatment facilities when such facilities are found to be contaminated. Moreover, governments, including the PRC government, may take steps towards the adoption of more stringent environmental regulations. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. If there is any change in the environmental regulations, we may need to incur substantial capital expenditures to install, replace, upgrade or supplement our pollution control equipment, take additional protective and other measures against potential contamination or injury caused by hazardous materials, or make operational changes to limit any adverse impact or potential adverse impact on the environment. If these costs become prohibitively expensive, we may be forced to close down some of our businesses. In addition, environmental liability insurance is not commonly available in the PRC, where we conduct most of our operations. Consequently, any significant environmental liability claims successfully brought against us could have a material adverse effect our business, financial condition, results of operations and prospects.

We are subject to risks associated with changes in PRC laws and regulations on manufacturing of slewing rings, including those relating to environmental protection, and any failure to control associated costs could harm our business

We are subject to various PRC laws and regulations relating to the manufacture of slewing rings, including those relating to environmental protection. For details, please refer to the section headed “Regulatory Overview” of this prospectus. Given the complexity and uncertainties of the relevant PRC laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require significant amount of financial resources and attention of our management. In addition, the relevant environmental protection administration authorities in the PRC may impose more stringent standards in the future which could increase our operational costs to meet such higher standards. There is no assurance that the PRC government will not impose more stringent laws and regulations applicable to the manufacturing of slewing rings and compliance may require additional or

RISK FACTORS

significant investment in upgrading our facilities and employing additional staffs. Any failure to control associated costs could adversely affect our business, financial condition, results of operations and prospects.

The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protection available to our Shareholders

As our main business operation is conducted in the PRC, it is governed by PRC laws and regulations. The PRC legal system is based on written statutes and prior court decisions can only be cited as reference but do not have binding precedential effect and carry little weight. Since the late 1970s, the PRC government has promulgated laws and regulations, governing economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, due to the fact that these laws and regulations are relatively new, as well as the non-binding nature of the limited published cases, the interpretation and enforcement of these laws, regulations and rules provide high degree of uncertainty, and may not be as consistent or predictable as in comparison to those in more developed jurisdictions. Thus, the legal protections available to us under these laws, regulations and rules may be limited.

In addition, there is no assurance that the PRC government will not further amend, modify or revise existing laws, regulations or rules in implementing additional approvals, licenses or permits and/or imposing stricter requirements or conditions for approvals, licenses or permits required for our business and operations. Any loss of or failure to obtain or renew our approvals, licenses or permits could disrupt our operations and may subject us to fines or penalties imposed by the PRC government.

Furthermore, the application, interpretation and enforcement of the PRC laws and regulations may be subject to the political condition and changes in the social policies in the PRC. Different regulatory authorities may have different interpretation on each law and regulation and adopt different approach in enforcement. As a result, from time to time, companies may be required to comply with different requirements and standards, obtain different approvals, and complete different filings in accordance with the varying interpretation and enforcement of such laws and regulations, as set by different relevant authorities. Uncertainties in the application, interpretation and enforcement of the PRC laws and regulations may require us to incur additional cost and time in complying with the requirements or standards imposed by the PRC regulatory authorities, which may materially and adversely affect our business, financial condition, results of operations and prospects.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for our Shares and there can be no assurance that an active market would develop

Prior to the Share Offer, there has been no public market for our Shares. The initial Offer Price range of the Offer Shares was the result of negotiations among us and the Sole Bookrunner (for itself and on behalf of the Underwriters) and the Offer Price may differ significantly from the market price for our Shares following the Share Offer. While we have applied for listing of and permission to deal in our Shares on the Stock Exchange, there is no assurance that the Share Offer will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

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The liquidity, trading volume and market price of our Shares following the Share Offer may be volatile

The price at which our Shares will trade after the Share Offer will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- new investments, acquisitions or alliances in the future;
- addition or departure of our key personnel;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- actions taken by our competitors;
- general market sentiment regarding the slewing rings industry;
- changes in laws and regulations;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in Hong Kong and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

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The Offer Price of our Offer Shares is higher than the net tangible book value per Share immediately prior to the Share Offer. Therefore, subscribers of our Offer Shares in the Share Offer will experience an immediate dilution in pro forma adjusted net tangible assets value and existing Shareholders will receive an increase in the pro forma adjusted net tangible assets per Share of their Shares. Please see the section headed “Unaudited Pro Forma Financial Information” included as Appendix II to this prospectus for details. If we issue additional Shares in the future, subscribers of our Offer Shares may experience further dilution.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline

There will be 400,000,000 issued Shares immediately following the Share Offer (assuming that none of the options that may be granted under the Share Option Scheme is exercised). Our Controlling Shareholders and a cornerstone investor have agreed that any Shares held by them will be subject to a lock-up after the Listing. However, such Shares will be freely tradable after the expiry of the relevant lock-up period. We cannot predict the effect, if any, of any future sales of the Shares by any Shareholder on the market price of the Shares. Sales of substantial amounts of Shares in the public market after the completion of the Share Offer, or the perception that these sales could occur, could affect the market price of our Shares adversely.

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

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

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the Industry Report contained in this prospectus

Certain facts and statistics in this prospectus, including but not limited to information and statistics relating to the slewing rings industry, are based on the Industry Report or are derived from various publicly available publications, which our Directors believe to be reliable. We cannot, however, guarantee the quality or reliability of such facts and statistics. Although we have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the Industry Report, they have not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters or any other party involved in the Share Offer and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics which may not be consistent with other information compiled by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the Industry Report contained in this prospectus.

RISK FACTORS

Investors should not rely on any information in the press articles or other media regarding our Group or the Share Offer not contained in this prospectus

There may be certain press coverage in certain news publications regarding our Group and the Share Offer which include certain financial information, financial projections and other information about our Group that do not appear in this prospectus. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of any information disseminated in the articles or media and that such information was not sourced from or authorised by our Group. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the information and underlying assumptions. To the extent that any of such information is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

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

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

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

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would”, “wish” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set out in this section. Subject to the requirements of the GEM Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus to the public, whether as a result of new information, future events or otherwise. Accordingly, you 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.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Share Offer

There may be, subsequent to the date of this prospectus but prior to the completion of the Share Offer, press and media coverage regarding us and the Share Offer, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Share Offer. We have not authorised the disclosure of any such information in the press or media

RISK FACTORS

and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information. You should rely solely upon the information contained in this prospectus and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Share Offer or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Company. By applying to subscribe for our Shares in the Share Offer, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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 C (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information to the public with regard to us.

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 herein or this prospectus misleading.

INFORMATION ON THE SHARE OFFER

This prospectus is published solely in connection with the Share Offer.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Share Offer 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, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Share Offer.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed “How to Apply for Public Offer Shares” of this prospectus and the Application Forms.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer, comprising the Public Offer and the Placing. Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus. The Listing is sponsored by the Sole Sponsor and managed by the Sole Bookrunner. The Public Offer will be fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to the agreement to the Offer Price between our Company and Sole Bookrunner (for itself and on behalf of the Underwriters). The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement. For further details about the Underwriters and the Underwriting Agreements, please refer to the section headed “Underwriting” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

SELLING RESTRICTIONS OF OFFER SHARES

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the related Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the related Application Forms 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 laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

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

Prospective investors 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 investors for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedure for application for the Public Offer Shares is set out in the section headed “How to Apply for Public Offer Shares” of this prospectus and of the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure and conditions of the Share Offer are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and the Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.

Under Section 44B(1) of the C (WUMP) Ordinance, if the permission for the Shares to be listed on GEM pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Share Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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

No part of the Shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

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

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

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on Friday, 15 November 2019.

Shares will be traded in board lots of 5,000 Shares each and are freely transferable. The stock code for the Shares is 8617.

Our Company will not issue any temporary documents of title.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of the Shares will be registered in our Company’s branch register of members to be maintained in Hong Kong by the branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong. Only Shares registered on our Company’s branch register of members maintained in Hong Kong may be traded on GEM.

Our Company’s principal register of members will be maintained by the principal share registrar and transfer office, Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Unless determined otherwise by our Company, dividends payable in HKD 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 therein in accordance with the Articles.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

LANGUAGE

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

OTHER

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Chan Yuk Pan (陳煜彬)	Flat B, 11/F, Block 1 Royal Peninsula 8 Hung Lai Road Kowloon Hong Kong	Chinese
Mr. Chan Lung Pan (陳龍彬)	Flat C, 43/F, Tower 2 Sorrento 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Chan Wan Tsun Adrian Alan (陳弘俊)	Flat A, 18/F, Block 6 Cavendish Heights 33 Perkins Road Hong Kong	Chinese
Ms. Tsang Hau Lam (曾巧臨)	Flat 1203, Block 2, 12/F The Metropolis Residence 8–9 Metropolis Drive Hung Hom Kowloon Hong Kong	Chinese
Ms. Tam Ho Ting (譚可婷)	Flat G, 22/F, Tower 3 The Belcher's 89 Pok Fu Lam Road Hong Kong	Chinese

Further information is disclosed in the section headed “Directors and Senior Management” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

LY Capital Limited

Rooms 1901–02

China Insurance Group Building

141 Des Voeux Road Central

Hong Kong

(A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO)

Sole Bookrunner and Sole Lead Manager

President Securities (Hong Kong) Limited

Units 2603–6, 26/F

Infinitus Plaza

199 Des Voeux Road Central

Hong Kong

(A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined in the SFO)

Co-lead Managers

Lego Securities Limited

Room 301, 3/F

China Building

No.29 Queen's Road Central

Hong Kong

(A corporation licensed to carry out Type 1 (dealing in securities) regulated activity as defined in the SFO)

LY Capital Limited

Rooms 1901–02

China Insurance Group Building

141 Des Voeux Road Central

Hong Kong

(A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO)

Merdeka Capital Limited

Room 1108, 11th Floor

Wing On Centre

111 Connaught Road Central

Central, Hong Kong

(A corporation licensed to carry out Type 1 (dealing in securities) regulated activity as defined in the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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Upmax Securities Limited

Room 1717, China Merchants Tower

Shun Tak Centre

168 Connaught Road Central

Hong Kong

(A corporation licensed to carry out Type 1 (dealing in securities) regulated activity as defined in the SFO)

Legal advisers to our Company

As to Hong Kong law:

Robertsons

57th Floor, The Center

99 Queen's Road Central

Hong Kong

As to PRC law:

Allbright Law Offices (Shenzhen)

22/23 F, Tower 1

Excellence Century Centre

Fu Hua 3 Road

Futian District

Shenzhen, Guangdong Province, 518048

PRC

As to Cayman Islands law:

Conyers Dill & Pearman

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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

As to Hong Kong law:

Pinsent Masons

50th Floor

Central Plaza

18 Harbour Road

Hong Kong

Auditor and reporting accountant

PricewaterhouseCoopers

Certified Public Accountants

22nd Floor, Prince's Building

Central

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
--

Industry consultant**Frost & Sullivan International Limited**

1706, One Exchange Square

8 Connaught Place

Central

Hong Kong

Receiving bank**DBS Bank (Hong Kong) Limited**

11/F, The Center

99 Queen's Road Central

Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit 1226B, 12/F Star House No. 3 Salisbury Road Kowloon Hong Kong
Headquarters and principal place of business in the PRC	Industrial 2nd cross road, Tutang Industrial Zone 2 Changping Town, Dongguan City (東莞市常平鎮土塘村工業二區工業二橫路)
Company's website	<u>www.blg.hk</u> <i>(Note: The contents in the website of our Company do not form part of this prospectus)</i>
Company secretary	Mr. Chan Ho Chee Gilbert (CPAA) Flat C, 25/F Block 10 Royal Ascot Shatin New Territories Hong Kong
Authorised representatives	Mr. Chan Yuk Pan Flat B, 11/F, Block 1 Royal Peninsula 8 Hung Lai Road Kowloon Hong Kong Mr. Chan Ho Chee Gilbert Flat C, 25/F Block 10 Royal Ascot Shatin New Territories Hong Kong

CORPORATE INFORMATION

Compliance officer	Mr. Chan Yuk Pan Flat B, 11/F, Block 1 Royal Peninsula 8 Hung Lai Road Kowloon Hong Kong
Compliance adviser	LY Capital Limited Rooms 1901–02 China Insurance Group Building 141 Des Voeux Road Central, Hong Kong
Audit Committee	Mr. Chan Wan Tsun Adrian Alan (<i>Chairman</i>) Ms. Tam Ho Ting Ms. Tsang Hau Lam
Remuneration Committee	Ms. Tam Ho Ting (<i>Chairman</i>) Mr. Chan Lung Pan Ms. Tsang Hau Lam
Nomination Committee	Mr. Chan Yuk Pan (<i>Chairman</i>) Mr. Chan Wan Tsun Adrian Alan Ms. Tam Ho Ting
Principal share registrar and transfer office in the Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Hang Seng Bank Limited 83 Des Voeux Road Central Central, Hong Kong China Construction Bank, Dongguan Branch, Changping Sub-branch* (東莞市常平鎮常平大道萬業金融中心首層) 1/F, Wanye Financial Centre, Changping Street Changping Town Dongguan PRC

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in us. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information set out in this section has not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters or any other party or affiliate involved in the Share Offer (excluding F&S in respect of the Industry Report and the information therein) and neither they give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Industry Report which may qualify, contradict or have an impact on the information in this section.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of China's slewing ring market. We agreed to pay Frost & Sullivan a fee of HK\$400,000 for the preparation of the Industry Report, and our Directors consider that such fee reflects market rates and are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Industry Report. Founded in 1961, Frost & Sullivan has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

RESEARCH METHODOLOGY

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Industry Report included primary interviews and secondary research. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from PRC government departments, and market research on industry and enterprise player information issued by our chief competitors.

BASIS AND ASSUMPTION

The Industry Report was compiled based on the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable from 2019 to 2023 ("**Forecast Period**"); (iii) Market drivers like rising demand from the downstream markets, favourable policy environment, developing construction market, wider application and technology development are likely to drive China's slewing ring market.

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

CHINA'S SLEWING RING MARKET ANALYSIS

Overview of China's Slewing Ring Market

A slewing ring is a necessary transmission part for some large-size machineries and equipment, which can ensure the relative rotational motion between objects, as well as bearing the axial force, radial force and tilting moment simultaneously. Generally, it is a rotational rolling-element bearing that typically supports a heavy but slow-turning or slow-oscillating load.

A slewing ring is usually made with gear teeth integrated with the inner or outer race. Compared to other rolling-element bearings, slewing rings are generally made in length of diameters of a meter or more.

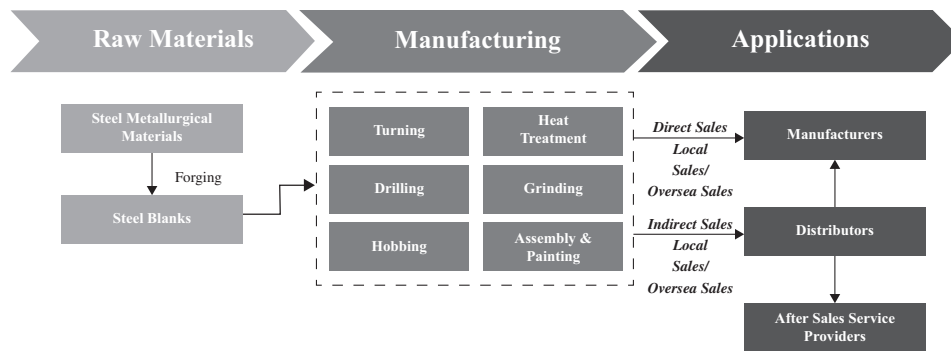
INDUSTRY OVERVIEW

Industry Value Chain of China's Slewing Ring Market

As the direct manufacturing material of slewing rings, steel is usually forged from steel metallurgical materials such as iron ore and manganese ore. In the middle stream of the slewing ring market, the manufacturing process of slewing rings generally contains turning, heat treatment, drilling, grinding, hobbing, assembly and painting. Detailed processing technology also involves in different procedures. For instance, turning includes rough turning and finish turning; quenching and tempering composes the heat treatment process. Different tests are also necessary when all parts are assembled to ensure the product quality.

After manufacturing slewing rings, manufacturers can either sell products to end-users directly, or sell products to companies engaged in wholesale trading, retailing and distribution, which will resell the products to end-users with or without after-sales services. It is industry practice for end users, especially overseas users to purchase through wholesale traders and distributors. Manufacturers are the major end-users of slewing rings. Other end-users are mainly those companies providing after sales services such as equipment repairing for construction machineries and equipment. Slewing ring manufacturers usually manufacture slewing rings on ODM basis to distributors and OEM basis to manufacturers. Slewing rings are not only the key components for excavators and cranes, but also widely applied in other construction equipment, machineries equipment, wind turbines, military industry, robotics, etc..

Industry Value Chain of Slewing Ring Market (China)



Source: Frost & Sullivan

Our Company is a midstream slewing ring manufacturer that manufactures slewing rings for sale to (i) wholesale traders and distributors, and (ii) manufacturers in both domestic and overseas markets.

Overview of Global Slewing Ring Market

In 2018, North America is world's largest slewing ring market with a total market size of RMB9.5 billion, mainly due to the highly developed downstream industries including automotive, industrial machinery, robots, mining equipment, military, etc.. Europe followed North America and ranked at the second place in 2018.

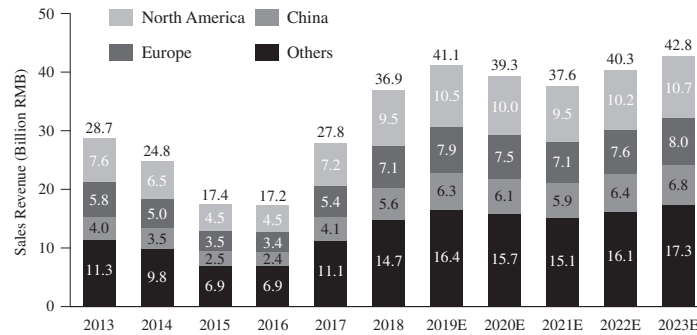
China shows a great potential in the market. The developing real estate and industrial markets in China is likely to further drive the slewing ring industry in China. In 2018, the market in China consumed slewing rings of a total value of RMB5.6 billion, accounting for approximately 15.2% of the global market. The slewing ring markets in South America and South Africa are expected to grow at positive CAGRs from 2018 to 2023, each realising a CAGR of 2.7% and 2.4% respectively.

As slewing rings are necessary transmission parts for large-size machineries and equipment in construction equipment industry, the slewing ring market is highly correlated with the construction equipment industry. Generally, the construction equipment industry is likely to experience a recession period roughly every eight years, and displays periodic characteristics. The construction equipment industry is likely to experience a recession period roughly every eight years based on its historical cyclical pattern in the recent decades and each recession period generally lasts two to four years. Nevertheless, the trend may vary as a result of government intervention or other unforeseeable events. Previously in 2012, the construction equipment industry started declining and got worsened due to the weak global economy.

INDUSTRY OVERVIEW

Due to the periodic characteristics of construction equipment industry, the construction equipment industry, which is the main downstream industry of slewing rings, is expected to experience a downward trend from 2019 to 2021. Hence, the value of slewing rings consumption is also expected to show a negative growth trend from 2019 to 2021. However, the market will gradually turn to an upward trend from 2021 to 2023 when the construction equipment industry recovers.

The Value of Slewing Rings Consumption Breakdown by Region (World), 2013–2023E

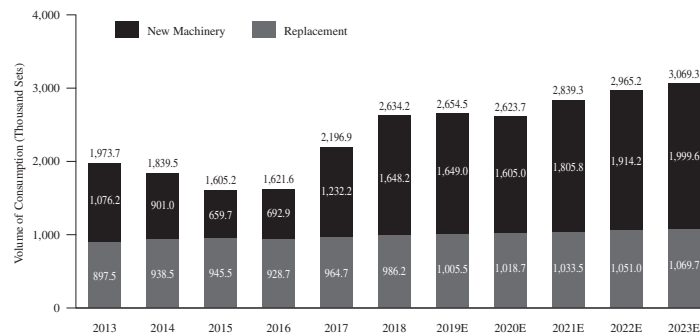


Source: Frost & Sullivan

Slewing rings are mainly used for installation in new machineries and replacement in old equipment. Over the past five years, the volume of slewing rings consumption for the installation in new machinery has grown at a CAGR of 8.9%, which was mainly driven by the strong demand from construction equipment industry starting in 2017. The volume of slewing rings consumption for replacement has displayed a stable growth trend, increasing from 897.5 thousand sets in 2013 to 986.2 thousand sets in 2018. It is also expected to grow at a relatively steady growth pace in the next five years.

Similar to the value of slewing rings consumption, the volume of slewing rings consumption is also expected to be affected by the periodic characteristics of construction equipment industry, which incurs a slower growth pace from 2019 to 2021.

The Volume of Slewing Rings Consumption Breakdown by New Machinery and Replacement (World), 2013–2023E



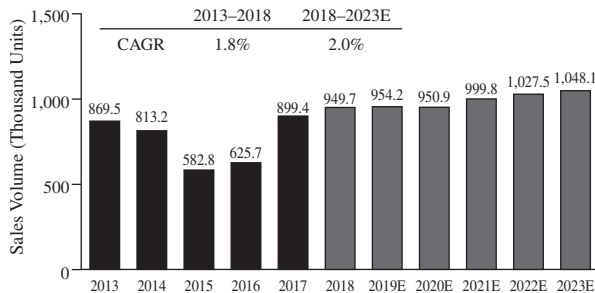
Source: Frost & Sullivan

The sales volume of the global construction equipment increased from 869.5 thousand units in 2013 to 949.7 thousand units in 2018, representing a CAGR of approximately 1.8%, the sales volume is expected to grow at a CAGR of approximately 2.0% from 2018 to 2023, reaching 1,048.1 thousand units in 2023.

The installed capacity of wind turbine generator in the world increased from 303.1 billion watt in 2013 to 561.5 billion watt in 2018 at a CAGR of approximately 13.1%, and is expected to grow at a CAGR of 6.7% from 2018 to 2023, reaching 775.6 billion watt in 2023.

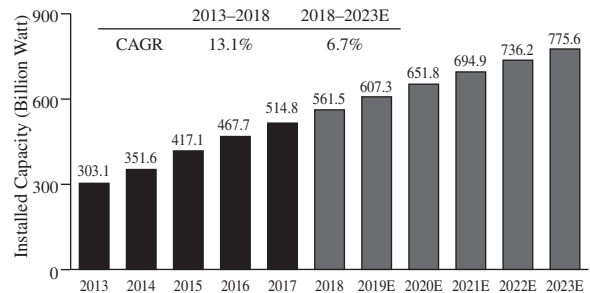
INDUSTRY OVERVIEW

**Sales Volume of Construction equipment
(Global), 2013–2023E**



Source: Frost & Sullivan

**Installed Capacity of Wind Turbine Generator
(Global), 2013–2023E**

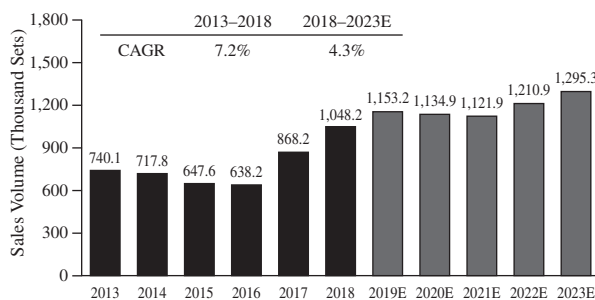


Market Size of China's Slewing Ring Market

The total sales volume of slewing rings is highly related to the development of downstream industries such as the construction equipment industry, machinery equipment industry, wind turbines industry, etc.. Starting from 2014, the construction equipment industry, the largest application area of slewing rings, had displayed a downturn trend. The downturn trend was mainly attributed to the slow down of the growth of macro economy, which led to a weak demand for construction equipment in downstream industries of slewing rings. In such case, the total sales volume of slewing rings had also shown a downturn trend. Since 2017, the construction equipment machinery industry picked up and stimulated the demand for slewing bearings. As of 2018, the total sales volume of slewing rings was approximately 1,048.2 thousand sets, increasing at CAGR of 7.2% from 2013. In 2018, the increasing pressure on environmental protection has led to the closure of several small-sized manufacturers, which in turn decreases the total number of slewing ring manufacturers in China. Considering the periodic characteristics of construction equipment industry, the demand for slewing rings is likely to fluctuate in the next five years. The total sales volume of slewing rings is expected to reach 1,295.3 thousand sets in 2023.

The selling price of slewing rings is highly sensitive to the fluctuation of steel price, which in turn causes the fluctuations of total sales revenue of slewing rings. From 2014 to 2016, the overall steel price has witnessed downturn trend due to overcapacity issues. Combining with the weak demand from construction machinery equipment industry, the total sales revenue of slewing rings kept a downward trend during 2014 to 2016. Starting from 2017, the robust increase in total sales revenue of slewing rings was mainly due to the rebound of steel price. In 2018, the total sales revenue of slewing rings was about RMB8.4 billion. Going forward, due to the periodic characteristics of construction equipment industry, total sales revenue of slewing rings may record a downward trend from 2019 to 2021, but overall speaking, the total sales revenue of slewing rings is expected to increase at a CAGR of 4.8%, reaching RMB10.6 billion in 2023. Major drivers include sustained demand from downstream industries and government policy support such as The Belt and Road Initiative and Made in China 2025. The Belt and Road Initiative is expected to drive the infrastructure construction in relevant countries, which will raise the demand for construction equipment. As the key parts of construction equipment, the demand for slewing rings is also expected to greatly increase.

**Total Sales Volume of Slewing Rings
(China) 2013–2023E**

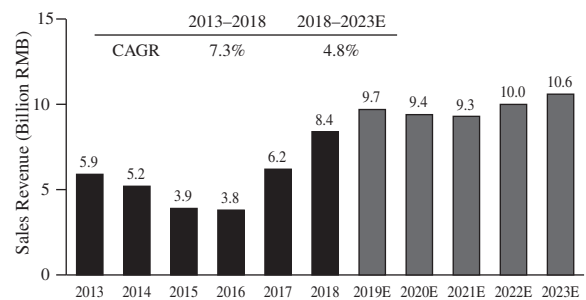


Source: Frost & Sullivan

Note: Total sales volume = domestic sales volume + sales volume of selling slewing rings to overseas markets

Total sales revenue = domestic sales revenue + sales volume of selling slewing rings to overseas markets

**Total Sales Revenue of Slewing Rings (China)
2013–2023E**

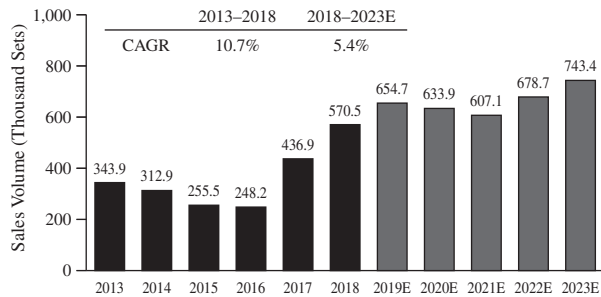


INDUSTRY OVERVIEW

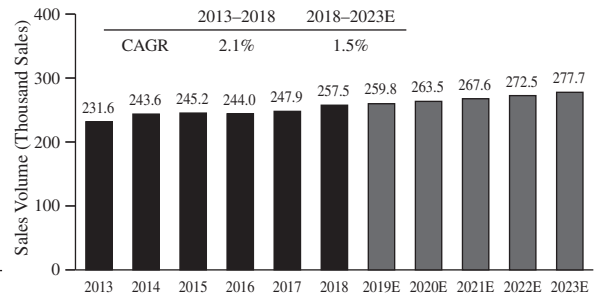
The domestic sales volume of slewing rings for the installation in new machinery shows a similar trend with the total sales market of slewing rings in China. The market showed a downward trend from 2013 to 2016 due to the decrease of construction equipment industry and recovered since 2017. The recovery was mainly driven by the increasing sales of excavators and wheel loaders led by the increasing urbanisation and the increasing demand from infrastructure projects in tier 2 and tier 3 cities in China. Going forward the market is expected to rise with a fluctuation. Considering the periodic characteristics of construction equipment market, the domestic sales volume of slewing rings for new machinery is expected to decrease from 2019 to 2021, but tends to an upward trend from 2021 to 2023, reaching 743.4 thousand sets in 2023.

The domestic sales volume of slewing rings for replacement stably grew from approximately 231.6 thousand sets in 2013 to 257.5 thousand sets in 2018, representing a CAGR of approximately 2.1% during the period. The market is forecast to keep the stably growing trend at a CAGR of approximately 1.5%, reaching 277.7 thousand sets in 2023.

Domestic Sales Volume of Slewing Rings for New Machinery (China) 2013–2023E



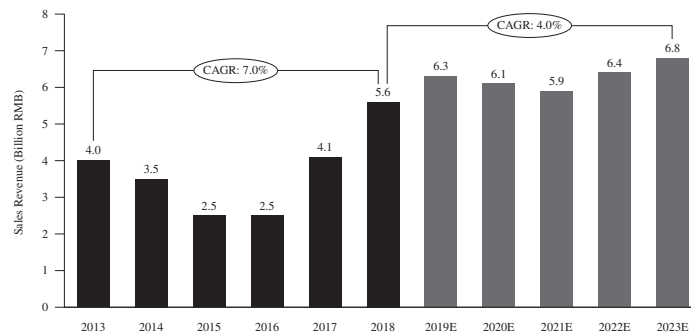
Domestic Sales Volume of Slewing Rings for Replacement (China) 2013–2023E



Source: Frost & Sullivan

From 2013 to 2016, the domestic sales revenue of slewing rings has also witnessed a downward trend due to the weak demand from downstream industries and declining steel price. Since 2017, the domestic sales revenue of slewing rings resumed growing with the growing downstream demand and the rebound of steel price. In 2018, the domestic sales revenue of slewing rings in China was RMB5.6 billion. Going forward, the domestic sales revenue of slewing rings in China is expected to be affected by the periodic characteristics of construction equipment industry, but to maintain a positive CAGR from 2018 to 2023. In 2023, the domestic sales revenue of slewing rings in China is expected to reach RMB6.8 billion.

Domestic Sales Revenue of Slewing Rings (China) 2013–2023E



Source: Frost & Sullivan

China's Market of Selling Slewing Rings Overseas

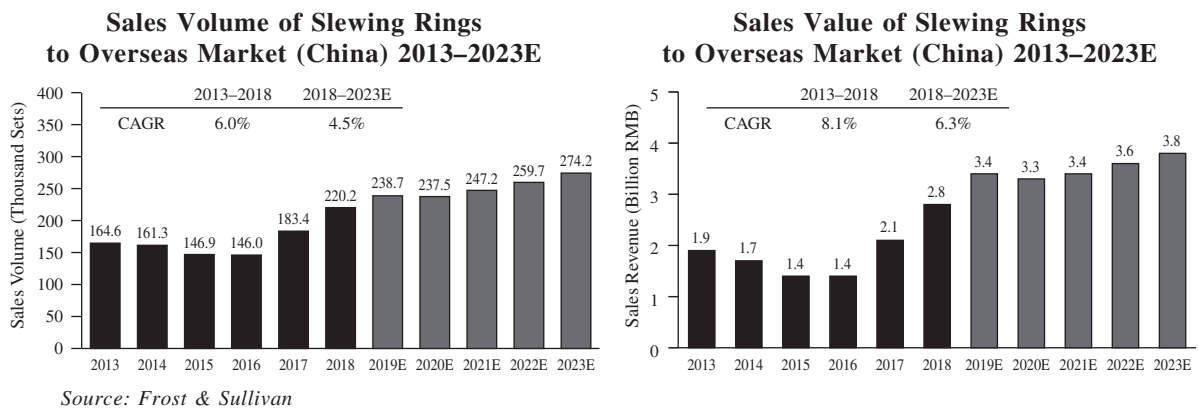
Since China is the largest manufacturer of construction equipment in the world, the global demand for slewing rings was affected by the weak performance of China's construction equipment industry as well as the slowdown of global economy. Both sales volume and sales value of selling slewing rings to

INDUSTRY OVERVIEW

overseas markets also witnessed a downward trend from 2014 to 2016. As the recovering of global construction equipment industry, the global demand for slewing rings has significantly increased since 2017. As of 2018, the sales volume and sales value of selling slewing rings overseas were 220.2 thousand sets and RMB2.8 billion respectively, each realising a CAGR of 6.0% and 8.1% correspondingly.

Going forward, the sales volume and sales value of slewing rings to overseas markets are expected to grow at CAGRs of 4.5% and 6.3% respectively, reaching 274.2 thousand sets and RMB3.8 billion in 2023. The growth is likely to be driven by the increasing demand from downstream industries and stable development of global construction equipment industry. However, the market is expected to be affected by the periodic characteristics of construction equipment industry, which incurs a slower growth pace from 2018 to 2021.

There is still a gap between domestic and foreign brands of slewing rings. The life span of foreign slewing rings are generally longer than domestic products. Compared with domestic products, slewing rings manufactured in Europe generally have a lower dispersion and a higher quality, while Japanese slewing rings create less noise.



The U.S. has been the largest country of China's overseas sales of slewing rings from 2013 to 2018. The sales value of slewing rings to the U.S. increased from RMB316.5 million to RMB506.4 million, and is expected to reach RMB644.2 million by 2023.

The sales value of slewing rings to Hong Kong has increased from RMB40.4 million in 2013 to RMB69.2 million in 2018. Hong Kong is acting as an intermediate transfer station for the sales of slewing rings to overseas markets of China.

Being one of the few Asian countries that use English as an official language, Singapore is among the most trade-friendly international hubs of the world. Singapore provides a perfect platform and world-class infrastructure for international trading. The network is well-established in Singapore. A number of international companies set branches and place top-level corporate executive in the country. The business-friendly tax system in Singapore also offers a sustainable and stable environment for international trading. Hence, Singapore has long been considered as a trading centre and entrepot for various industries, including slewing ring industry. Over 90% of imported slewing rings are re-exported to other regions such as the U.S, Europe, the Middle East, etc.. From 2013 to 2018, the sales value of slewing rings to Singapore has increased from RMB28.5 million to RMB39.1 million. Going forward, the sales value of selling slewing rings to Singapore is likely to maintain a moderate growth pace from 2018 to 2023, reaching RMB51.8 million by 2023.

Malaysia also serves as an entrepot in Southeast Asia. A large proportion of slewing rings exported from China to Malaysia are re-exported to other regions such as the U.S. and Europe. In 2018, the sales value of selling slewing rings to Malaysia was RMB49.2 million. Going forward, the sales value of selling slewing rings to Malaysia is also expected to grow at a moderate pace from 2018 to 2023, reaching RMB61.7 million in 2023.

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Europe has been one of the largest exporting regions for Chinese slewing ring manufacturers. From 2013 to 2018, the sales value of selling slewing rings to Europe has increased from RMB377.7 million to RMB621.5 million, representing a CAGR of 10.5%.

The sales value of selling slewing rings to South Africa has grown from RMB19.5 million in 2013 to RMB20.5 million in 2018, representing a CAGR of approximately 1.0%.

Sales Value of Selling Slewing Rings to the U.S., Hong Kong, Singapore, Malaysia, Europe and South Africa (China), 2013–2023E

Unit: RMB' Million

Historical	2013	2014	2015	2016	2017	2018	CAGR 13/18
The U.S.	316.5	289.6	234.7	234.3	388.5	506.4	9.9%
Hong Kong	40.4	39.1	36.4	35	55.9	69.2	11.4%
Singapore	28.5	27	20.7	19.7	29.1	39.1	6.5%
Malaysia	38.2	32.8	25.7	23.8	31	49.2	5.2%
Europe	377.7	343.7	291	299.5	441.7	621.5	10.5%
South Africa	19.5	11.7	10.6	9.0	14.2	20.5	1.0%
Forecast		2019E	2020E	2021E	2022E	2023E	CAGR 18/23E
The U.S.		557.1	543.5	575.5	620.5	644.2	4.9%
Hong Kong		80.8	79.7	83.9	90	91.9	5.8%
Singapore		47	45.4	47.1	50.2	51.8	5.8%
Malaysia		57.4	54.5	56.6	59.9	61.7	4.6%
Europe		738.1	716.6	721	766.4	790.1	4.9%
South Africa		22.5	21.9	23.0	24.8	25.8	4.7%

Source: Frost & Sullivan

Market Drivers of China's Slewing Ring Market

Rising Demand from Downstream Markets: Slewing rings are mainly applied in the manufacture of construction equipment and wind turbine generators. The market of slewing rings is highly correlated with construction equipment industry since it accounts for a large proportion in the downstream markets. Though it witnessed a downturn in 2014 to 2015, the construction equipment industry recovered since 2016. In 2018, the production of excavator, the largest segment in construction equipment industry, increased sharply with a year-over-year growth rate of approximately 45.0% in China and 37.7% globally. The industry is estimated to keep the sharp growth in 2018. Compared with construction equipment industry, the wind turbine generator market is likely to stay at a relatively stable level. The development of the two markets is expected to drive the market of slewing rings in the next few years.

Favourable Policy Environment: The Chinese Government is making continuous effort on supporting the development of bearing manufacturing industry. In June 2015, the State Council issued Made in China 2025 (《中國製造2025》) as the first strategic guide to comprehensively upgrade China's industry and increase China's manufacturing competitiveness. In the meantime, according to the Action Outline of Sino German Cooperation (《中德合作行動綱要》) issued in 2014, Chinese government is dedicated to promote the digitalisation of industrial production process to achieve Industry 4.0 by cooperating with German government. The expected increasing efficiency of production process through automation upgrading in slewing ring industry is likely to further drive the market development. In June 2016, China Bearing Industry Association the 13th Five-year Plan for Bearing Industry (《全國軸承行業“十三五”發展規劃(2016–2020年)》) in order to guide and support the development of the bearing industry. The plan states the key mission of the industry is to adjust and upgrade the industrial structure, improve green manufacturing, realise the innovation of the industry, strengthen the formation of industry standard, etc.. In light of the Chinese favourable policy environment, the bearing market including the slewing ring market in China is therefore expected to grow in the future.

Developing Construction Market: The global construction market develops stably in recent years and is expected to keep the trend in the coming future. The construction market in developed regions grows at a relatively stable level, while the growth in emerging markets remains in excess of that in advanced countries. As the macro economy develops, it is expected that the demand for both commercial and residential construction will increase and hence drive the total construction market. Also, large-scale investment in infrastructure projects, mostly related to transport, are likely to become one of the key drivers of the construction markets in developing countries and regions. The developing construction market is likely to drive the market of construction equipment and hence indirectly stimulate the market of slewing rings.

INDUSTRY OVERVIEW

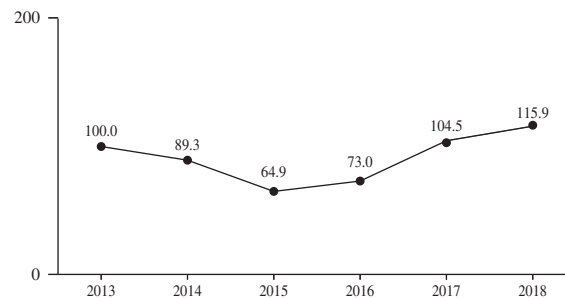
Wider Application: Though slewing ring is mainly applied in the manufacturing of construction equipment, the application of the stuff has been broaden in recent years. Slewing ring has been applied in medical machines, packaging facilities, transporters, water treatment processes, mining equipment and other fields. The slewing ring has also filled the unique needs of several government application including missile systems, antenna and radar positioning, catapults, etc.. The increasing range of application of slewing rings is forecast to further drive the market.

Technology Development: The requirement on the performance of slewing ring has increased due to the wider application especially in high precision fields. As the demand grows, the industry of slewing ring is likely to face an upgrade and development. High end products are likely to be needed in the future.

Raw Material Price Analysis of China's Slewing Ring Market

The steel price is affected by many factors such as macro economy, supply and demand situation, raw material price, international trade, etc.. After the downward trend from 2013 to 2015, the steel price bounced back as the demand increases from 2016. The steel price is likely to fluctuate in the future, but is expected to remain an upward trend in short term.

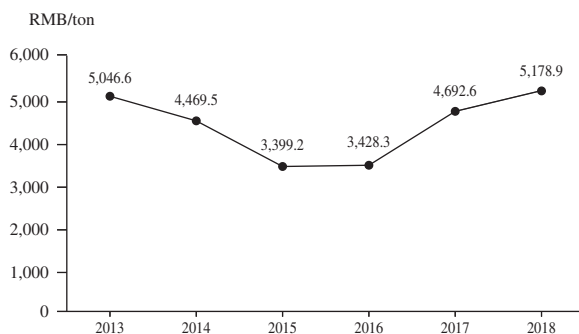
Steel Comprehensive Price Index (China) 2013–2018



Source: China Iron and Steel Industry Association, Frost & Sullivan

Steel made of 50Mn, 42CrMo and S48C are the major raw materials for manufacturing slewing rings. The price trends of major raw materials generally followed the price trend of steel comprehensive price index, which reflects the overall performance of steel price in China. 42CrMo is the material with the highest quality. Most of the steel companies in China are able to provide this kind of steel, hence the supplier option is rather flexible. Leading steel companies including a major supplier of our Group during the Track Record Period generally are more reliable in terms of quality. The prices of the three major raw materials are highly correlated with the overall steel price. They are also expected to fluctuate in the future, but remain an upward trend in short term.

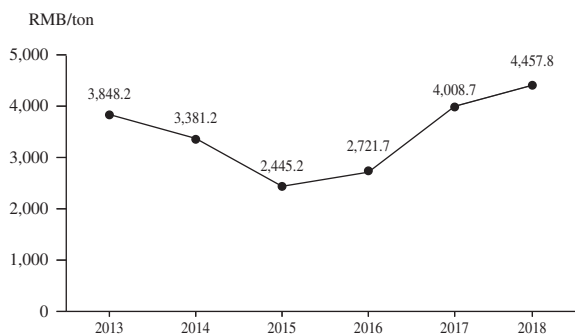
**Price Trend of Gear Steel
(China) 2013–2018**



Note: The price above is the national average price of all types of gear steel (35/42CrMo Φ50)

Source: WIND, Frost & Sullivan

**Price Trend of Carbon Round Steel
(China) 2013–2018**



Note: The price above is the national average price of all types of carbon round steel (45# steel in GB, S45C and S48C in JIS)

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Competitive Landscape of China's Slewing Ring Market

The slewing ring market in China is fragmented, the top three manufacturers together accounted for approximately 30.6% of the market. Our Company is a medium sized player with an integrated production line in the market. Large sized players refers to companies with a revenue of over RMB100 million. Large sized players generally own several integrated production lines. Small sized players refers to companies with a revenue of less than RMB10 million. In 2018, our Company accounted for approximately 0.5% of the total market in terms of sales revenue. The market share of our Company is less than 1% and there are a number of companies who are at the same level in the market.

Top 3 Manufacturers of Slewing Ring Market in China by Revenue, 2018

Ranking	Company Name	Revenue (RMB' Million)	Market Share (%)
1	Company A (Note 1)	1,818.6	21.7%
2	Company B (Note 2)	610.5	7.3%
3	Company C (Note 3)	136.9	1.6%
Top 3		2,566.0	30.6%
Others		5,834.0	69.4%
Total		8,400.0	100.0%

Source: Frost & Sullivan

Notes:

- (1) Company A is a joint venture headquartered in Xuzhou, Jiangsu. It is owned by one of the largest slewing ring manufacturers in the world. Company A was founded in 2002. The major products of Company A are slewing rings and industrial steel balls.
- (2) Company B is a leading domestic manufacturer headquartered in Maanshan, Anhui. It is a subsidiary of a listed company in Shenzhen Stock Exchange. Company B initiated its business in slewing ring industry in 1984. Company B focuses on the manufacturing of slewing rings.
- (3) Company C, a company located in Maanshan, Anhui, focuses on the manufacturing of slewing rings and slewing drives. Company C was established in 2007.

The market of overseas sales of slewing rings is also fragmented. Our Company ranked at the fifth place, accounting for approximately 1.3% of the market in 2018 in terms of sales revenue to overseas market. Our Company is the largest manufacturer of slewing rings to overseas markets in South China¹ in terms of sales revenue to overseas market.

Our Company faces potential competition from non-PRC players in overseas markets, especially in developed regions such as Japan and Europe, where local manufacturers have relatively strong experience to the local markets. However, comparing with these overseas manufacturers, our Company has a price advantage, which may help to attract customers.

Top Five Manufacturers of Overseas Slewing Ring Sales in China by Revenue, 2018

Ranking	Company Name (English)	Revenue (RMB' Million)	Market Share (%)
1	Company A	313.7	11.2%
2	Company C	70.9	2.5%
3	Company D (Note 1)	54.9	2.0%
4	Company B	52.7	1.9%
5	Our Company (Note 2)	36.4	1.3%
Top Five		528.5	18.9%
Others		2,271.5	81.1%
Total		2,800.0	100.0%

Source: Frost & Sullivan

Notes:

- (1) Company D is headquartered in Xuzhou. Its major business is the manufacturing of slewing rings and selling slewing rings overseas. Company D was founded in 2011.
- (2) The revenue of our Company was calculated by multiplying HK\$43.1 million by the exchange rate of HK\$1 to RMB0.8443 released by the PRC's National Bureau Statistics in 2018.

Entry Barriers Analysis of China's Slewing Ring Market

Technical Barrier: The slewing ring market is highly technology-intensive. With the continuous improvement of China's equipment industry, the downstream manufacturers are demanding a higher standard on the precision, life and reliability of slewing rings. In order to produce qualified products, slewing ring manufacturers should have the corresponding technical ability in material selection, processing, heat treatment and product testing. Slewing bearings usually need more advanced and professional equipment and technology to meet its performance. It is difficult for new entrants to construct a perfect technical system and recruit enough technical personnel in a short period.

Capital Requirement: Leading large players in the slewing bearing market usually have strong capital strength. As slew rings are generally large-sized bearings with higher selling price, companies in the market should have enough capital base to support the daily operation such as procuring large amount of steels for manufacturing, enough working capital to support long billing period, as well as avoiding potential fluctuations of raw material prices. New entrants with weak capital strength are hard to compete with market leaders.

Good Relationships with Customers: Downstream customers of slewing rings are more likely to keep long cooperation relationships with leading and well-known manufacturers with high quality slewing rings. The experienced and well-trained marketing teams are also specialised in business development in the market, especially in the overseas market. It is difficult for new entrants to compete with existing players with good customer relationships.

Brand Name: As an important component of machinery, slewing bearing has a direct impact on the normal operation of various equipment. Therefore, to ensure the quality of products, clients are more willing to cooperate with the brands with higher awareness and good business experience. Existing players often have established well-known names through long-term production practice. It is rather difficult for new entrants to build brand recognition in a short time. At the same time, with the development of the industry, higher after-sales service are demanded for bearing manufacturers, which makes them extend from the simple manufacturing to full-life service, including product design, installation, debugging, etc..

Note: (1) South China means Guangdong Province, the Guangxi Zhuang Autonomous Region, Hainan Province, Hong Kong and Macau.

Opportunities and Threats of China's Slewing Ring Market

Government Support: After the 19th CPC National Congress, revitalising the manufacturing industry has become a national strategy. It is an important task for the bearing industry to implement Made in China 2025 (《中國製造2025》) and Industrial Infrastructure Strengthening Project (《工業強基工程》), as well as developing new business forms to promote industrial upgrading. The expected upgrade of construction and machinery equipment is likely to further drive the demand for slewing rings, which will provide potential development opportunities for slewing ring manufacturers.

Industry Integration: At the moment, the slewing bearing market in China is fragmented with hundreds of manufacturers. Along the economic supply side reform and furthering integration of bearing market, the slewing ring market is expected to become more concentrated and provide more development opportunities for existing slewing bearing manufacturers.

Promotion of Industry 4.0: Chinese government is promoting the digitalisation of industrial production process to achieve Industry 4.0 by cooperating with German government. The promotion of Industry 4.0 is likely to help increase the demand for slewing rings and the slewing ring manufacturers are expected to shift towards automation and adoption of industry 4.0.

Fluctuation of Steel Price: The slewing bearing market is directly affected by the fluctuation of steel price. The price of steel has greatly fluctuated over the past five years, which directly affect the production cost and selling price slewing bearing. The potential risk of steel price fluctuation is expected to remain as a threat to the stable development of slewing bearing market.

Global Economy: The international trade of slewing bearing market may also be affected by the global economy development trend. It can threat the overseas sales of slewing rings of China-based slewing rings manufacturers to other countries.

REGULATORY OVERVIEW

This section sets forth a summary of the significant regulations that affect our Group's business and operations. Information contained in this section should not be construed as a comprehensive summary nor detailed analysis of laws and regulations applicable to the business and operations of our Group.

OVERVIEW

Our business operations are subject to respective supervisions and regulations from the PRC governments. Below is a summary of laws, regulations and policies which are material to our Group:

LAWS AND REGULATIONS RELATING TO WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People's Congress (the “**SCNPC**”) on 29 December 1993 and came into effect on 1 July 1994. It was revised for several times afterwards, and the latest version was implemented on 26 October 2018. According to the PRC Company Law, companies are classified into two categories, namely limited liability companies and limited companies by shares. The PRC Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares, unless otherwise specified in the relevant foreign investment laws and regulations.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, labour matters and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the SCNPC on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990 and amended by the PRC State Council (the “**State Council**”) on 12 April 2001 and 19 February 2014, and the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprise (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Provisional Measures**”), which was promulgated on 8 October 2016 and lastly amended on 30 June 2018. According to the Provisional Measures, only filing is needed for the establishment and changes of the foreign-invested enterprises with no special administrative measures on the admission of foreign investors. The foreign-invested enterprises or their investors shall truly, accurately and completely provide the filing information and fill out the filing application commitment according to the Provisional Measures.

Investment activities in the PRC by foreign investors are governed by the Guidance Catalog of Industries for Foreign Investment (revised in 2017) (《外商投資產業指導目錄(2017年修訂)》) (the “**Catalog**”), which was promulgated jointly by the Ministry of Commerce of the PRC (the “**MOFCOM**”) and the National Development and Reform Commission (國家發展和改革委員會) (the “**NDRC**”) on 28 June 2017. The Catalog divides industries into three categories in terms of foreign investment. Those categories are: “encouraged”, “restricted”, “prohibited”. Industries which are not listed on the Catalog shall be classified as the permitted industries. Our PRC subsidiaries are operating in the industries which are encouraged. The NDRC and MOFCOM jointly promulgated the Special Management Measures for the Access of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施》(負面清單)(2019年版)) on 30 June 2019, which will take effect on 30 July 2019. The negative list has no restrictions on our business in the PRC.

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REGULATIONS AND POLICIES RELATING TO THE SLEWING BEARINGS INDUSTRY

The management of bearing industry in the PRC adopts a combination of government macro-control and industry self-discipline. The production, operation and specific business management of enterprises are carried out in a market-oriented manner.

According to the Guidance Catalogue for Industrial Restructuring (2011) (《產業結構調整指導目錄》(2011)) which was promulgated on 27 March 2011 and was amended on 16 February 2013 by the NDRC, the industry of slewing ring which belongs to the machinery industry catalogue has been classified as “encouraged” industry.

According to the Standardisation Law of the PRC (2017 Revision) (《中華人民共和國標準化法》(2017年修訂)) promulgated by the SCNPC on 4 December 2017, National standards shall comprise mandatory standards and recommended standards; industry standards and local standards are recommended standards. Mandatory standards must be implemented. The State encourages adoption of recommended standards. National Machinery Industry Standards applicable to the products of our Group include: JB/T 2300–2011 Slewing Bearings (《回轉支承》), JB/T 10471–2017 Rolling Bearings-Slewing Bearings (《滾動軸承 轉盤軸承》), which are recommended standards.

LAWS AND REGULATIONS RELATING TO 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 lastly amended on 29 December 2018. Producers and sellers shall be liable for product quality in accordance with the Product Quality Law. The State implement a system of supervision and inspection of product quality, based mainly on a random inspection of products. Producers and sellers must not refuse product quality supervision and inspection that is carried out in accordance with 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. 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.

According to Regulations on Quality Responsibility for Industrial Products (《工業產品質量責任條例》) promulgated by the on 5 April 1986 and effective as from 1 July 1986, manufacturers shall ensure that the quality of their products meets the requirements of relevant laws and regulations, quality standard and contracts. Moreover, manufacturers must set up a well-knit, coordinating and effective quality assurance system to stipulate accountability of product quality.

The Measurement Law of the PRC (《中華人民共和國計量法》) was promulgated by the SCNPC on 6 September 1985 and lastly amended on 26 October 2018. On 23 July 2010, the Standing Committee of the Guangdong Provincial People’s Congress promulgated the Measures for the Implementation of the Measurement Law of the PRC in Guangdong Province (《廣東省實施<中華人民共和國計量法>辦法》), which stipulated that when an enterprise or institution needs to assess the effectiveness of its metrological assurance system and the date provided, it may apply to the metrological administrative department of the province or city for confirmation of the metrological assurance system. We were awarded with the Certificate for Measurement Assurance System (Level 3) by the Bureau of Quality Supervision of Dongguan City in July 2012.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO SAFE PRODUCTION

Work Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Work Safety Law**”) was promulgated by the SCNPC on 29 June 2002, came into effect on 1 November 2002 and was revised on 27 August 2009 and 31 August 2014. According to the Work Safety Law, business entities shall meet the work safety conditions prescribed by relevant laws, administrative regulations, and national or industry standards, set aside and use work safety expenses exclusively for improving work safety conditions. Violations of the Work Safety Law may result in the imposition of fines and penalties, the suspension of operation, an order to cease operation, and/or criminal liability in severe cases. In addition, production and operation entities shall supply their employees with protective articles that meet national or industrial standards and instruct them to wear or use such articles as required.

LAWS AND REGULATIONS RELATING TO IMPORT AND EXPORT OF GOODS

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) which was promulgated by the SCNPC on 12 May 1994 and amended on 6 April 2004, 7 November 2016 and the Measures for the Archival Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》) which was promulgated by the MOFCOM on 25 June 2004 and amended on 18 August 2016, foreign trade operators engaged in imports and exports of goods or technologies shall file records with the foreign trade department of the State Council or its authorised agency, unless otherwise stipulated by the laws, administrative regulations or the foreign trade department of the State Council. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for import and export of goods.

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》) promulgated by the SCNPC on 21 February 1989 and lately amended on 29 December 2018 and its implementation rules. According to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by the State administration shall be inspected by the commodity inspection authorities, and the consignor shall apply to the inspection and quarantine authorities for inspection in the places and within the time limit specified by AQSIQ. No permission shall be granted for the export of export commodities subject to mandatory inspection by the inspection and quarantine authorities until they have been found to be up to standard through inspection. While the import and export commodities that are not subject to statutory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

The Customs Laws of the PRC (the “**Customs Law**”) (《中華人民共和國海關法》) was promulgated by the SCNPC on 22 January 1987 and was respectively amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017. Pursuant to the Customs Law, unless otherwise stipulated, the declaration of import and export goods and payment of duties on them may be completed by consignees and consignors themselves, and such formalities may also be completed by representatives entrusted by the consignees and consignors and approved by and registered with the Customs. In addition, the consignor or consignee of the goods exported or imported and the Customs broker must register themselves for declaration activities with the Customs office. Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration

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Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014 and amended on 20 December 2017 and 29 May 2018, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. The consignor or consignee of imported and exported goods shall register with local customs in accordance with the laws.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION AND FIRE PREVENTION

The major laws and regulations in the PRC concerning environmental protection include: Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Evaluation of Environmental Effects Law of the PRC (《中華人民共和國環境影響評價法》), Prevention and Control of Water Pollution Law of the PRC (《中華人民共和國水污染防治法》), Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》), Prevention and Control of Environmental Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》), Prevention and Control of Solid Waste Pollution Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), and Regulations on Environmental Protection Management for Construction Projects (《建設項目環境保護管理條例》), and Promotion of Cleaner Production Law of the PRC (《中華人民共和國清潔生產促進法》).

According to the aforesaid laws and regulations, the PRC has established an environmental impact assessment system for project construction, and the construction, expansion and operation of products manufacturing facilities are subject to the advance approval and acceptance of the completed environmental protection facility from the competent the PRC environmental authorities. For failure to obtain the advance approval and acceptance of the completed environmental protection facility, the enterprise may be ordered to cease the construction or operation of facilities, or make repairs within the time limit or be fined by the competent the PRC environmental authorities. The aforesaid laws and regulations also impose fees for discharge of waste substances, and impose fines and indemnity for the improper discharge of waste substances and serious environmental pollution. The PRC environmental authority may shut down any facility that fails to comply with the environmental protection laws and regulations at its discretion.

Pursuant to the Fire Services Law of the PRC (《中華人民共和國消防法》) promulgated by the SCNPC on 29 April 1998 and lastly amended on 23 April 2019, which formulated for the purposes of preventing fire disasters and reducing fire hazards, strengthening emergency rescue operations, protecting personal and property safety and safeguarding public security. Fire brigades of public security agencies shall carry out supervision and inspection of compliance of fire services laws and regulations by enterprises. The fire brigade of a public security agency shall notify the relevant organisations or individuals of hidden fire hazards discovered in fire services supervision and inspection to forthwith adopt measures to eliminate the hidden hazards; where public security may be seriously compromised if the hidden hazards are not promptly eliminated, the fire brigade of the public security agency shall adopt temporary seizure measures for the hazardous location or site pursuant to the provisions. Where a construction project which is required by law to carry out fire control acceptance inspection failed to undergo fire control acceptance inspection or failed to pass fire control acceptance inspection, the project shall be prohibited to be put into use; other construction projects which are found to be unqualified in random inspection conducted pursuant to the law shall cease to be put into use.

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LAWS AND REGULATIONS RELATING TO OUR LEASE AGREEMENT

According to the Regulations on the Lease of the Properties in Towns and Cities in the Guangdong Province 《廣東省城鎮房屋租賃條例》, the landlord should not lease any building without the relevant Property Ownership Certificate or management right. According to the Interpretation by the Supreme People's Court about the Specific Application of Law on Certain Issues in the Hearing of Contractual Dispute Cases on the Leasing of the Properties in Towns and Cities (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》), if a landlord enters into a lease with a tenant for a property which has not been issued with the construction planning permit (建設工程規劃許可證) or was not built in accordance with the provisions of the construction planning permit (建設工程規劃許可證), such lease could be deemed invalid.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulation governing foreign exchange in the PRC are the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996 and subsequently amended on 14 January 1997 and on 1 August 2008. Under these rules, foreign exchange receipts and payments under current account items shall be based on true and legitimate transactions. Foreign exchange payments under current account items shall, pursuant to the administrative provisions of the foreign exchange control department of the State Council on payments of foreign currencies and purchase of foreign currencies, be made using self-owned foreign currency or foreign currency purchased from financial institutions engaging in conversion and sale of foreign currencies by presenting the valid documentation. Overseas organisations and overseas individuals making direct investments in the PRC shall, upon approval by the relevant authorities in charge, process registration formalities with the foreign exchange control authorities. Domestic organisations and domestic individuals making direct investments overseas or engaging in issuance and trading of quoted securities or derivatives overseas shall process registration formalities pursuant to the provisions of the foreign exchange control department of the State Council. Where the State stipulates that prior approval by or filing with the relevant authorities in charge is required, the approval or filing formalities shall be processed prior to foreign exchange registration formalities.

On 4 July 2014, State Administration of Foreign Exchange of the PRC (the “SAFE”) promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. Under the SAFE Circular No. 37, a resident in mainland China must register with the local SAFE branch before he or she contributes assets or equity interests in an offshore special purpose vehicle, that is directly established or indirectly controlled by the domestic resident for the purpose of conducting investment or financing; and in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, pursuant to the Notice of SAFE on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “Notice No. 13”), which was promulgated

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on 13 February 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with Notice No. 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

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

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in the PRC include the Company Law of the PRC (《中華人民共和國公司法》), the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) and its Implementation Rules. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC enterprise is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC enterprise shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and the Prevention of Tax Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Arrangement**”) concluded on 21 August 2006, if a Hong Kong resident enterprise is determined by the competent tax authority in mainland China to have satisfied the relevant conditions and requirement under the Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a mainland China resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. The Notice on Issues relating to the Implementation of the Dividend Provision in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice 81**”) was promulgated on 20 February 2009 by the State Administration of Taxation of the PRC (the “**SAT**”). The Notice 81 reaffirms the qualification for dividend recipient to enjoy tax preferential of being levied at 5% rate as following: (i) the recipient of the dividend must be a corporation; (ii) the recipient’s ownership in the Chinese company must meet the

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prescribed direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; and (iii) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential. The shareholders of our PRC subsidiaries are established in Hong Kong and hold 100% shares of our PRC subsidiaries, the shareholders of our PRC subsidiaries could enjoy tax preferential of being levied at 5% rate after gaining the approval from the tax authorities.

LAWS AND REGULATIONS ON TAXATION

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which was promulgated by the SCNPC on 16 March 2007, effective from 1 January 2008 and was amended on 24 February 2017 and 29 December 2018, and the Regulations for the Implementation of the Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the “**EIT Law**”), which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, enterprises are classified into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside the PRC at the rate of enterprise income tax of 25%. A non-resident enterprise that does not have an establishment or place of business in China or has an establishment or place of business in the PRC but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside mainland China at the reduced rate of enterprise income tax of 10%.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), effected on 1 January 2008 and amended on 29 January 2016, the certificate of a high and new technology enterprise is valid for three years. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be cancelled as of the year of change in the name or any other condition.

Pursuant to the EIT Law, transactions in respect of the sale and purchase and transfer of products between enterprises under direct or indirect control by the same third party are regarded as affiliated party transactions and should comply with the arm’s length principle. If the failure to comply with such principle reduces the amount of income or taxable income of the enterprise or its affiliated parties, the tax authority has the power to make an adjustment by reasonable methods. Pursuant to the EIT Law, when submitting its annual enterprise income tax return to the tax authority, an enterprise shall attach an annual report on affiliated transactions (if any) between itself and its affiliated parties.

Value-added tax

The Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993 and came into force on 1 January 1994 which were subsequently amended on 10 November 2008, 6 February 2016 and 19 November 2017, The Implementation Rules of the Interim Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) were promulgated by the Ministry of Finance of the PRC (the “**MOF**”) and became effective on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011

(collectively, the “**VAT Law**”). The VAT Law set out that all enterprises or individuals engaging in sales of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. For the sales of goods, services or importation of goods by the tax payer, the rate of value-added tax is 17%; for the sales of services and intangible assets by the tax payer, the rate of value-added tax is 6%. The rate of value-added tax is 0% for tax payer engaging in exportation of goods, unless otherwise stipulated by the State Council. Pursuant to the Circular on Adjusting Value-added Tax Rates (《關於調整增值稅稅率的通知》), which was promulgated by the MOF and the SAT on 4 April 2018 and came into effect on 1 May 2018, where a VAT taxpayer engages in taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% tax rate shall be adjusted to be 16%. The Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) promulgated by the MOF, the SAT and the General Administration of Customs, which was issued on 20 March 2019 and implemented on 1 April 2019, further adjusted the 16% tax rate to be 13%.

Income Tax on Share Transfer of 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》) promulgated by the SAT and came into effect on 3 February 2015, where a non-resident enterprise indirectly transfers properties such as equity in Chinese 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 Chinese resident enterprise in accordance with Article 47 of the EIT. Indirect transfer of PRC taxable properties shall mean transactions of non-resident enterprises which are carried out through transfer of equity of enterprises abroad that directly or indirectly hold PRC taxable properties (not including the Chinese resident enterprises registered abroad, hereinafter referred to as “enterprises abroad”) and other similar equities (hereinafter referred to as “equity”) and cause the concrete results same as or similar to that of direct transfer of PRC taxable properties, including the circumstance that the restructuring of non-resident enterprises causes changes of shareholders of enterprises abroad. Non-resident enterprises that indirectly transfer PRC taxable properties are referred to as equity transferor.

Transfer pricing

Transfer pricing laws and regulations in the PRC

In light of the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) (特別納稅調整實施辦法(試行)) (the “STA Rules”), transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are defined as related party transactions.

According to the EIT Law and STA Rules, related party transactions should comply with the arm’s length principle and if the related party transactions fail to comply with arm’s length principle resulting in the reduction of the enterprise’s taxable income, the tax authority has the power to make an adjustment on tax based on set procedures.

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)

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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.

Transfer pricing laws and regulations in Hong Kong

As we carry on our business though our factory situated in the PRC under Kyoei Seiki and Best Linking in Hong Kong, the provisions relating to transfer pricing for intra-group transactions in the Inland Revenue Ordinance (Chapter 112 of the laws of Hong Kong) (the “IRO”) are applicable to us. The IRO contains provisions which require the adoption of the arm's length principle for pricing in related party transactions.

Section 20A of the IRO gives the Inland Revenue Department of Hong Kong (the “IRD”) wide powers to collect tax due from non-residents. 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”) which provided clarifications and guidance on the IRD's views on transfer pricing and how it intended to apply the existing provisions of the IRO to establish whether related parties are transacting at arm's length prices. Generally, the IRD would seek to apply the principles in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations issued by Organisation for Economic Cooperation and Development, except where they are incompatible with the express provisions of the IRO. In July 2018, the Inland Revenue (Amendment) No. 6 Ordinance 2018 (the “Amendment Bill”) was enacted to introduce a legislative framework to codify how the pricing for the supply of goods and services between associated parties should be determined and implemented. Codified international transfer pricing principles include, amongst others, the arm's length principle for provision between

REGULATORY OVERVIEW

associated persons, the separate enterprises principle for attributing income or loss of non-Hong Kong resident person, and the three-tier transfer pricing documentation requirements relating to master file, local file and country-by-country report.

Based on the Amendment Bill, a person who would have a Hong Kong tax advantage if taxed on the basis of a non-arm's length provision (the "advantaged person") will have income adjusted upwards or loss adjusted downwards. The advantaged person's income or loss is to be computed as if arm's length provision had been made or imposed instead of the actual provision. If the advantaged person fails to prove to the satisfaction of the assessor of the IRD that the amount of the person's income or loss as stated in the person's tax return is an arm's length amount, the assessor of the IRD must estimate an amount as the arm's length amount and, taking into account the estimated amount (a) make an assessment or additional assessment on the person; or (b) issue a computation of loss, or revise a computation of loss resulting in a smaller amount of computed loss, in respect of that person pursuant to section 50AAF of the IRO.

LAWS AND REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS

The Trademark Law

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and last amended on 23 April 2019 as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on 3 August 2002 and amended on 29 April 2014 (《中華人民共和國商標法實施條例》). In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

The Patent Law

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by the SCNPC, and its Implementation Rules (《中華人民共和國專利法實施細則》) promulgated by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the

REGULATORY OVERVIEW

PRC and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The PRC patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

LAWS AND REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

The Labour Contract Law

The Labour Law of the PRC (《中華人民共和國勞動法》) which came into effect on 1 January 1995 and amended on 27 August 2009 and 29 December 2018 stipulates general provisions with regard to labour contracts, working hours, wages, occupational safety and health, special protection for female staff and juvenile workers, vocational training, social insurance and welfare, and settlement of labor disputes. Enterprises failing to comply with the Labour Law of the PRC may be subject to warnings, fines, order to pay compensation, and cancellation of business license.

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) which promulgated on 29 June 2007 and amended on 28 December 2012 and the Implementation Regulations on the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was promulgated and implemented on 18 September 2008 by the State Council, provide that a written labour contract shall be concluded for the establishment of a labour relationship. Labour contracts concluded pursuant to the law shall be legally binding and the employers and the workers shall perform the obligations stipulated in the labour contracts. When recruiting a worker, the employer shall truthfully notify the worker of the job duties, working conditions, work premises, occupational hazards, work safety and health conditions, labour remuneration and any other information in which the worker is interested to know. Employers shall promptly pay labour remuneration to workers in full amount pursuant to the stipulations of the labour contract and the provisions of the State.

Social Insurance and Housing Fund

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended 29 December 2018, employers are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance in accordance with the rates provided under the relevant regulations and shall withhold the social insurance that should be assumed by the employees. Employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

Under the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》), promulgated by the State Council on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers must register with applicable housing provident fund management centers and establish a

REGULATORY OVERVIEW

special housing provident fund account in an entrusted bank. Both employers and their employees are required to contribute to the housing funds. The subsequent late registration or no registration may be subject to the fine above RMB10,000 and below RMB50,000. Where, in violation of the provisions of these Regulations, an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

HISTORY AND DEVELOPMENT OF OUR GROUP

Business History

Our Group's business commenced in 2007 when Mr. YP Chan utilised his personal resources and the internal resources of Wing Fung, the investment holding company of Kyoei Seiki incorporated in Hong Kong in November 2005, to establish Kyoei Seiki in September 2007. Prior to the establishment of Kyoei Seiki, Mr. YP Chan spent three years in Japan, including studying Japanese language at the Japanese Language Institute of Sapporo and working as a sales and marketing executive in a company specialised in the distribution and export of confectionery and related products. During his time in Japan, Mr. YP Chan developed his network with Japanese business community which gave him the first insight of the machineries manufacturing business. Mr. YP Chan was highly impressed by the Japanese culture in their pursuit of excellence in technology as well as the manufacture of machineries and parts.

After Mr. YP Chan returned from Japan, starting from 2006, he worked in South Wing Machinery Company Limited, a company engaged in the trading of new and used construction machineries, where he gained experience in the sale and supply of heavy duty equipment. Due to the global expansion of human population, there was an increasing need for infrastructure as well as housing to cope with the increased population. Mr. YP Chan realised there would be an increasing need for heavy duty machineries, which inevitably requires the increased use of slewing rings and machinery parts. As Japan was renowned for producing top-quality machineries, Mr. YP Chan, through his acquaintance with the renowned manufacturers for components for heavy duty machineries, seized the opportunity to introduce the renowned Japanese machinery manufacturing technology business to the PRC.

To ensure that our products would conform to the applicable JIS, we engaged a Japanese consultant from 2009 to 2011 to revise and provide guidance on the production process in order to strengthen the quality assurance process. During this period, he provided training to our employees, and identified and advised on areas for improvement in our process. With his guidance, we have become one of the few manufacturers which can sell slewing rings to Japan adopting applicable JIS.

As our business continued to grow, we have expanded our customer base. In 2010 and 2012, impressed by our products, a subsidiary of a then listed company on Singapore Exchange, which was principally engaged in the trading of heavy machinery and diesel engine parts and a leading machinery and parts supply company in Japan became our customers and have sustained business relationship with us ever since. From 2011 to 2015, three Japanese equipment manufacturers also became our regular OEM customers.

We received a number of certifications and accreditations over the past 10 years which reflected the high standard of the slewing rings and heavy construction machinery parts we produced. Our Group was first accredited with GB/T 19001-2008/ISO 9001:2008 and GB/T 19001-2000 idt ISO 9001:2000 by Beijing Xingguo Global Certification Co., Ltd. (北京興國環球認證有限公司) in January 2009 for production and service of slewing rings and ISO 9001:2018 by SGS United Kingdom Ltd in December 2014 for manufacturing slewing rings. Since 2012, we have been consistently re-accredited with the Certificate for Measurement Assurance System (Level 3) (計量保證體系確認合格證書) by the Bureau of Quality Supervision of Dongguan City (東莞市質量技術監督局). In 2017, we also obtained Certificate of High and New Technology Enterprise (高新技術企業證書) by Guangdong Provincial Science and Technology Department (廣東省科學技術廳), Guangdong Provincial Finance Bureau (廣東省財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局) and

HISTORY, REORGANISATION AND GROUP STRUCTURE

Guangdong Provincial Local Taxation Bureau (廣東省地方稅務局). As at the Latest Practicable Date, our Group is one of the few manufacturers that can sell slewing rings to Japan in accordance with JIS. Furthermore, we have also been accredited with certifications from our OEM customer from Japan, pursuant to which we have built our brand name and image. For further particulars on business strategies of our Group, please refer to the sections headed “Business — Business strategies and future plans” of this prospectus.

Key milestones of our Group

The following table sets out the key developments and milestones of our Group since our establishment.

Year	Milestone
2007	<p>Kyoei Seiki was incorporated on 5 September 2007.</p> <p>Wing Fung injected HK\$8 million of capital in Kyoei Seiki, following which Kyoei Seiki commenced business in October.</p>
2009	<p>Our factory has been assessed and certified to meet the requirements of GB/T 19001–2008/ISO 9001:2008 and GB/T 19001–2000 idt ISO 9001:2000 quality management system standard in January.</p> <p>We participated in the Beijing International Construction Machinery Exhibition and Seminar in November.</p>
2010	<p>We obtained the first OEM order from a Japanese client in March.</p> <p>We extended our warehouse in June.</p> <p>We started to sell slewing rings to North America in September.</p> <p>We participated in Bauma China, one of the world’s largest trade fair in the construction industry in Shanghai, China in November.</p> <p>We started to sell our products to, a subsidiary of a then listed company on Singapore Exchange, which was principally engaged in the trading of heavy machinery and diesel engine parts in November.</p>
2011	<p>Our factory was assessed and re-accredited with GB/T 9001:2008/ISO 9001:2008 by Beijing Xingguo Global Certification Co., Ltd in December.</p>

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Milestone
2012	<p>We started to sell slewing rings to Australia in February.</p> <p>We were awarded with the Certificate for Measurement Assurance System (Level 3) (計量保證體系確認合格證書) by the Bureau of Quality Supervision of Dongguan City (東莞市質量技術監督局) in July.</p> <p>We began to receive orders from a leading machinery and parts supply company in Japan in July.</p> <p>We participated in the Bauma China in Shanghai, China in November.</p>
2013	We started to sell slewing rings to Italy in January.
2014	<p>We received certification of quality of our heat treatment process from Sumitomo (S.H.I.) Construction Machinery Company, Limited in February.</p> <p>We engaged in a research and development project with Nanjing Tech University in October.</p> <p>Kyoei Seiki was assessed and certified as meeting the requirements of ISO 9001:2008 quality management system standards by SGS United Kingdom Ltd in December.</p>
2016	We started to sell slewing rings to New Zealand in April.
2017	<p>We participated in the drafting of the national Industry Technical Standards (行業技術標準) in China in April.</p> <p>We successfully registered nine patents in China in June.</p> <p>We obtained Certificate of High and New Technology Enterprise (高新技術企業證書) by Guangdong Provincial Science and Technology Department (廣東省科學技術廳), Guangdong Provincial Finance Bureau (廣東省財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局) and Guangdong Provincial Local Taxation Bureau (廣東省地方稅務局) in November.</p> <p>Our factory has been assessed and certified as meeting the requirements of ISO 9001:2015 quality management system standards in December.</p>

CORPORATE HISTORY

As at the Latest Practicable Date, our Group comprised our Company, Kyoei Seiki Holdings, Best Linking Holdings, Wing Fung, Best Linking and Kyoei Seiki. The following is the brief corporate history of the establishment and major changes in the shareholdings of our Company and our subsidiaries during the Track Record Period.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Our Company

Our Company was incorporated on 26 October 2018 in the Cayman Islands under the Companies Law as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares. Upon its incorporation, one nil-paid initial Share (the “**Subscriber Share**”) was allotted and issued to the nominee of Conyers Trust Company (Cayman) Limited. On the same day, the Subscriber Share was transferred to C Centrum at par. As a result, our Company became a wholly-owned subsidiary of C Centrum.

On 21 October 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 comprising 10,000,000,000 Shares by the creation of an additional 9,962,000,000 Shares which rank *pari passu* in all respects with the existing Shares. For details of changes in the share capital of our Group, please refer to the section headed “Statutory and General Information — Further information about our Company and its Subsidiaries — 2. Changes in authorised and issued share capital of our Company” in Appendix IV to this prospectus.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 11 January 2019.

As a result of the Reorganisation, our Company has become the ultimate holding company of our Group. For further details of such transfers, please refer to the paragraph headed “Reorganisation” in this section below.

Kyoei Seiki Holdings

On 14 September 2018, Kyoei Seiki Holdings was incorporated in the BVI with limited liability. Kyoei Seiki Holdings is authorised to issue a maximum of 50,000 shares of a single class with par value of US\$1.00 each share. On 1 November 2018, our Company subscribed for, and Kyoei Seiki Holdings allotted and issued, one share to our Company at par, following which Kyoei Seiki Holdings became wholly-owned by our Company.

Best Linking Holdings

On 14 September 2018, Best Linking Holdings was incorporated in the BVI with limited liability. Best Linking Holdings is authorised to issue a maximum of 50,000 shares of a single class with par value of US\$1.00 each share. On 1 November 2018, our Company subscribed for, and Best Linking Holdings allotted and issued, one share to our Company at par, following which Best Linking Holdings became wholly-owned by our Company.

HISTORY, REORGANISATION AND GROUP STRUCTURE

A summary of the corporate history of the major operating subsidiaries of our Group is set out below:

Best Linking

Best Linking was incorporated in Hong Kong on 15 September 2010 with limited liability and with authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. It principally engages in the sale of slewing rings and other mechanical parts and components in Hong Kong and to overseas customers.

Upon incorporation, one share was allotted and issued as fully paid at par to the initial subscriber, an Independent Third Party. The one share was subsequently transferred to Mr. HT Chen, who is a merchant, director of South Wing Machinery Company Limited, and the elder brother of Mr. YP Chan and Mr. LP Chan, at par on 11 October 2010. In or about October 2012, Mr. YP Chan acquired Best Linking from Mr. HT Chen so that Mr. YP Chan could use Best Linking as a vehicle to assist in the distribution of products manufactured by Kyoei Seiki to mainly overseas customers. As Mr. YP Chan was not regularly in Hong Kong at that time, to ensure that Best Linking's business activities could be attended to on a timely basis in Hong Kong and for the ease of administration, since 11 October 2012 and up to 21 December 2018, Mr. HT Chen held the one issued share of Best Linking on trust for Mr. YP Chan. Mr. HT Chen also acted as the nominee director, to ensure Mr. HT Chen could timely execute all instructions given by Mr. YP Chan in relation to the operation of Best Linking. Save for being the nominee director as mentioned above, Mr. HT Chen did not play other role within our Group during the Track Record Period. Save for a declaration of trust dated 11 October 2012 signed by Mr. HT Chen in favour of Mr. YP Chan to reflect the arrangement, there was no formal agreement entered into between Mr. YP Chan and Mr. HT Chen regarding such trust arrangement. Based on the litigation search conducted by our Company, and to the best knowledge of our Directors having made all reasonable enquiries, Mr. HT Chen has not been involved in any civil and criminal case as at the Latest Practicable Date.

On 21 December 2018, as part of the Reorganisation, the entire issued share of Best Linking was transferred from Mr. HT Chen (being the legal owner), under the direction of Mr. YP Chan (being the beneficial owner), to our nominee, Best Linking Holdings, in consideration of our Company allotting and issuing 50 Shares in its share capital to C Centrum (being the nominee of Mr. YP Chan, the beneficial owner), credited as fully paid.

Wing Fung

Wing Fung was incorporated in Hong Kong on 10 November 2005 with limited liability and with authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. Wing Fung is an investment holding company of Kyoei Seiki.

Upon incorporation, one share was allotted and issued as fully paid at par to Mr. LP Chan. This share was subsequently transferred to Mr. YP Chan at par on 19 April 2011. On 1 June 2012, Wing Fung allotted and issued 12,999,999 shares to Mr. YP Chan fully paid at par.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 21 December 2018, as part of the Reorganisation, the entire issued shares of Wing Fung were transferred from Mr. YP Chan to our nominee, Kyoei Seiki Holdings, in consideration of our Company (i) allotting and issuing an aggregate of 49 Shares to C Centrum (being the nominee of Mr. YP Chan), credited as fully paid; and (ii) crediting the Subscriber Share as fully paid in its share capital registered in the name of C Centrum.

Kyoei Seiki

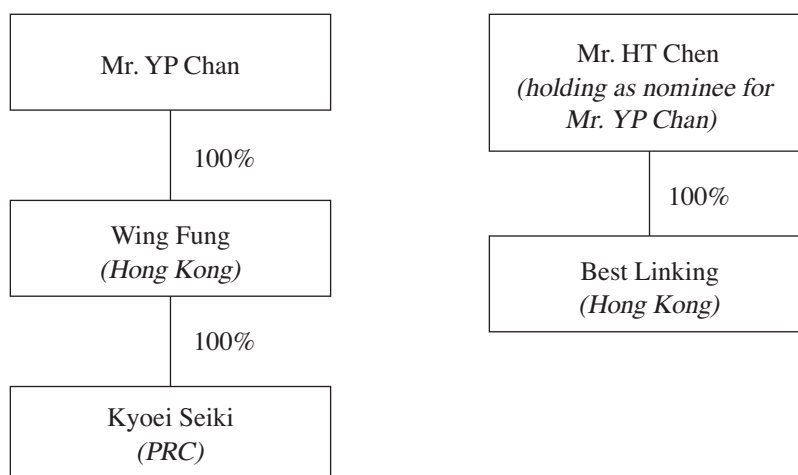
Kyoei Seiki was established in PRC on 5 September 2007 as a limited liability company with a registered capital of HK\$8,000,000 paid up by Wing Fung separately on 17 October 2007 and 19 October 2007.

On 22 November 2010, the registered capital increased from HK\$8,000,000 to HK\$20,000,000 and was paid up by Wing Fung separately on 5 January 2011 and 2 March 2011.

Kyoei Seiki has been principally engaged in the manufacturing and sale of slewing rings in the PRC and to overseas customers.

REORGANISATION

The chart below illustrates our corporate structure immediately before the Reorganisation:



In preparation for the Listing, our Group has undergone the Reorganisation under the following steps:

- (i) On 14 September 2018, C Centrum was incorporated in the BVI and 18 September 2018, one share in C Centrum was allotted and issued to Mr. YP Chan for cash at US\$1.00 per share.
- (ii) On 26 October 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares. On the date of its incorporation, the Subscriber Share was allotted and issued to the nominee of Conyers Trust Company (Cayman) Limited, and was subsequently transferred to C Centrum for value on the same day.

HISTORY, REORGANISATION AND GROUP STRUCTURE

- (iii) On 14 September 2018, Kyoei Seiki Holdings was incorporated in the BVI and on 1 November 2018, one share of US\$1.00 was allotted and issued to our Company for cash at par.
- (iv) On 14 September 2018, Best Linking Holdings was incorporated in the BVI and on 1 November 2018, one share of US\$1.00 was allotted and issued to our Company for cash at par.
- (v) On 21 December 2018, as part of the Reorganisation, the entire issued shares of Wing Fung were transferred from Mr. YP Chan to our nominee, Kyoei Seiki Holdings, in consideration of our Company (i) allotting and issuing 49 Shares in its share capital to C Centrum (being the nominee of Mr. YP Chan), credited as fully paid; and (ii) crediting the Subscriber Share as fully paid held by C Centrum. Upon completion of the aforesaid transfer, Wing Fung became a direct wholly-owned subsidiary of Kyoei Seiki Holdings.
- (vi) On 21 December 2018, as part of the Reorganisation, the entire issued share of Best Linking was transferred from Mr. HT Chen (being the legal owner), under the direction of Mr. YP Chan (being the beneficial owner) to our nominee, Best Linking Holdings, in consideration of our Company allotting and issuing 50 Shares in its share capital to C Centrum (being the nominee of Mr. YP Chan, the beneficial owner), credited as fully paid. Upon completion of the aforesaid transfer, Best Linking became a direct wholly-owned subsidiary of Best Linking Holdings.

INCREASE OF AUTHORISED SHARE CAPITAL

On 21 October 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 comprising 10,000,000,000 Shares by the creation of an additional 9,962,000,000 Shares.

CAPITALISATION ISSUE

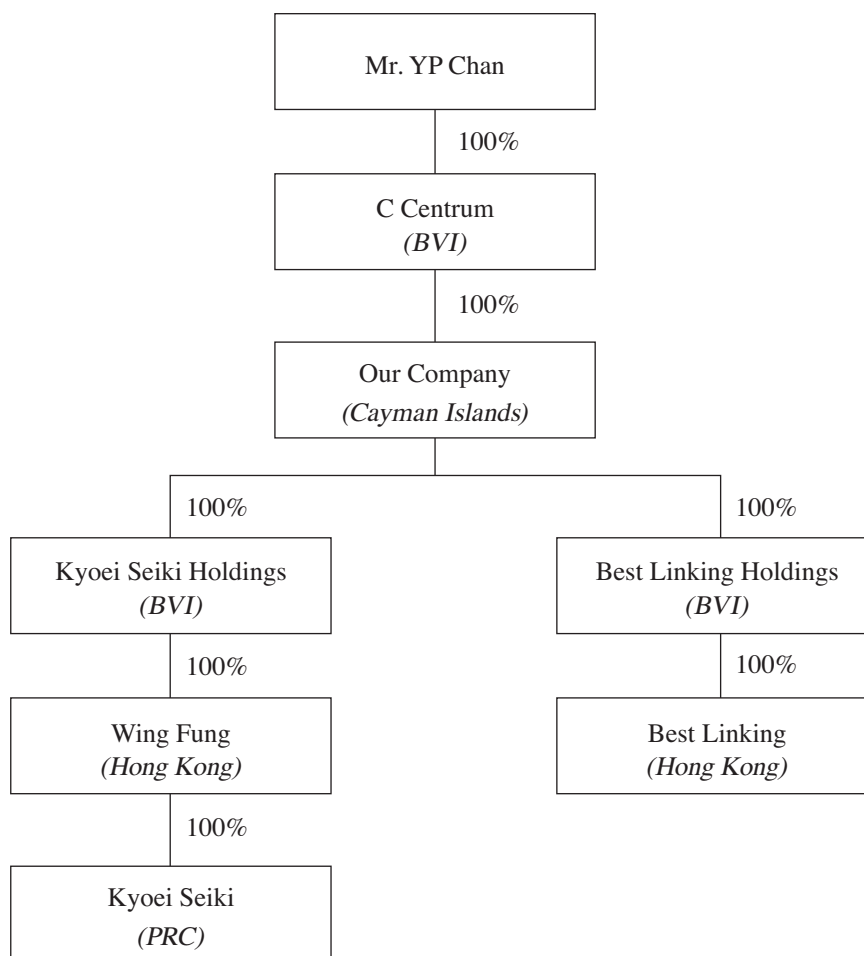
Conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, our Directors will be authorised to capitalise an amount of HK\$2,999,999 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of 299,999,900 Shares for the allotment and issue to C Centrum, being the sole Shareholder immediately prior to the Share Offer.

HISTORY, REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE

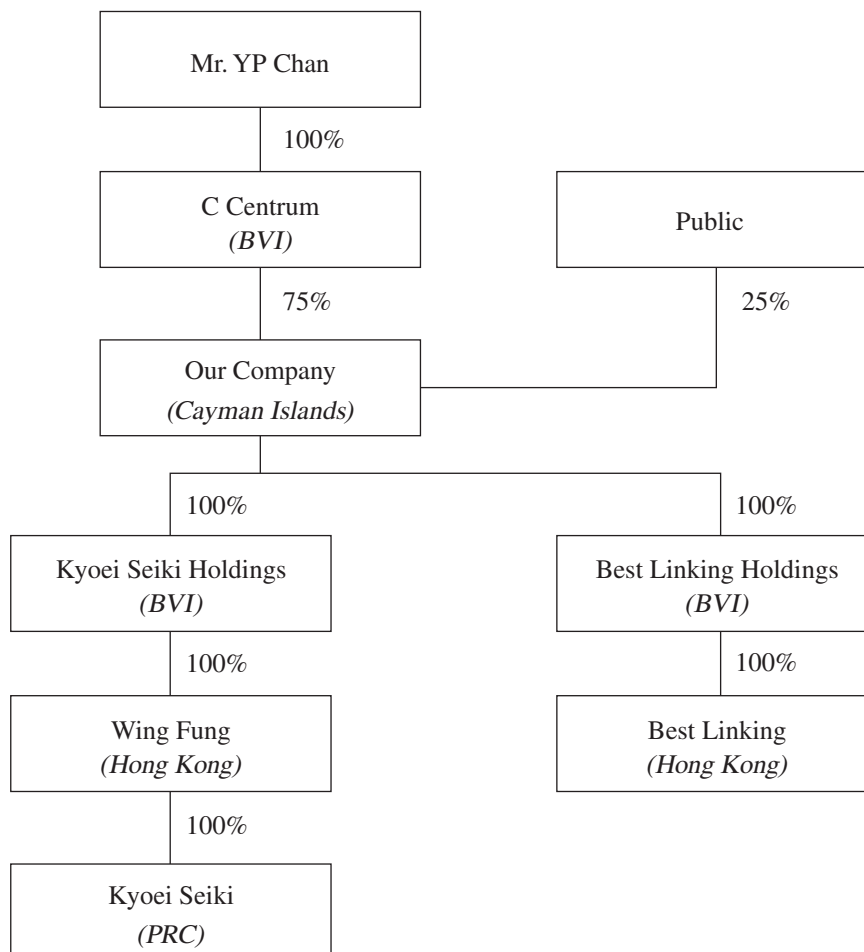
The following charts show our corporate structure (i) immediately after the Reorganisation (but before the Capitalisation Issue and the Share Offer and without taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme); and (ii) immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme):

The shareholding structure immediately after the Reorganisation (but before the Capitalisation Issue and Share Offer and without taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme) is set out as below:



HISTORY, REORGANISATION AND GROUP STRUCTURE

The shareholding structure immediately following the completion of the Capitalisation Issue and Share Offer (without taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme) is set out as below:



OVERVIEW

Our Group is principally a slewing ring manufacturer in the PRC. A slewing ring is a necessary transmission part for some large-size machineries and equipment, which can ensure the relative rotational motion between objects, as well as bearing the axial force, radial force and tilting moment simultaneously. Generally, it is a rotational rolling-element bearing that typically supports a heavy but slow-turning or slow-oscillating load. It has a wide application in many areas such as construction machineries and equipment, wind turbines, military equipment and machineries, robotics, etc.. For further details of its application and structure, please refer to the paragraph headed “Our products — Overview of slewing rings” in this section.

We position ourselves as a premium manufacturer of slewing rings targeting markets in Hong Kong and the PRC, as well as overseas markets such as Singapore, Malaysia, Northern Ireland, United States, Japan and Thailand. According to the Industry Report, our Group ranked fifth among the slewing ring manufacturers in the PRC in 2018 in terms of sales revenue to overseas markets, accounting for approximately 1.3% of the market share in China in 2018. Further, we are the largest slewing ring manufacturer in South China⁽¹⁾ in 2018 in terms of sales revenue to overseas markets. According to the same report, we accounted for approximately 0.5% of the slewing ring market in China in terms of sales revenue in 2018. After commencing business in 2007, we have accumulated in-depth industry experience and know-how for the production of slewing rings catering for both local and international market. We are able to produce a broad spectrum of models of slewing rings, with diameter ranging from 234 mm to 2.31 m, for various applications. Our Directors believe that in addition to our experience and knowledge, our ability to produce products adopting both applicable national JB or JB/T standards and JIS per customers’ request, our quality assurance control, our efficient and cost-effective production capability are the major factors that made our Group stands out from our competitors. For instance, in respect of our OEM customers, who are leading Japanese manufacturers or their affiliates, we are able to offer a warranty period of 3,000 hours of operation or two years (whichever occurs first), which is significantly higher than the usual warranty period of 2,000 hours of operation or one year (whichever occurs first) available in the market. We believe that our stringent quality assurance control enables us to command a higher selling price for our slewing rings. For further details of our quality assurance and our production capability, please refer to the paragraphs headed “Quality assurance” and “Our production facility” in this section.

As part of our service, we also source other slewing rings and mechanical parts and components for customers who have purchased slewing rings manufactured by us. Such mechanical parts and components are mainly undercarriage parts such as track chains, rollers and track shoes.

Our diverse customer base comprises both local and overseas customers from countries such as the United States, Philippines, Malaysia, Thailand, Taiwan, Japan and Singapore, and includes (i) wholesale traders and distributors, and (ii) manufacturers. Our customers include leading Japanese manufacturers or their affiliates, such as (i) Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (“**Sumitomo**”), a subsidiary of a company listed on Tokyo Stock Exchange, which is engaged in the manufacture of various machineries, and its subsidiary. Sumitomo is a leading heavy machine manufacturer in Japan, (ii) an affiliate of Yutani Industrial Co., Ltd. (“**Yutani**”), which is a leading construction machinery parts supplier in Japan; and (iii) Ishikawajima SCE (Xiamen) Construction Machinery Co., Ltd

Note: (1) South China means Guangdong Province, the Guangxi Zhuang Autonomous Region, Hainan Province, Hong Kong and Macau.

BUSINESS

(“**THISCE**”), whose shareholder is a leading heavy industry company in Japan. During the Track Record Period, according to customers’ requests, we manufactured slewing rings adopting applicable JB and JB/T standards and also JIS. According to the Industry Report, JIS has higher quality control requirements for slewing rings than many countries in the world.

The revenue generated from our operations in different locations for FY2017, FY2018 and 4M2019 were as follows:

Location	FY2017 HK\$'000	As % of total sales	FY2018 HK\$'000	As % of total sales	4M2018 HK\$'000 (unaudited)	As % of total sales	4M2019 HK\$'000	As % of total sales
Singapore (<i>Note 1</i>)	17,575	40.0	24,082	52.1	6,691	49.9	9,953	57.4
Hong Kong	7,232	16.4	6,445	13.9	2,553	19.0	789	4.6
Malaysia	1,536	3.5	5,603	12.1	1,902	14.2	3,567	20.6
the PRC	4,850	11.0	3,153	6.8	739	5.5	958	5.5
Northern Ireland	772	1.8	2,350	5.1	686	5.1	—	—
the United States	3,846	8.7	1,312	2.8	—	—	744	4.3
Japan	2,976	6.8	961	2.1	178	1.3	409	2.4
Thailand	2,533	5.8	734	1.6	23	0.2	—	—
Others (<i>Note 2</i>)	<u>2,652</u>	<u>6.0</u>	<u>1,627</u>	<u>3.5</u>	<u>650</u>	<u>4.8</u>	<u>911</u>	<u>5.2</u>
	<u>43,972</u>	<u>100.0</u>	<u>46,267</u>	<u>100.0</u>	<u>13,422</u>	<u>100.0</u>	<u>17,331</u>	<u>100.0</u>

Notes:

1. These Singapore-based customers include Customer A and Customer C, who accounted for approximately 33.2%, 39.4% and 39.7% of our total revenue for FY2017, FY2018 and 4M2019, are wholesale traders. To the best knowledge of our Directors, part of our slewing rings are re-sold to other countries such as the United States and Europe.
2. Others includes Taiwan, Canada, Turkey, the Philippines and New Zealand.

BUSINESS MODEL

We manufacture slewing rings for local and overseas customers primarily on an ODM basis. Our ODM customers include companies engaged in general wholesale trading and distributor of machineries and equipment or their parts, which will re-sell our products to the end-users in the market and may provide the related after-sales service. The products sold under this mode of operation are either for replacement of a worn out slewing ring of an existing machinery, or for assembly of a new machinery. Our ODM business leverages on our in-depth market knowledge and know-how accumulated through years of experience since our inception. We are able to provide a diverse range of different models of slewing rings for our customers’ selection. In the case of replacement of slewing rings, we can manufacture old models of slewing rings for machineries which already ceased production. This is attributable to our in-depth industry knowledge and our established database after years of operation in the industry.

BUSINESS

We also manufacture for some overseas customers on an OEM basis. Our OEM customers include leading Japanese manufacturers of various machineries and equipment or their affiliates. Our OEM business involves the manufacture and sale of products based on customers' specifications and guidelines.

We also derive our revenue from the sales of our proprietary branded products under OBM basis. During the Track Record Period, we sold our proprietary branded products through our OBM customers under the brand name of "JSG" in Malaysia and "NISSHO SEIKO" in Thailand respectively. We first started producing our proprietary branded products under the brand name of "KYOEI" in January of 2011. Having received such enquiries, our management decided to leverage on our industry experience to launch and market our own products. We then developed "NISSHO SEIKO" and "JSG" in October and December, 2012, respectively, targeting customers in Malaysia and Thailand. During the Track Record Period, we mainly sold products under our own brands for two customers, one based in Malaysia (being Customer G), and the other based in Thailand. Our OBM customers were mainly wholesale traders or distributors of machineries and equipment and their parts.

In respect of our OEM customers, we are provided with technical drawings and we need not design the product for them. Our OEM customers will specify all applicable specifications and standards that they require before we start producing products for them. Products produced under this business model will be utilised by our OEM customers directly. All of our OEM customers during the Track Record Period are Japanese manufacturers or their affiliates, which require us to produce products which conform to the JIS.

In respect of our ODM customers, we may have to work-out the design as well as all technical specifications from start to finish. Sometimes we are required to participate in the design and to work on the specifications for certain area to produce the slewing rings. Sometimes we are given the technical details to produce the slewing rings. Our Directors consider that JIS is of significant importance to our ODM customers and hence is applicable to our products that are sold to our customers on an ODM basis. First, based on our internal record, as at 31 March 2019, over 60% of the slewing ring models offered by us were designed for excavators made by Japanese manufacturers, such as Sumitomo and IHISCE, which to our Directors' knowledge, require its equipment and parts to be JIS-compliant. Second, the slewing rings sold to our ODM customers commonly adopt a quenching standard of JIS. Third, our general terms of warranty with most of our top-five customers (who are either ODM and/or OBM customers) during the Track Record Period provide that the applicable standards should include JB, JB/T or JIS. The products manufactured under the ODM basis will be re-sold under the brand name of our ODM customers, which include wholesale traders and distributors of machineries and equipment or their parts.

All products produced for our OBM customers will be sold under our own brands. Unlike products produced for our ODM and OEM customers, we will be in charge of the product packaging and its design produced for our OBM customers. Similar to products produced on an ODM basis, the level of our participation in the design of our products produced on an OBM basis depends much on whether our OBM customers will provide us with the technical details. First, the slewing rings sold to our OBM customers commonly adopt a quenching standard of JIS. Second, our general terms of warranty with most of our top-five customers (who are either ODM and/or OBM customers) during the Track Record Period provide that the applicable standards should include JB, JB/T or JIS.

BUSINESS

We also source other slewing rings and other mechanical parts and components of machineries for customers who have purchased slewing rings from us. We maintain such line of business to complement our main line of business which is the manufacture and sale of slewing rings to enable our customers to enjoy a more comprehensive “one-stop service” from us. The slewing rings that we source for our customers are mainly (i) models which we do not currently produce; and (ii) those which would not be commercially sound for our Group to produce ourselves when compared to sourcing due to small scale orders or low profit margin.

The following table sets forth a breakdown of our revenue by product category during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
					(unaudited)			
Slewing rings								
— ODM	27,588	62.7	31,114	67.3	7,013	52.3	13,221	76.3
— OEM	1,403	3.2	1,272	2.7	551	4.1	379	2.2
— OBM	3,897	8.9	1,304	2.8	127	0.9	967	5.6
— Others (Note)	<u>4,008</u>	<u>9.1</u>	<u>7,620</u>	<u>16.5</u>	<u>4,613</u>	<u>34.4</u>	<u>2,439</u>	<u>14.1</u>
	36,896	83.9	41,310	89.3	12,304	91.7	17,006	98.2
Other machinery parts	<u>7,076</u>	<u>16.1</u>	<u>4,957</u>	<u>10.7</u>	<u>1,118</u>	<u>8.3</u>	<u>325</u>	<u>1.8</u>
Total	<u><u>43,972</u></u>	<u><u>100.0</u></u>	<u><u>46,267</u></u>	<u><u>100.0</u></u>	<u><u>13,422</u></u>	<u><u>100.0</u></u>	<u><u>17,331</u></u>	<u><u>100.0</u></u>

Note: Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

We have an international customer base and are able to produce slewing rings adopting both applicable national JB or JB/T standards and JIS per customers' request

Since our Group's inception, we have developed business relationship with international customers from the United States, Philippines, Malaysia, Thailand, Taiwan, Japan and Singapore, some of which are (i) wholesale traders and distributors, and (ii) manufacturers. We have maintained business relationship with our five largest customers during the Track Record Period for over four years on average. We believe that our in-depth market knowledge and stringent quality assurance are strong factors causing them to purchase slewing rings from us.

We pride ourselves in our ability in manufacturing slewing rings that can conform to applicable JIS, which has higher product requirements for slewing rings than many countries in the world according to the Industry Report and in our Directors' opinion, are more stringent than JB or JB/T in some aspects, in particular on the requirements on the accuracy of gears on the slewing rings. During the Track Record Period, a majority of our revenue and production volume in terms of number of sets of slewing ring were derived from the sales of slewing rings that solely conform

to JIS. Based on internal records, of all slewing rings produced, the revenue derived from the sales of slewing rings that conform with JIS amounted to approximately HK\$29.2 million, HK\$29.9 million and HK\$10.6 million, which accounted for approximately 79.0%, 72.4% and 62.2% of our total revenue, for FY2017, FY2018 and 4M2019, respectively. The production volume in terms of number of sets of slewing rings accounted for approximately 82.6%, 86.8% and 85.4% of our total production volume for the same year/period. The rest of the revenue concerned predominantly the sales of slewing rings that conform to (i) JIS together with other standards such as JB and JB/T, or (ii) JB or JB/T alone. We can also manufacture slewing rings that conform to primarily JIS, with slight modification to conform with other standards such as JB and JB/T or JB or JB/T only. Our Directors consider that JIS is not only relevant to our OEM customers, who were Japanese manufacturers or their affiliates during the Track Record Period which would require our slewing rings to conform to JIS, but also our ODM customers, which include wholesale traders and distributors of machineries and equipment or their parts. This is due to the fact that based on our internal record, over 60% of our slewing ring models as at 31 March 2019 were designed for excavators made by Japanese manufacturers, which to our Directors' knowledge, require its equipment and parts to be JIS-compliant, and a majority of our revenue was derived from the ODM business model during the Track Record Period. Aside from the Japanese domestic market, these JIS-compliant excavators are also exported by the Japanese excavator manufacturers to other countries and there are also cases where the Japanese excavator manufacturers set up production plants outside of Japan which manufacture excavators which are JIS-compliant. Consequently, our Group's slewing rings that are JIS-complaint are essential both for the Japanese domestic market and markets outside of Japan. Further, our general terms of warranty with our top-five customers (who are all either ODM and/or OBM customers) during the Track Record Period provide that the applicable standards should include JB, JB/T or JIS. Our Directors consider that this niche does enable a medium sized player like our Group to compete effectively with the major market players.

Over the years, we have established close relationships with our customers. We contact our customers regularly to obtain feedback on our products and services. To assist our customers in case of any major enquiries, we send our technicians to them to conduct onsite inspections, and to provide timely assistance and advise on the application, replacement and maintenance of our slewing rings. Our OEM customers, who are leading Japanese manufacturers or their affiliates also send their technicians to inspect our factory regularly to make recommendations on our production process. Further, our general manager and sales personnel attend meetings with them to learn more about their latest product requirements and to keep abreast of the market development trend. Through these exchanges, we were able to gain better insights into the latest market trend and technology, which enabled us to respond to changes in market conditions or customer preference more promptly.

We have a strong focus on stringent quality assurance

We place a long-standing emphasis on the quality of our product portfolio. Our Directors believe that quality assurance is crucial to our operation in maintaining the consistency in quality and precision in the manufacture of slewing rings and have therefore implemented a quality management system throughout our operation. In 2009, we were initially awarded the ISO 9001:2008 standard for quality management system for the production of slewing rings and the related services. We believe that this is conducive in maintaining the consistency of quality and precision in the manufacture of slewing rings. Our quality assurance measures cover our entire

production process, which includes raw material procurement, in particular forged rings, production steps, and the finished products, as well as on returned products (if any). For further details of our Group's quality assurance, please refer to the paragraph headed "Quality assurance" in this section. During the Track Record Period, our Group did not receive any material customer's complaint and product return. We believe that this was attributable to our effective quality system.

We produce slewing rings for leading Japanese manufacturers or their affiliates on an OEM basis, such as Sumitomo and Yutani and IHISCE. In order to become their approved supplier, our Group was required to satisfy the applicable JIS of production procedures and we have sufficient quality assurance measures in place to ensure that we can manufacture quality products consistently. Our products need to meet their production specifications and requirements at all times and we are required to provide them with periodic reports on our production process and to be regularly assessed as their approved manufacturer or supplier. Our technicians have received training from these OEM customers to ensure that we are informed of their latest production requirement. In 2009, we engaged a Japanese consultant to review and provide guidance on our production process with a view to strengthen our quality assurance process, and to open up the Japanese market. We believe through manufacturing products for these leading Japanese manufacturers or their affiliates and engaging a Japanese consultant to advise and guide us through, we can upgrade and improve our production process in light of any new developments to JIS from time to time, hence assist us in improving our production process, helping us to plan our next step ahead in streamlining and to work out an automated process with regard to our production.

We have an experienced and capable management team

We have an experienced and capable management team led by our Chairman, Chief Executive Officer and executive Director, Mr. YP Chan, who has been instrumental in spearheading the growth of our Group. He has been with us for over 10 years. Mr. YP Chan has over 10 years of experience in the slewing rings manufacturing industry. Over the years, Mr. YP Chan has also developed stable business relationships with major customers. For further information of the experience of our management team, please refer to the section headed "Directors and Senior Management — Senior management and company secretary" of this prospectus.

We are supported by a capable management team which has in-depth knowledge and experience in the industry. They have ensured smooth operation of our manufacturing process, and worked closely with our technicians and provide overall supervision and guidance on our production process, in particular when new machinery was introduced. We believe their extensive knowledge and experience will enable us to respond promptly to various challenges from the changing market conditions or technological trend. Details of the qualification and experience of our Directors and senior management are set out in the section headed "Directors and Senior Management" of this prospectus.

Further, our technicians have vast experience in quality assurance and engineering, oversees our quality assurance department, which is crucial for maintaining a high standard and is instrumental to the success of our Group.

BUSINESS

As a supplemental part of our service to our clients who have purchased slewing rings manufactured by us, we also leverage on the in-depth market knowledge of Mr. YP Chan and our technicians, to source other slewing rings and other mechanical parts and components for them. Our Directors believe that such service has significantly increased our competitiveness and gives our Company a competitive edge over its competitors in the slewing ring manufacturing market.

BUSINESS STRATEGIES AND FUTURE PLANS

Our goal is to strengthen our position as a premium slewing ring manufacturer, and to leverage on our competitive advantages to expand the scale of our operation and increase our profit margin. In addition, we plan to embrace Industry 4.0 and shift towards high-technology means of production mainly driven by our desire to switch to a more interconnected, efficient and flexible business model which will increase our competitiveness in this fragmented slewing rings manufacturing industry by (i) increasing our efficiency and productivity; (ii) raising the quality of our products; and (iii) reducing our costs of production and our reliance on manpower. Our executive Directors are of the view that these future plans would accelerate the development of our Group's business and are strategically critical to the long-term growth of our Group.

We plan to achieve these goals by (i) acquiring and replacing machineries and equipment with an aim to enhance and expand our production capacity at our production facilities in Dongguan, the PRC; (ii) enlarging our market share and strengthening our marketing efforts; (iii) increasing our level of automation; (iv) establishing our ERP system; (v) expanding our finance department; and (vi) enhancing staff training. Details of our strategies are set out below.

To acquire and replace machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC

Given the utilisation rate of our machineries and equipment remained high during the Track Record Period, our Directors consider that it is pivotal for us to enhance our production capacity by acquiring and replacing machineries and equipment. The aim is twofold. Firstly we pride ourselves as a manufacturer of premium quality slewing rings. To remain competitive, we need to replace aged machineries and equipment with more updated and efficient models. Secondly, in order to capture a larger market share, we need to increase our production capacity and equip ourselves with machineries and equipment with higher production capabilities.

Our Directors consider that it is beneficial to our Group to acquire new machineries and equipment to add on and/or to replace the existing aged machineries and equipment for the following reasons:

- (1) some of our key machineries and equipment were purchased in or before 2008. Based on the in-house accounting assumption on the useful life expectancy of 10 years, which is the duration adopted by us in our accounts to calculate depreciation of our machineries and equipment, numerous key machineries and equipment have come to the end of their useful life. Please refer to the paragraph headed "Our production facility — Machineries and equipment" in this section for further details of the year of acquisition and the estimated remaining useful life of our key machineries and equipment.

- (2) during the Track Record Period, in respect of areas which we consider to be the bottlenecks of the production process, in particular turning, heat treatment and gear cutting, our workers worked two shifts (i.e. morning and afternoon shifts) per day, with each shift lasting about eight to ten hours. Although the adoption of three shifts a day is possible in theory, the creation of a third shift (i.e. overnight shift) is practically impossible. Firstly, there are few workers who are prepared to work overnight shifts and even if we can locate sufficient workers and technicians who are prepared to work overnight, they will be on an increased pay scale which will increase our costs considerably. Secondly, preparation time is required (like the change of toolings or the resetting of machineries and equipment) before the next shift can start the production process. It is, therefore, impossible to have 3 shifts within a 24 hours cycle. Thirdly, if the machineries are used 24 hours a day without any break, there will be no cooldown time or time left for us to carry out the routine maintenance as well as the repair of machineries. This could result in the machineries to overheat and breakdown more easily, i.e. the machineries will have a much shorter life span. Based on the above, our operation hours could be up to a range from 16 to 20 hours per business day which was about the maximum production capacity. Our Directors consider that in the long run, we need to enhance and expand our production capacity in order to take up larger orders as well as orders placed on short notice.
- (3) the utilisation rate of our machineries and equipment remained high during the Track Record Period. Our Directors consider that turning (i.e. step no. 1, 2, 6, 13, 16 of the section headed “Business — Production process”), heat treatment (i.e. step no. 4, 5, 9 and 12 of the section headed “Business — Production process”) and gear cutting (i.e. step no. 7 of the section headed “Business — Production process”) are the bottlenecks as well as the key steps of our production process. Based on the assumption set out in the table below, the average utilisation rate of the turning unit and the gear cutting unit was above 70% for FY2017, 90% for FY2018 and 90% for 4M2019. Our production line has almost reached full capacity and requires room for expansion. As such, we consider that additional machineries will have to be acquired to enhance and expand our production capacity. It is expected that after acquisition of the new machineries, the production capacity of our turning unit, heat treatment unit and gear cutting unit can be increased by 95.2%, 65.5% and 132.0%, respectively.
- (4) by replacing some of our existing machineries used in our heat treatment unit with up-to-date machineries and equipment, we will achieve higher efficiency and increase our production capacity. Based on the information provided by the supplier of the machineries, the new quenching machines which are more advanced will achieve more uniform contour hardening and produce products with better mechanical properties. Further, the current heat treatment machines require constant monitoring by skilled workers. The new machineries are technologically advanced automated equipment equipped with more accurate and advanced sensors, and can be handled by non-experienced workers, thereby allowing us to save on increasing labour costs. Save that the existing machineries and equipment may have to be re-positioned within the factory premises, our Group does not need to renovate or re-design its existing production facility to accommodate these new machineries and equipment. Our production facility has enough floor space to accommodate both the new and existing machineries. The installation of the new machineries for the turning unit and gear cutting unit can take place concurrently with the current production process and will not cause any material disruption to the operation of our production facility. We intend to replace two

existing heat treatment units with new machineries and we intend to do so in a gradual manner and will ensure that the new machineries are properly installed, calibrated and operating smoothly before we stop using and disposing of the units to be replaced. As such we do not expect that the installation of new machineries or replacement of existing machineries and equipment will cause material disruption to our production process.

- (5) given that the three units (i.e. turning unit, heat treatment unit and gear cutting unit) are considered the key steps and the bottleneck of our production process and they are inter-connected with each other, our Directors are of the view that in order to enhance and expand our production capacity, it is imperative for us to replace or purchase additional machineries and equipment in all these three units at the same time. If we simply replace the machineries in one or two units, the bottleneck will still exist for the unit(s) which has/have not been replaced.
- (6) our Directors have considered renting instead of acquiring the new production machineries. However, based on reply from the supplier of the new machineries, no rental service of the production machineries is available. Further, even if there are other rental services of similar models of machineries provided by other companies, given that these machineries and equipment are the core business assets of our business, our Directors are of the view that owning instead of renting the production machineries give us more certainty in the long run. For instance, if we fail to rent the machineries on substantially the same terms upon the expiry of the rental service, it may interrupt our business operation materially. Further, if we need to rent the machineries and equipment from another lessor, we need to stop our production for a considerable period of time to ensure the new system will be properly installed and sufficiently tested before it can be put into full operation and this may cause material disruption to our business operation. Our Group will also incur relocation costs. As such, our Directors are of the view that acquiring our own production machineries is in the best interest of our Group.
- (7) further, based on preliminary discussions with the banks, since our Group does not have sufficient collateral acceptable to them and we are not a listed company, in order for our Group to obtain bank borrowings, our Controlling Shareholder has to provide other acceptable collateral as security. This may cause financial reliance on our Controlling Shareholder. Our Group has also obtained a quotation from a financial leasing company. Based on such quotation, they would require our Controlling Shareholders to provide personal guarantee and/or pledge their personal assets for such financial leasing arrangement. In addition, it is estimated that the total finance cost will be approximately RMB2.2 million, being approximately 16.9% of the lease amount and they would require a deposit of 10% and the first instalment of 30% of the total acquisition costs of the new machineries and equipment. The estimated annual payment under such financial leasing arrangement will be about RMB4.5 million. Our Directors are of the view that in general, the financial leasing arrangement available in the market only lasts for a comparatively short period of time of around three years, and the tenure is not long enough for our long-term business strategic development.

BUSINESS

Our Directors have also considered the feasibility of utilising internal resources only to finance the implementation of all of our future plans, in particular the acquisition of new machineries and equipment, but have concluded that this may not be ideal as our Group generally requires sufficient working capital and cash flow from time to time. This is due to the fact that our production cycle takes approximately 39 days and our inventory turnover days are relatively long. Our inventory turnover days were 281 days for FY2017, 358 days for FY2018 and 369 days for 4M2019, respectively. As explained in the section headed “Financial Information — Analysis of major components of the consolidated balance sheets — Inventories — Inventory turnover days” of this prospectus, we may produce more slewing rings than the ordered amount to benefit from the economy of scale and in order to lower our average costs of production. Further, on occasion we had to accumulate sufficient stock to make a shipment to customers. Both factors led to our long inventory turnover days during the Track Record Period. High inventory levels may also require us to commit substantial capital resources, in particular, when, as anticipated our production capacity is increased, preventing our Group from using such capital for other important purposes. As such, our Directors are of the view that the utilisation of a substantial part of our available internal resources for the implementation of all of our future plans, in particular the purchase of new machineries and equipment, may strain our liquidity position and may affect our business growth for a considerable period of time.

The below table sets out the new machineries that we intend to acquire:

Types of machinery	Functions	Expected useful life	Units	Estimated total acquisition costs	
				<i>HK\$' million (approx.)</i>	<i>RMB' million (approx.)</i>
Quenching machines and adaptors (for the heat treatment unit)	To enhance the loading ability and the durability of the raceway and gears by quenching	10 years	3	7.2	6.2
High-speed precision CNC finish milling machines (for the gear cutting process)	To create individual tooth spacing on the gears	10 years	2	6.4	5.5
CNC lathe (for the turning unit)	To cut the forging ring and teeth	10 years	4	5.2	4.5

Among the three units, which are considered the bottleneck of our production process, our Directors consider that it is appropriate to utilise a higher proportion of the net proceeds from the Share Offer to the heat treatment unit and the gear cutting unit and relatively less to the turning unit, despite the utilisation rate of the heat treatment unit during the Track Record Period was not as high as the other two units, and the production capacity of the turning unit will become the lowest, due to the following reasons:

In respect of the heat treatment unit

- Better product quality: as described in the section headed “Future Plans and Use of Proceeds” of this prospectus, the new quenching machineries are more technologically advanced and can produce products of better quality. As opposed to the tooth-by-tooth hardening that is currently utilised by the existing machineries, the new machineries are able to perform through hardening of gears, which is a more advanced technique. Further, since the new machineries are equipped with sensors and rely less on manual work, they can achieve more uniform contour hardening and hence better mechanical properties of the products.
- Lower product failure rate: the new machineries are equipped with thermostats which will ensure the temperature is consistent. This will help reduce the cracking of slewing rings and the product failure rate.
- Better quality control: the new quenching machineries are easier to operate and record the stage of production automatically.
- Less training: it takes less time to train up a new worker to operate the new machineries than the existing machineries.
- Able to quench small-to-medium-sized slewing rings with higher stability and efficiency.
- Existing machineries are aged: as disclosed in the paragraph headed “Machineries and equipment” in this section, three out of four machineries in the heat treatment unit have an estimated remaining useful life of 0 year and are aged.

In respect of the gear cutting unit

- More technologically advanced: the new machineries create gears by milling, which is more advanced technique than gear cutting. They can create gears with higher accuracy and stability, and are safer than the existing unit. The level of accuracy of the gears created by new machineries cannot be achieved by the existing gear cutting machines.
- More efficient: based on information provided by the suppliers, the new machineries are able to produce gears much more efficiently. The production speed of this step can be increased up to six times compared to the traditional model.
- Existing machineries are aged: as disclosed in the paragraph headed “Machineries and equipment” in this section, all the machineries in the gear cutting unit have an estimated remaining useful life of not more than two years and are aged.

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The estimated investment payback period for the new machineries and equipment is approximately 36 months. Investment payback period refers to the time when the new machineries and equipment's net cash inflow is able to cover the initial investment costs, and was calculated by dividing the initial investment costs of the new machineries and equipment by the amount of net cash inflow generated by them per month. The estimated breakeven period is approximately eight months. Breakeven period refers to the time when the income generated by the new machineries and equipment is able to cover the relevant operating costs and expenses on accounting basis. Given that the operating costs and expenses of machineries and equipment are mainly utilities and depreciation which are overhead costs, our Directors consider that breakeven is attained when revenue is recognised from the first batch of products manufactured by the newly acquired machineries and equipment. Based on the experience of and as confirmed by our Directors, it takes approximately six to seven months to order, install and calibrate the new machineries and equipment and put them into operation. Assuming that the production planning is completed during the said period, our Company was able to produce and sell the products in the eighth month.

The table below sets out the utilisation rate of different production units of equipment and machineries and the assumption of calculation:

Name of unit	FY2017			FY2018			4M2019			Annual production capacity after the new machineries and equipment are acquired (set)
	Annual production capacity ¹	Actual production volume	Average utilisation rate ²	Annual production capacity ¹	Actual production volume	Average utilisation rate ²	Annual production capacity ¹	Actual production volume	Average utilisation rate ²	
	(set)	(set)		(set)	(set)		(set)	(set)		
Turning unit	3,752	2,650	70.6%	3,752	3,533	94.2%	1,250	1,240	99.1%	7,325
Heat treatment unit	5,181	2,650	51.1%	5,181	3,533	68.2%	1,727	1,240	71.8%	8,576
Gear cutting unit ³	3,350	2,650	79.1%	3,350	3,533	105.5%	1,117	1,240	111.0%	7,772

Notes

1. The annual production capacity for each financial year/period of each of the production unit is calculated based on the assumption that these production units can be operated (i) on all working days of each financial year/period, being 268 days, 268 days and 89 days for FY2017, FY2018 and 4M2019, respectively; (ii) 16 hours per day (i.e. eight hours per shift) in respect of the turning unit and the quenching unit, and 20 hours per day (i.e. 10 hours per shift) in respect of the gear cutting unit; (iii) and at their optimum production speed. These figures had taken into account the routine maintenance, replacement of raw materials and other factors which arise in the ordinary course of operation).
2. The average utilisation rate is worked out by dividing the actual production volume produced in each financial year/period by the annual production capacity for the same machineries and equipment. As the annual production capacity is worked in accordance with assumptions adopted under Note 1 above, the average utilisation rates of our machineries and equipment are subject to change if any one or more of the underlying assumptions is, due to reasons beyond our control, varied.
3. Some of the slewing rings that we produce do not bear gears at all and we have excluded them for the purposes of ascertaining the annual production capacity of the gear cutting unit. As such, the actual production volume (which included slewing rings with or without gears) may exceed the annual production capacity.

Our Directors believe that our Group will have sufficient demand for our slewing rings after acquiring the new machineries and equipment as described above. During the Track Record Period, we did not take at least two orders covering no less than 1,000 sets of slewing rings each with the expected

delivery date falling in late 2019, 2020 or 2021, for the reason that our production line had reached its full capacity and we were not in a position to take on more substantive orders. It was then intended that the prices of such orders, if accepted by us, would be fixed when the delivery date is confirmed. Based on the average selling price of slewing rings to our OBM and ODM customers of HK\$9,969 per set and HK\$13,658 per set during 4M2019, respectively, and assuming that both customers would purchase 1,000 sets of slewing rings from our Group, the revenue from these two orders was estimated to be approximately HK\$23.6 million. With the new machineries and equipment, we will be able to take up more orders. Furthermore, with the increased capacity, we will be in a position to take on sizable orders even on short notice. Further, the revenue derived from the sales of slewing rings manufactured on ODM basis increased from approximately HK\$27.6 million for FY2017 to HK\$31.1 million for FY2018, representing an increase of approximately 12.7%, and increased from approximately HK\$7.0 million for 4M2018 to HK\$13.2 million for 4M2019, representing an increase of approximately 88.6%. Since the manufacture and sales of slewing rings on ODM basis accounted for the lion share of our revenue during the Track Record Period, our Directors consider that if our revenue derived under ODM basis continues its momentum in the coming years, our production capacity will not be sufficient to cope with such increase. Furthermore, according to the Industry Report, (i) the revenue from the overseas sales of slewing rings of the PRC is expected to grow by 6.3% CAGR from 2018 to 2023, reaching RMB3.8 billion in 2023, (ii) the total sales revenue of slewing rings in China is forecasted to grow at 4.8% CAGR from 2018 to 2023, reaching RMB10.6 billion in 2023. Moreover, our Group intends to enter into the North America market through the participation in the North America trade exhibitions. According to the Industry Report, North America has the world's largest slewing ring market with a turnover of RMB9.5 billion per annum. We also intend to expand into other markets to overseas customers such as South Africa by participating in the local trade exhibition in South Africa. According to the same report, the slewing ring market in South Africa is expected to grow at the rate of 2.4% CAGR from 2018 to 2023.

We intend to utilise approximately HK\$18.8 million from the net proceeds of the Share Offer to acquire and replace machineries and equipment in Q4 of FY2019, with an aim to enhance and expand our production capacity at our production facilities in Dongsuan, the PRC when the new machineries and equipment are put into operation in Q1 of FY2020. For further details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

To enlarge our market share and strengthen our marketing efforts

According to the Industry Report, the revenue from the overseas sales of slewing rings of the PRC is expected to grow by 6.3% CAGR from 2018 to 2023. We will continue to strengthen our marketing efforts, both in the PRC and overseas, in a bid to capture a larger market share of a growing market. Our Group intends to utilise part of the net proceeds of the Share Offer to recruit one sales manager. We also aim to participate in major local and international trade exhibitions such as Conexpo-Con/Agg in U.S., Bauma Conexpo in Africa and Bauma China, which are the well-known trade fairs in the construction industry in the U.S., South Africa and the PRC, which according to the Industry Report is expected to grow at positive CAGRs from 2018 to 2023, to showcase our product portfolio and production capability to overseas market in a bid to enlarge our market share. According to our previous experience in participating in trade exhibitions, we were able to reach out to new customers both from overseas and in the PRC. In particular we successfully attracted new customers based in the U.S. and Turkey and started doing businesses with them. According to the Industry Report, the Conexpo-Con/Agg will attract potential customers from all over the world including but not limited to the U.S.. Our Directors consider

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that participation in this trade exhibition would enable our Group to showcase our products to our potential customers from all over the world. Further, the Bauma Conexpo will draw in potential customers not only from South Africa but also South America. As such, participation in the Bauma Conexpo in Africa would enable our Group to attract potential customers from countries in the South Africa as well as from South America, such as Argentina and Columbia and even Mexico. Through our participation in the above, we will be able to market our products to our future customers, and enhance our brand awareness, and keep abreast of the market development. In particular, we have received customers' enquiries or received customers' orders from Mexico, South Africa, and Columbia before but we did not have sufficient marketing personnel to expand our foothold there. We expect that upon Listing, we can allocate more resources in expanding our sales and marketing across overseas market.

The following is a breakdown showing the estimated costs and timeframe of the trade exhibitions we intend to participate:

Name of trade exhibition	Estimate costs		Timeframe
	HK\$'000	RMB'000	
	(approx.)	(approx.)	
(a) Conexpo-Con/Agg in the U.S., a construction trade show in North America for construction and mining machines	1,150	991	Q1 in 2020
(b) Bauma China, an international trade fair for construction machinery, building material machines, construction vehicles and equipment	560	483	Q4 in 2020
(c) Bauma Conexpo in Africa, a trade fair in South Africa for construction and mining machineries	1,150	991	Q1 in 2021
Total	2,860	2,465	

Further, we intend to hire additional marketing staff in our sales department to step up our sales effort. We also intend to engage a marketing company to advertise our Group and our products through smartphone application and internet search engine optimisation, and for designing our product catalogue and marketing materials, for approximately one year. With the help of such marketing company, we intend to launch our official account in an instant messaging smartphone application in order to provide regular updates to subscribed users. This will help advertise our products and our Group to targeted audience in the PRC. We will also optimise the content of our official website so that our potential customers from around the globe can get the most updated information about us. Further, the content of our official website will be updated regularly to increase its visibility and ranking when an internet search is performed by internet search engine optimisation on slewing rings manufacturers, we believe that it will help market our Group and products and potentially, some of the visitors may then be converted into customers.

During the Track Record Period, we primarily marketed our products through referral and words-of-mouth. To enlarge our market share in the industry, in particular the sales of slewing rings to the overseas markets, we need to expand our sales department and step up our marketing effort. We believe

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that due to insufficient marketing personnel in our Company, we have lost business opportunities with overseas customers from Columbia, South America, Indonesia, New Zealand and the United Kingdom in recent years. Based on the initial enquires and communications with these potential customers, our Directors believe that they could have purchased about 2,000 sets of slewing rings from us and brought additional revenue of about HK\$27.3 million during the Track Record Period, assuming the transactions proceeded as set out in the initial communications and the products were sold at the average selling price of HK\$13,629 per set of slewing rings. As such, our Directors believe that additional marketing staff should be hired to open up our exposure to start doing businesses with these potential customers.

Our Group intends to utilise approximately HK\$4.5 million from the net proceeds of the Share Offer to capture the market growth and strengthen our marketing efforts. For further details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

To increase our level of automation

In order to eventually achieve the Industry 4.0 accreditations, we aim to integrate smart automation solutions and real time data exchange into our production process and become a smart factory in the long run. To this end, it is necessary for us to increase the level of computerisation, automation and data exchange of our Group in our production process. The adoption of the ERP system as described above is our first step towards smart automation. In addition to the above, we intend to acquire one unit of robotic arm to increase our level of automation and to reduce reliance on manual power by utilising approximately HK\$2.0 million of the net proceeds from the Share Offer. Further, we intend to engage a consultant company by utilising approximately HK\$0.4 million of the net proceeds from the Share Offer to advise us on the automation process so that we will eventually become a smart factory as contemplated under Industry 4.0.

Our Group intends to utilise approximately HK\$2.4 million from the net proceeds of the Share Offer to increase our level of automation. For further details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

To establish our ERP system

During the Track Record Period, our accounting and inventory information are recorded in our in-house accounting system. To cope with the anticipated enhancement and expansion of our production capacity, we intend to obtain a license to use an ERP system developed by a third-party, which could enable us to more efficiently track and monitor our production process, finance information and inventory information and to achieve automation of payroll processing. It will also allow us to collect and monitor warehouse information including the inventory sourcing raw materials and finished goods. Furthermore, it can enhance collaboration across our Group’s supply chain which facilitates efficient communication of manufacturing schedules and forecast orders, raw materials procurements and production planning between our customers, suppliers, and our Group. As such, our management will be able to collect real-time data of our production process for future reference and improve the accuracy and efficiency of our production schedule and enhance our inventory control.

Our Group intends to utilise approximately HK\$1.9 million from the Share Offer to set up an ERP system. For details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

To expand our finance department

To accommodate the increase in our production capacities and strengthened marketing efforts, our Group intends to recruit additional finance staff with relevant experience and accounting knowledge to support our finance department. In such connection, we intend to hire one finance manager and one finance staff to support our Group's finance department.

Our Group intends to utilise approximately HK\$1.5 million from the net proceeds of the Share Offer to expand our finance department. For further details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

To enhance staff training

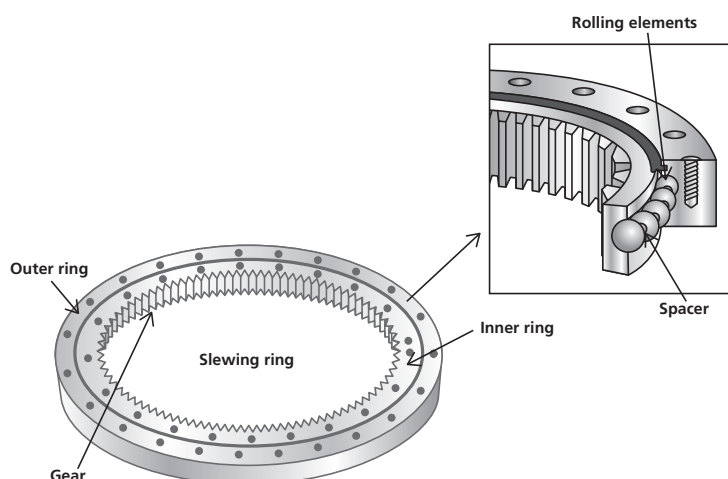
We believe that our Group's success depends on our ability to hire and cultivate dedicated and motivated key management, as well as nurture and retain workers with appropriate experience and expertise. In order to enhance the standard and professionalism of our key management and workers, we intend to invest in training programs for them. To pursue this objective, we intend to provide full subsidy for our key management and certain selected employees and workers to attend tailored training programs or courses in encompass numerous areas from top and middle-level business management to practical courses relating to quality assurance for workers.

Our Group intends to utilise approximately HK\$0.3 million from the net proceeds of the Share Offer to enhance staff training. For further details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

OUR PRODUCTS

Overview of slewing rings

The diagram below shows the main structural components of a slewing ring:



Outer and inner rings and raceway

A typical slewing ring contains an outer ring and inner ring made of steel. Some slewing rings do not bear gear. For the ones which bear gear, the gear may locate at either the outer ring or the inner ring, and be connected to a slewing drive for providing rotational torque to the slewing ring. Each ring contains a raceway which is hardened to a specified depth by induction heating to encase the rolling elements. We offer different raceway configurations for our customers' selection, such as four-point contact and crossed roller. Our outer and inner rings are steel made of 50Mn, 42CrMo and S48C.

Rolling elements

Steel balls or rollers are usually used as rolling elements (GCr15) to provide uniform load distribution between the outer and inner rings and minimise rotational resistance. The dimension of the rolling elements is based on customer's request.

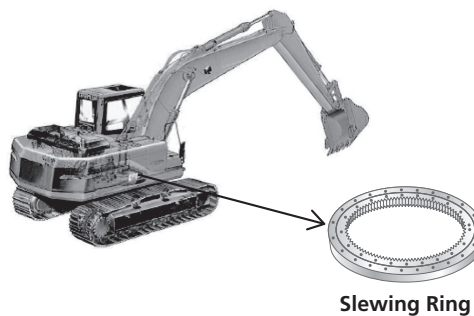
Spacers

Spacers are typically made of plastic and are used to separate the rolling elements. They are placed between the rolling elements to help minimise friction, jamming and skidding during rotation when the slewing ring is in operation.

Gear

Our slewing ring can be manufactured with internal gear, external gear or without gear. The surface hardness level of our gear is typically HRC 50–57. The gear of the slewing ring is typically induction-hardened for wear resistance. Induction hardened gear can substantially improve durability by preventing surface wear and fatigue.


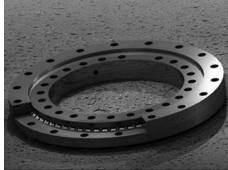
The following graph shows the use of a slewing ring in an excavator, which is one of the applications of our products:

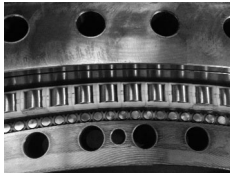



Slewing rings have a broad range of applications. For further details of these application, please refer to the paragraph headed "Our product portfolio" in this section.



Our product portfolio

The following are principal types of slewing rings that our Group is able to produce:

Name of product	Sample picture	Brief description	Designed application (Note 1)
1. Single-row four-point contact ball slewing ring (HS series, Q series and 01 series)		This type of product consists of two seat-rings. The structure is compact and the product is light. The rolling elements (in the form of steel balls) come in contact with the arched raceway at four points can withstand radial, axial forces and tilting moments simultaneously.	It is suitable for construction machinery such as the turntables of the conveyor systems, welding machines, small to medium-sized cranes and excavators.
2. Single-row crossed roller slewing ring (11 series, HJ series and J series)		This type of product consists of two seat-rings. The structure is compact and the product is light. It is manufactured with high precision and small assembly clearance. The rolling elements come in the form of rollers. It can withstand relatively larger radial force compared to other type of products.	It is suitable for medium- to heavy-duty application, such as transportation and construction machineries.

Name of product	Sample picture	Brief description	Designed application (Note 1)
3. Triple-row roller slewing ring (13 Series)		The triple-row cylindrical roller slewing ring has three seat-rings. The rolling elements come in the form of rollers. It is designed to carry heavy loads where little space is available. Its shaft and radial dimensions are larger than the other type of slewing rings and it has the strongest structure.	It is suitable for heavy-duty machines such as heavy-duty cranes, tunnel boring machines, mining machineries, ship cranes and container cranes.
4. Double-row ball slewing ring (02 series)		This type of slewing rings has three seat-rings and two rows of rolling elements (in the form of steel balls). According to the load-bearing condition, two rows of steel balls with different diameters are arranged. This arrangement enables the product to withstand large axial forces and tilting moments. The axial and radial dimensions of the double-row ball slewing ring are relatively large, and the structure is strong.	It is particularly suitable for medium-duty machines such as medium-sized tower cranes and truck cranes.

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Name of product	Sample picture	Brief description	Designed application (Note 1)
5. Slim series slewing ring (薄型迴轉支承)		This type of slewing ring has an increased cross section and bore diameter as compared to the standard slewing rings. Its slim features help save weight, reduce friction, create space, provide excellent running accuracy and increase design flexibility.	It has a broad range of applications including radar, tube and pipe cutting machines, satellite and communications equipment, textile machinery, aerospace and defense, index and rotary tables packaging equipment, machine tools etc..
6. Light series slewing ring (輕型迴轉支承)		This type of slewing ring has the same structure as the others but it is lighter and helps to save weight.	It is commonly used in filling machinery, food machinery, environmental protection machinery and other fields.

Notes:

1. These are the designed and intended application only to the best knowledge of our Directors. Our customers may use it for other applications.
2. We only recorded sales from the first type (i.e. item no.1) of slewing rings during the Track Record Period.

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The following table sets out the average selling price of our slewing rings by mode of operation for the Track Record Period:

	Average selling price (per set) (unaudited)				Range of selling price (per set) (unaudited)			
	FY2017 HK\$	FY2018 HK\$	4M2018 HK\$	4M2019 HK\$	FY2017 HK\$	FY2018 HK\$	4M2018 HK\$	4M2019 HK\$
ODM	13,464	13,629	15,213	13,658	2,339– 296,020	2,415– 164,640	3,433– 164,266	2,755– 145,225
OEM (Note 1)	3,077	3,087	3,061	3,185	2,260– 6,670	2,597– 3,814	2,706– 3,324	2,821– 3,492
OBM	10,044	11,963	21,167	9,969	4,440– 183,000	5,057– 43,000	8,128– 43,000	3,780– 31,734
Others (Note 2)	15,780	16,458	16,358	12,973	2,600– 67,500	392– 192,080	2,819– 191,835	7,183– 55,735

Notes:

1. The average selling price of our slewing rings manufactured under the OEM basis was lower than the others mainly due to the smaller size of the slewing rings sold under this mode of operation, and the fact that we need not design the relevant products for our customers.
2. Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

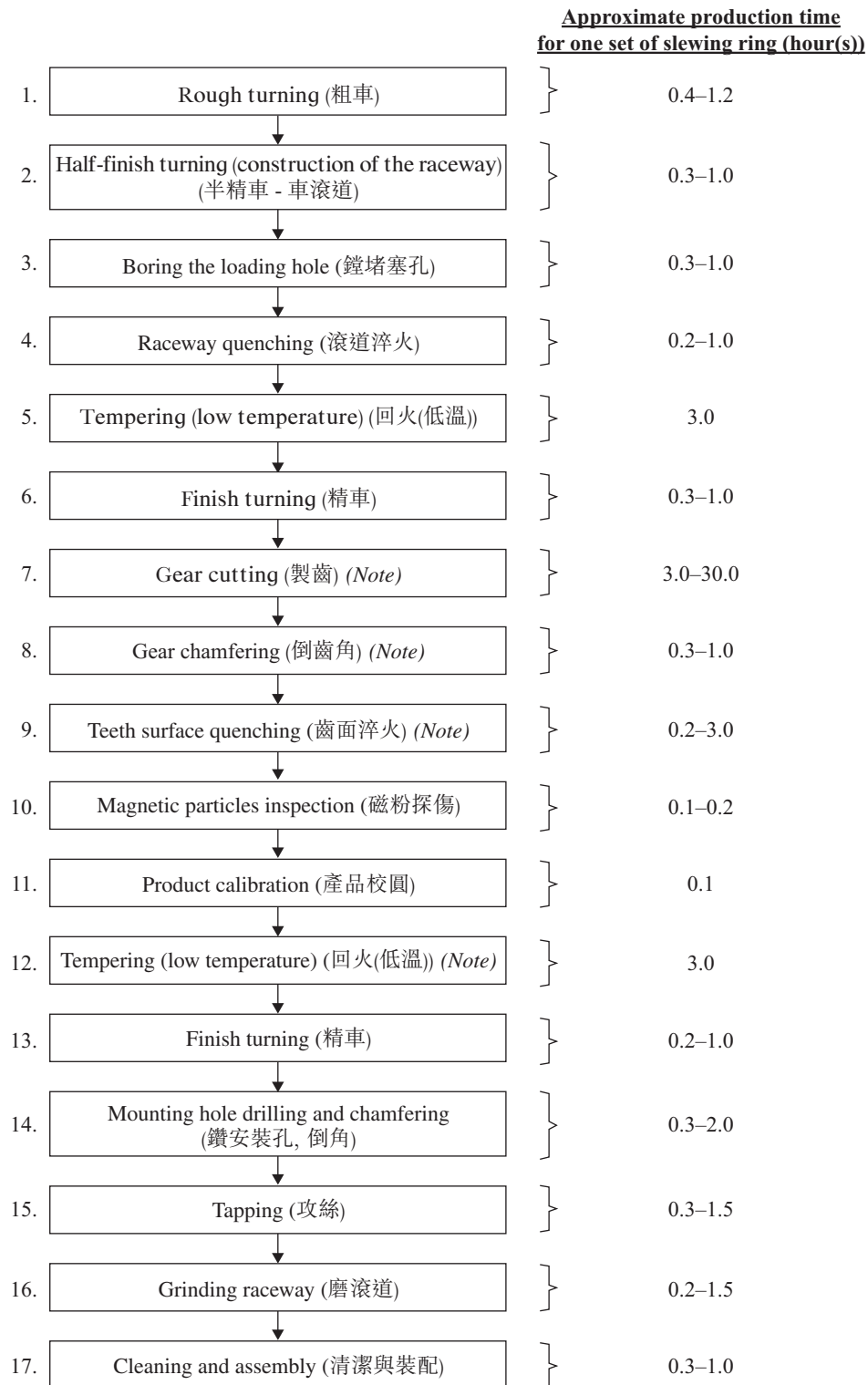
Other products that we source for our customers include slewing rings and machinery components and parts that are relevant to the type of machine on which our slewing rings will be installed. They were mainly undercarriage parts such as track chains, rollers and track shoes for cranes.

To supplement our service to customers, we also provide our customers with various related services by leveraging our industry knowledge. This includes sourcing services, consulting services, design services and maintenance services.

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Production process

For illustrative purposes, the following chart sets forth the key steps in the production process:



Note: These steps are only applicable to outer or inner rings with gears.

1. *Rough turning (粗車)*

The forged ring is attached to a moving part and at the same time, a fixated cutting tool is used to remove the excessive materials and the rusty part of the forged ring. After this process, the forged ring is roughly cut into the designated size.

2. *Half-finish turning (construction of the raceway) (半精車 — 車滾道)*

Half-finish turning is one of the most important steps in the manufacturing process of slewing rings. It involves the construction of the raceway and half-finish turning of the raceway before raceway quenching. The purpose of half-finish turning is to ensure the shape and the size of the raceway are constructed on the outset in accordance with the specifications. Since the precision of a slewing ring is determined by several factors, which include the roundness of the raceway, the half-finish turning process will lay down a solid foundation for the turning of the raceway.

3. *Boring the loading hole (鏜堵塞孔)*

The loading hole is bored on the ungeared ring, which is typically the outer ring of our slewing rings. The loading hole allows the rolling elements to be loaded into the raceway during the assembly stage. When the assembly is completed, the loading hole will be closed with the loading plug and the loading plug will be fixed with a taper pin.

4. *Raceway quenching (滾道淬火)*

The surface of the raceway is hardened by induction heating and then quenched. The mechanical properties of the surface of the raceway is altered by selectively heating the surface of the raceway by induction for a specific period of time, and then rapidly quenched by applying a cooling agent. This process can improve the hardness and strength of the quenched part, thereby increasing the bearing capacity of the raceway and enhancing the durability of the slewing ring.

5. *Tempering (low temperature) (回火(低溫))*

Tempering is a heat treatment technique that improves the properties of metallic materials. A relatively low heating temperature, usually at 150°C–250°C, is used for this step. After tempering, the structure of the steel tends to be stable, less brittle, and tougher and the plasticity of the steel ring is improved. This process can also prevent deformation and cracking of hardened parts of the steel ring.

6. *Finish turning (精車)*

The size and shape of the forged ring and raceway are turned and adjusted further. This is to cater for the change in size or shape brought about by thermal expansion and contraction of the forged ring during the tempering stage.

7. *Gear cutting (製齒)*

We are able to produce slewing ring with or without gears. As such, steps no. 7 to 9 are only applicable to slewing ring with gears. We typically create gear on the internal side of the inner ring, or on the external side of the outer ring.

8. *Gear chamfering (倒齒角)*

We chamfer the sharp edges of the gear teeth by using mechanical arms and chisel.

9. *Teeth surface quenching* (齒面淬火)

It is a part of the heat treatment that was applied to the surface of the teeth on slewing rings to improve the performance of the teeth (such as hardness and strength) while maintaining the performance of the core ring (such as toughness). Similar to raceway quenching, the surface of the gear teeth is hardened by quenching and tempering. We typically increase the surface hardness level to HRC 50–57.

10. *Magnetic particle inspection* (磁粉探傷)

We inspect the magnetic particle on a random sampling basis to check if the forgings have inner defect.

11. *Product calibration* (產品校圓)

We make some final adjustment to the slewing rings and to ensure the shape and size of the slewing rings are precisely made. This helps to lay down a better-quality assurance in the final product.

12. *Tempering (low temperature)* (回火低溫)

Step 5 of the production process listed above is repeated to improve the mechanical properties of the slewing rings.

13. *Finish turning* (精車)

The steel ring and raceway are further turned to ensure that they are of the desired size and shape.

14. *Mounting hole drilling and chamfering* (鑽安裝孔與倒角)

We drill mounting holes on the slewing rings so that they can be fixed to the surface of machinery. The position of the hole drilling on the slewing rings must be precise as it will directly affect the installation of the rings onto other parts of the component. We will chamfer the sharp edges of the gear. We will then inspect the items including hole diameter, chord length and central diameter.

15. *Tapping* (攻絲)

The mounting holes are tapped to accept bolts so that the installation of the slewing ring onto a surface can be done more quickly and accurately.

16. *Grinding raceway* (磨滾道)

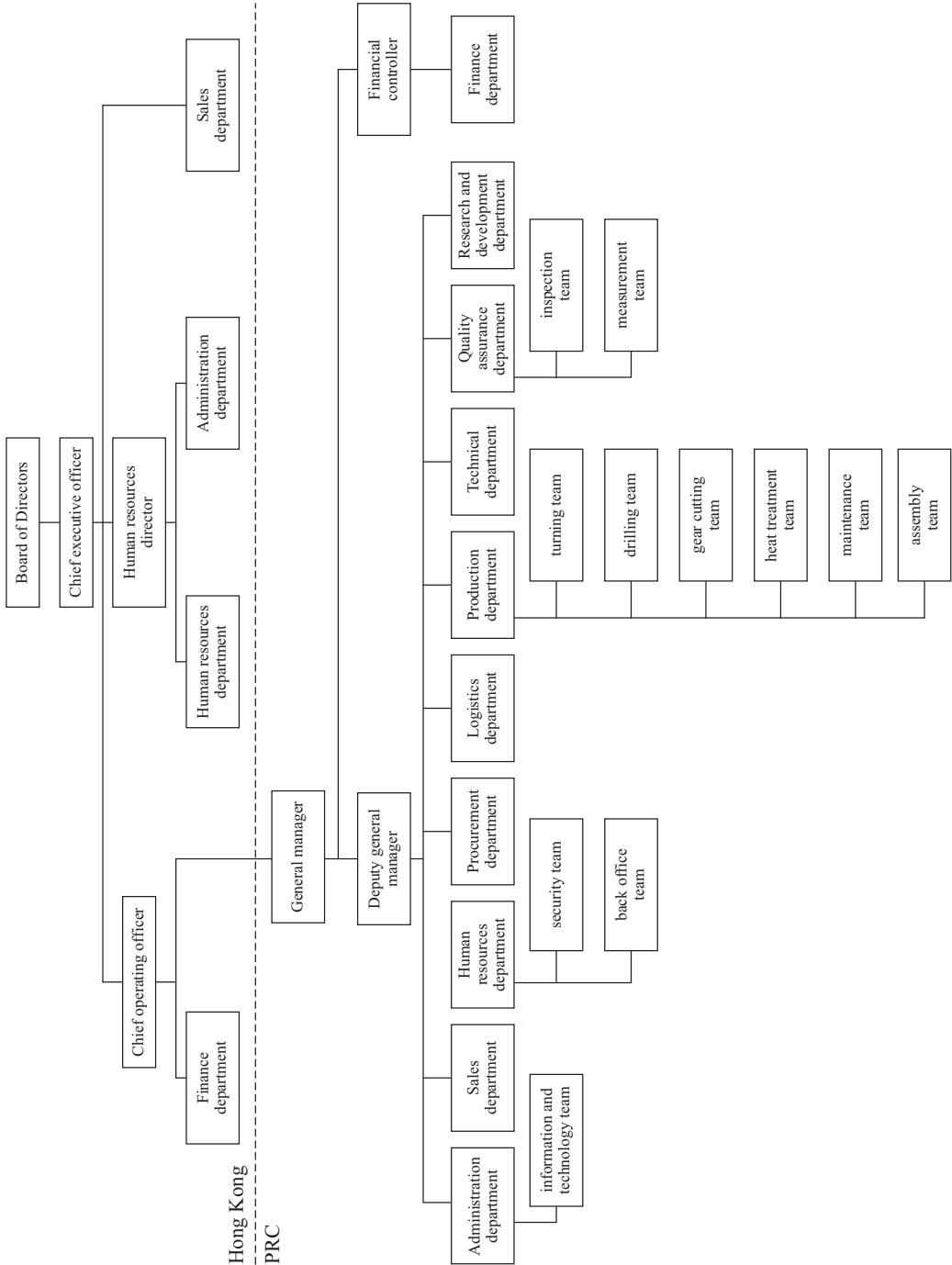
Grinding the raceway is one of the most important steps in the slewing ring production process. We carefully select the appropriate grinding wheel to complete the grinding and we strictly control the line speed to avoid raceway burns. Fine grinding and roll milling are carried out further to ensure that the raceway is smooth for the rolling elements to function properly with minimum friction.

17. *Cleaning and assembly* (清潔與裝配)

Our workers carry out overall cleaning of the product. They will then load the rolling elements and spacers into the raceway, and install the loading plug, taper pin and seals according to the product specifications.

Our Group’s management and reporting structure

The following chart sets forth the management and reporting structure of our Group:



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The operation of our Group is overseen by our general manager and chief operating officer with various departments and teams set up to run and operate the business of our Group. Our general manager approves the raw material delivery timetable, production road map, warehousing and logistics timeline and coordinates between different departments to ensure that our production is on schedule. By adopting the above management system, our Directors and senior management of our Group is able to (i) oversee our Group's business through coordinating different departments; and (ii) facilitate our Group's production and decision-making process. Our Directors believe that our management system sets out a clear chain of commands and delegates responsibilities to different departments and teams, which require our Group's directors and senior management to monitor and oversee the business operation closely.

Our Directors and senior management, at our Group level, are responsible for overseeing the departments listed below:

Department	Responsibilities
Finance department	It prepares annual budget, budget forecast report and cost control report, deals with our company's financial accounting and tax related matters, and reports the financial information of our Group to the management. Each of the department in the PRC and Hong Kong is in charge of its respective financial functions in the PRC and Hong Kong.
Administration department (Oversees information and technology team)	It is responsible for filing company documents and handling administrative matters. The administrative department in the PRC is also in charge of overseeing the information and technology team and is responsible for establishing, monitoring and maintaining information technology systems and services.
Sales department	It is in charge of formulating marketing and sales plan based on our Group's development strategy and objectives. It also implements and refines our Group's marketing goals and ensures that the goals are achieved. It is responsible for the collection and feedback of the implementation of domestic sales contracts and variety sales. It also manages customer after-sales services. Each of the department in the PRC and Hong Kong is in charge of its respective functions in the PRC and Hong Kong.
Human resources department (Oversees security team and back office team)	It is responsible for the recruitment and training of our Group's staff. It reviews staff's compensation and welfare plan. The human resources department in the PRC is also in charge of overseeing the security and back office team.

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Department	Responsibilities
Procurement department	It is responsible for the procurement of raw materials. It also manages the procurement price, cost and supplier based on the company's development plan and sales targets, and to keep enough inventories to meet customer requirements.
Logistics department	It manages the movement of goods across different areas of our production plant. It is also responsible for arranging third party logistic service provider for delivery of our finished product to our customers.
Production department (Oversees turning team, drilling team, gear cutting team, heat treatment team, maintenance team and assembly team)	It devises the production road map, which sets forth the timetable for the key stages of the production, and the production lead time. It oversees the turning, drilling, gear cutting, heat treatment, maintenance teams and assembly team. It ensures the smooth and proper functioning of the production process and is also in charge of routine machinery maintenance. It reviews regularly the implementation of the production plans and ensures that the operations are on schedule.
Technical department	It is responsible for devising the technical drawings of the slewing rings and managing our database concerning the manufacturing process. It also amends, updates and solves problems in relation to the design of slewing rings.
Quality assurance department (Oversees inspection team and measurement team)	It oversees the inspection team and measurement team. It ensures the effective implementation of the quality assurance measurements at various key stages of the production process, so that the end-products can meet customer's demand, national or international production standards and applicable statutory requirements.
Research and development department	It is responsible for improving our products.

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RAW MATERIALS

The principal raw materials that we use for the manufacturing of slewing rings include forged rings, steel balls and spacers. Our suppliers are located in the PRC and Hong Kong. The following table sets out the breakdown of our raw materials at the dates indicated:

	As at 31 December				As at 30 April	
	2017		2018		2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Forged rings	7,185	82.7	7,884	81.4	6,771	77.8
Blades	465	5.4	504	5.2	519	6.0
Steel balls	285	3.3	390	4.0	399	4.6
Packaging materials	97	1.1	171	1.8	179	2.1
Spacers	72	0.8	78	0.8	100	1.1
Seals	32	0.4	45	0.5	45	0.5
Lubricants	26	0.3	6	0.1	12	0.1
Others	<u>524</u>	<u>6.0</u>	<u>602</u>	<u>6.2</u>	<u>682</u>	<u>7.8</u>
	<u>8,686</u>	<u>100.0</u>	<u>9,680</u>	<u>100.0</u>	<u>8,707</u>	<u>100.0</u>

We do not enter into long-term supply agreement with our suppliers and we order raw materials on an order-by-order basis in accordance with our production schedule. We have not experienced material fluctuation in the prices of our raw materials during the Track Record Period. We do not anticipate any difficulty in sourcing raw materials required for our production. Further, we believe that in the event of any material increase in the market prices of the raw materials, we have the ability to shift the burden of a portion of the price increase to our customers by increasing the selling prices of our slewing rings. To the best knowledge of our Directors, all our suppliers are Independent Third Parties.

For the manufacture of slewing rings, forged rings account for a substantive part of the raw materials costs. We generally purchase forged rings from our suppliers in bulk. We believe that our relatively stable purchase prices of forged rings during the Track Record Period were attributable to the fact that we purchased in bulk from these suppliers. None of our suppliers materially defaulted or delayed in delivering raw materials during the Track Record Period.

As set forth in the paragraph headed “Business — Quality assurance” of this section, we only source from reputable suppliers who had passed our internal selection criteria. During the Track Record Period, we sourced our major raw materials (including forged rings, steel balls and spacers) mainly from nine suppliers. We have alternative suppliers for sourcing certain raw materials to avoid over-reliance on any particular supplier. As such, the loss of any single supplier will not have a material impact on our operations.

Selection of suppliers

In order to produce quality slewing rings consistently, our Directors consider that it is crucial that we have a stable source of supply of good quality raw materials at a competitive price. In this connection, we maintain a list of approved suppliers and service providers. Any potential supplier must

pass our internal evaluation criteria before engagement. Our internal evaluation criteria encompass several areas, which include the quality of raw materials and services, the punctuality of delivery and the condition of machinery. We would also demand our chosen suppliers to comply with relevant local and industrial quality assurance standards and perform quality tests on the supplied materials.

We also review our list of approved suppliers regularly. Our procurement department will evaluate the performance of existing suppliers based on their track record, such as the quality of raw materials they supplied, the punctuality of delivery, and will consider removing any supplier who has repeatedly failed to meet our standards. Further, prior to making any purchase with our suppliers in bulk, we will place small orders with them to check the quality of raw materials. All raw materials provided by our suppliers have to comply with our quality assurance requirements, details of which are set out in paragraph headed “Quality assurance”.

Purchase and inventory policies

We procure raw materials through our procurement department and substantially all of our raw materials are supplied by suppliers located in the PRC and Hong Kong. We generally purchase raw materials after receiving orders from customers to minimise inventory risk. Occasionally, our Group purchases additional inventories when the price is relatively low. Please refer to the paragraph headed “Inventory” in this section for further details.

Salient terms of a typical purchase transaction

During the Track Record Period, our Group typically entered into individual purchase orders with our suppliers for the supply of raw materials. The following is a summary of the salient terms in our typical purchase transactions:

- *Product type and specification:* the individual purchase orders will state the type, model, applicable standards, weight and quantity of the raw materials being sourced. These raw materials are typically required to comply with certain technical specifications and requirements.
- *Price:* the unit price and the total purchase amount are set forth in the purchase orders, which will be exclusive of tax.
- *Delivery:* our supplier is generally responsible for arranging the delivery of the raw materials and our Group is generally responsible for the relevant costs.
- *Credit arrangement:* we are generally granted with a credit period of 30 days. During the Track Record Period, there were some instances in which our credit period was up to 90 days, or no credit period was provided at all.
- *Quality standard:* our supplier shall manufacture the products according to our specifications as set out in our purchase orders from time to time.

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- *Delivery standards and product quality:* Our Group inspects the raw materials based on the standards set forth in the individual purchase orders. If there is any product quality issue, we shall inform our supplier within 10 days from the date of receipt. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product quality issues with the raw materials supplied by our suppliers.
- *Termination (if applicable):* our supplier is entitled to terminate the purchase orders if both parties did not fulfil their contractual obligation within 60 days after the stated delivery date.

Our top five suppliers

For FY2017, FY2018 and 4M2019, our purchases from our five largest suppliers represented approximately 83.8%, 85.9% and 83.0% of our total purchase, respectively, and purchases from our single largest supplier accounted for approximately 29.8%, 30.2% and 41.7%, respectively, of our total purchase in the corresponding years.

The tables below set forth certain information of our top five suppliers during the Track Record Period:

For FY2017

Name of supplier	Location	Typical credit terms and payment method	Number of years of relationship as at the Latest Practicable Date (approximate)	Example of products supplied	Purchase amount (approximate) (HK\$)	Percentage to total purchase costs of our Group (approximate) (%)
Supplier A (Note 1)	PRC	90 days; Bank transfer		8 Forged rings	5,764,000	29.8
Supplier B (Note 2)	PRC	30% down payment and the remaining 70% payment before the delivery of goods; Bank transfer	10	Forged rings	3,994,000	20.7
Supplier C (Note 3)	Hong Kong	90 days; Bank transfer		2 Slewing rings	2,635,000	13.6
Supplier D (Note 4)	Hong Kong	30 days; Bank transfer		2 Machinery parts	2,060,000	10.6
Supplier E (Note 5)	PRC	60 days; Bank Transfer		2 Track chains	1,755,000	9.1

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For FY2018

Name of supplier	Location	Typical credit terms and payment method	Number of years of relationship as at the Latest Practicable Date		Example of products supplied	Purchase amount (approximate) (HK\$)	Percentage to total purchase costs of our Group (approximate) (%)
Supplier A (Note 1)	PRC	90 days; Bank transfer		8	Forged rings	7,323,000	30.2
Supplier C (Note 3)	Hong Kong	90 days; Bank transfer		2	Slewing rings	6,187,000	25.5
Supplier B (Note 2)	PRC	30% down payment and the remaining 70% payment before the delivery of goods; Bank transfer		10	Forged rings	5,155,000	21.3
Supplier E (Note 5)	PRC	60 days; Bank transfer		2	Track chains	1,277,000	5.3
Supplier F (Note 6)	PRC	40 days; Bank transfer		10	Steel balls	856,000	3.5

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For 4M2019

Name of supplier	Location	Typical credit terms and payment method	Number of years of relationship as at the Latest Practicable Date (approximate)	Example of products supplied	Purchase amount (approximate) (HK\$)	Percentage to total purchase costs of our Group (approximate) (%)
Supplier A (Note 1)	PRC	90 days; Bank transfer		8 Forged rings	2,425,000	41.7
Supplier C (Note 3)	Hong Kong	90 days; Bank transfer		2 Slewing rings	1,525,000	26.3
Supplier F (Note 6)	PRC	40 days; Bank transfer		10 Steel balls	304,000	5.2
Supplier E (Note 5)	PRC	60 days; Bank transfer		2 Track chains	295,000	5.1
Supplier G (Note 7)	PRC	0 days; Bank transfer		1 Forged rings	275,000	4.7

Notes:

- (1) Supplier A is a private limited liability company established in the PRC with registered capital of RMB2,000,000. Its business scope includes manufacturing, processing and sales of forged rings.
- (2) Supplier B is a private limited liability company established in the PRC. It is a subsidiary of a company listed on the Main Board of the Stock Exchange. Its business scope includes the manufacture of train wheels and tires, and rings (環件), disks (盤件), forgings (鍛件) and wheels (輪件) for civil and military use. It is also engaged in mechanical processing, heat treatment of spare parts and giving technical advice.
- (3) Supplier C is a private limited liability company incorporated in Hong Kong and its business nature is trading.
- (4) Supplier D is a sole proprietorship set up in Hong Kong and its business nature is sales of construction machinery and transportation.
- (5) Supplier E is a company established in the PRC with a registered capital of RMB22,000,000. Its business scope includes the production, sales, processing and casting of excavator parts and auto parts. It is also engaged in the import and export of various merchandise and technologies as principal and agent (except for those restricted or prohibited by the State from import and export).
- (6) Supplier F is a private limited liability company established in the PRC with registered capital of RMB10,000,000. It principally engages in the manufacture of bearings, accessories of steels ball, machining of metal, and sales of metallic materials.
- (7) Supplier G is a limited liability company established in the PRC. Its business scope includes the sale and manufacture of flanges and rings, sale of mechanical and electrical products (excluding State controlled items), metal materials, iron ore, chemical products (excluding hazardous chemicals and precursor chemicals) (subject to obtaining the necessary approvals and licences as necessary from relevant authorities and departments).

To the best of our Directors' knowledge, all of our top five suppliers during the Track Record Period are Independent Third Parties and none of our Directors, their close associates or any existing Shareholder, who or which, to the best knowledge of our Directors' knowledge, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in any of our top five suppliers during the Track Record Period.

Overlapping sales and purchases transactions with our top-ten supplier and top-ten customer

During the Track Record Period, two of our customers (one being Customer F) occasionally provided us with particular models of slewing ring that they desired to source from us, but was not produced by us at that time. In order to cater to this request, our Group purchased sample slewing rings from them, and our technical department would take measurement of the slewing rings and devise the technical drawings. Alongside with the process, our sales department would provide the price quotation for their consideration. If our price quotation was accepted, our Group would put that particular model of slewing ring into larger scale production. Such customers, having sold the sample slewing rings to us previously, would be regarded as our suppliers too. Where suitable, any sample slewing rings we purchased from one supplier may be sold to another interested customer, and were accounted for in our books as the trading (i.e. to purchase for resale) of slewing rings. These sample slewing rings were sold to other interested customers but not the customer which supplied the same to us. If we sold the sample slewing rings back to the same supplier after we extracted the technical drawings of such sample slewing rings, we would only be able to sell the slewing rings back to the supplier at the original purchase costs or at a lower price. Given there were market demand for these models of slewing rings, we could easily find other customers who were prepared to pay a premium on top of our purchase costs. As such, our Directors consider that it will be beneficial to our Group to locate other customers instead of disposing them, or to sell them back to the supplier where we purchased these sample slewing rings from. During the Track Record Period, Customer F sold sample slewing rings to us and as a result became one of our top ten suppliers for FY2018. In carrying out our sourcing service for other customers, we also purchased from one of our customers. Such customer became one of our top ten

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suppliers for FY2018 as a result of such purchases (“**Supplier I**”). As a result, Supplier I became one of our top ten suppliers for FY2018. The following table sets forth the percentage of our revenue and purchases from and the gross profit of each of Supplier I and Customer F during the Track Record Period:

	FY2017 <i>(approximate)</i>	FY2018 <i>(approximate)</i>	4M2019 <i>(approximate)</i>
Purchase amount with Supplier I and percentage to total purchase costs of our Group (%)	JPY4,417,000 (1.6%) (equivalent to HK\$307,000)	JPY3,857,000 (1.1%) (equivalent to HK\$274,000)	N/A
Sales amount with Supplier I as our customer			
— Our revenue from Supplier I as percentage of our total revenue during the year/period	1.5% USD82,000 (equivalent to HK\$656,000)	2.1% USD121,000 (equivalent to HK\$961,000)	2.4% USD52,500 (equivalent to HK\$409,000)
— Gross profit and gross profit margin derived from the sales of products to Supplier I (as our customer)	HK\$422,000 (34.1%)	HK\$530,000 (44.8%)	HK\$188,910 (46%)
Purchase amount (HK\$) with Customer F and percentage to total purchase costs of our Group (%)	N/A	USD51,000 (1.6%) (equivalent to HK\$396,000)	N/A
Sales amount with Customer F as our supplier			
— Our revenue from Customer F as percentage of our total revenue during the year/period	3.5% USD195,000 (equivalent to HK\$1,522,000)	12.4% USD732,000 (equivalent to HK\$5,762,000)	17.7% USD390,000 (equivalent to HK\$3,062,000)
— Gross profit and gross profit margin derived from the sales of products to Customer F	HK\$670,000 (56.0%)	HK\$3,124,000 (45.8%)	HK\$1,465,000 (48%)

For further details of the revenue contributed by Customer F and its percentage to our total revenue during the Track Record Period, please refer to the paragraph headed “Our top five customers” of this section.

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During the Track Record Period, we normally granted a credit period of not more than 90 days in respect of the sale of slewing rings to this customer, which was in line with the other customers.

Our Directors confirmed that the purchases from and sales to the overlapping supplier and customer as shown above was not inter-conditional upon each other. The terms of transactions with such overlapping supplier and customer are similar to those transactions with our other suppliers and customers, which our Directors considered to be on normal commercial terms.

INVENTORY

Our inventory consists of raw materials (including forged rings, steel balls, spacers, seal, lubricants and packaging materials), work in progress and finished goods. We are able to monitor our inventory level of our raw materials and each stage of the warehousing process through our in-house database.

Raw materials

Our procurement department is responsible for the procurement of raw materials that are used in our manufacturing process. It monitors the inventory level of each type of raw materials regularly through our in-house database, and also by stocktaking on a quarterly basis. The level of raw materials will generally depend on our stock in hand, and the projected production plan will base on the purchase orders we received. We will maintain a sufficient level of raw materials to meet our production need. We record our cost of inventories based on the weighted average method. On occasion, when the market price of some raw materials, such as forged rings, is relatively low, our Group purchases additional inventories of that raw material for use in future. Our Directors consider such practice will allow our Group to have more flexibility in taking up additional orders with short notices from our customers.

Work in progress

All of our work in progress are tagged with individual identification card, which records the stage(s) of production that has been completed. It also works closely with our sales department, logistic department and procurement department to ascertain if the inventory level of a particular type of work in progress is sufficient to match our production plan, and we will revise our production plan if needed.

Finished goods

Our Group monitors the inventory level of our finished goods regularly through our in-house database to ensure our inventory will be in line with our sales plan. We also review our inventory level by stocktaking on a quarterly basis to ensure that the information recorded on our in-house database is accurate. Although it is our policy not to keep excessive inventory of finished goods, there were occasions where we had to accumulate sufficient stock to make a shipment to customers which might raise the inventory level in our warehouse. Further, we may produce additional slewing rings during the mass production upon the receipt of purchase orders from customers so that we can enjoy the economies of scale and lower our average production cost. Our production department and sales department communicate closely to ensure that the inventory are also produced on schedule. Our Group also performs stocktaking and internal audit yearly to ensure that the inventory-in and inventory-out information is accurately recorded.

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As at 31 December 2017, 31 December 2018 and 30 April 2019, our inventory amount of our finished goods was approximately HK\$9.6 million, HK\$13.3 million and HK\$14.2 million, respectively. As the slewing rings we produce have a long life cycle of approximately 10 years, there was no provision for obsolete stock.

SALES AND MARKETING

Our marketing strategy has been to maintain our market position by consistently providing quality products with strong quality assurance. As such, we have been focusing on the provision of quality products and services to maintain our reputation in the industry. We have established stable relationship with our major customers during the Track Record Period, our sales personnel primarily market our products through referral and word-of-mouth.

Our sales department is primarily responsible for our Group's sales marketing. We strive to expand our customer base both in the PRC and internationally on an on-going basis. In 2009 to 2010 and 2012, our Group participated in several exhibitions in Beijing and Shanghai with a view to market our products in the PRC and enlarge our client base.

Pricing policy

For the manufacture and sale of slewing rings, we generally determine our pricing on a cost-plus basis taking into consideration factors such as production costs, price of raw materials, technical requirements and timing for the production, market conditions, and our Group's expected profit margins. In general, the larger is the slewing ring, the higher the selling price. We classify our products into small, medium and large size. For further details about the different sizes of our products, please refer to the section headed "Financial Information — Description of selected items in consolidated statements of comprehensive income — Revenue — Revenue by product category" of this prospectus. Generally, we are able to sell our products with higher margin.

In respect of the sourcing of parts and components for our existing slewing ring manufacturing customers, we typically determine our pricing on a cost-plus basis, taking into accounting primarily the selling price from suppliers, the market conditions, and our Group's expected profit margins.

Customers

Our customers are mainly general wholesale traders, distributors and leading Japanese manufacturers or their affiliates. During FY2017, FY2018 and 4M2019, our sales to (i) our ODM customers amounted to approximately HK\$27.6 million, HK\$31.1 million and HK\$13.2 million, representing 62.7%, 67.3% and 76.3% of our total revenue of the corresponding year/period, respectively; (ii) our OEM customers amounted to approximately HK\$1.4 million, HK\$1.3 million and HK\$0.4 million, representing 3.2%, 2.7% and 2.2% of our total revenue of the corresponding years/period, respectively; and (iii) our OBM customers amounted to approximately HK\$3.9 million, HK\$1.3 million and HK\$1.0 million, representing 8.9%, 2.8% and 5.6% of our total revenue of the corresponding year/period, respectively.

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However, our wholesale traders and distributors customers are not distributors, franchisees or consignees of our Group for the following reasons:

- (1) our customers which are wholesale traders and distributors conduct trading and distributorship in their own right and they are not distributors of our Company;
- (2) we have not entered into any exclusivity agreements or arrangements with our customers. Our Directors understand that they also approach different suppliers (including our Group) for comparison on the price and quality of products, source their supplies from other suppliers and some may re-sell our products to their own customers with or without after-sales services;
- (3) according to the Industry Report, it is industry practice for end-users of slewing rings, which are mainly manufacturers and those companies providing after sales services such as equipment repairing for construction machineries and equipment, to purchase through wholesale traders and distributors, especially overseas users;
- (4) we have not entered into any long-term sales contracts with any of our wholesale traders and distributors customers and all of our sales to such wholesale traders and distributors customers are conducted on the basis of individual purchase orders received. Our Directors confirm that such transactions are entered into on an arm's length basis upon normal commercial terms. Furthermore, we have no control and are not involved in any decision-making or control over how our customers conduct their sales, how much stock they should keep and how they develop their credit or pricing policies;
- (5) each transaction with our wholesale traders and distributors customers is independently negotiated and conducted on a non-consignment basis without any unconditional right to return the products to us, save that we guarantee our products against defective materials or workmanship and provide other general warranties therefor to our major wholesale traders and distributors customers. In addition, we do not (i) have repurchase clause with customers nor (ii) a guarantee minimum resale value;
- (6) we can neither impose any requirement nor have control on the business operations of our wholesale traders and distributors customers. We have no control on their asking price or packaging for the on-sale of our products, minimum sales amount, sales targets, rebates, confidentiality, or non-competition undertaking. As such, our wholesaler traders and distributors customers are not required to provide us with any information regarding their sales activities, inventory policies or balance, as well as the demand of our products from their customers; and
- (7) we have no control on where our wholesale traders and distributors customers sell our products to.

We derived revenue from 35, 33 and 19 customers for FY2017, FY2018 and 4M2019, respectively. For further details of the revenue derived under different mode of production, please refer to the section headed "Financial Information — Description of selected items in consolidated statements of comprehensive income — Revenue — Revenue by product type" of this prospectus.

Sales agreements

We confirm the quantity of products required, the product specifications, purchase price, payment method and terms of delivery in writing by way of individual purchase order with our customers after they have agreed the major terms verbally.

Salient terms of a typical sales transaction with customers

During the Track Record Period, our Group typically entered into individual sales orders with our customers for the sales of products. The terms of the customer's orders are usually negotiated on an order-by-order basis. A typical customer's order contains the following salient terms:

- *Product type and specification:* the individual sales orders will state the type, model and quantity of the products.
- *Delivery:* the locations, delivery date and manner of delivery are specified by our customers. We generally deliver our products to customers in the PRC and Hong Kong on EXW terms, and to our overseas customers on FOB terms. The delivery methods can be by land or by sea.
- *Price:* The unit price and the total purchase amount are set forth in the customer's orders. We generally determine our pricing on a cost-plus basis, taking into various factors. For further details please refer to the paragraph headed "Pricing policy" in this section.
- *Credit arrangement:* we generally grant a credit period of 30 days to 90 days.
- *Warranty period:* in respect of our ODM and OBM customers, we normally provide a warranty period of 2,000 hours of operation or 18 months. For our OEM customers, we in general provide a warranty period of 1,500–3,000 hours of operation or one to two years (whichever occurs first).

Salient terms of a typical quality assurance agreement

Our OEM customers, who are leading Japanese manufacturers or their affiliates, have a stringent requirement on our product quality. During the Track Record Period, these OEM customers typically entered into a quality assurance agreement with us, which sets forth the general applicable or required standards of quality assurance in respect of the products to be sold by us, before placing individual orders. The typical quality assurance agreement would set forth the following salient terms:

- *Required standards:* the required standards of quality management systems and inspection of products are set forth in the quality assurance agreement. Our OEM customers typically require us to conform to ISO 9001:2008. Other specific requests, in particular those pertaining to the safety requirements, should be adhered to strictly. Upon request made by our OEM customers, we should compile and provide the schedule of production and quality assurance and other related information for their approval.
- *Warranty period:* we in general provide a warranty period of 1,500–3,000 hours of operation or one to two years (whichever occurs first). In general, during the warranty period, if our products are found substandard, our Group will be liable to indemnify our OEM customers of

their acquisition costs of the product, and in some instances of the repairing costs and other disbursements. Our Group will not be liable for the product if the warranty period has expired. Our Group did not encounter any material warranty claim on our products during the Track Record Period and up to the Latest Practicable Date.

- *Guidance:* if deemed necessary, such OEM customers can conduct site visit on our factory premises to inspect the quality of our products, and to provide guidance on our production process or to undergo factory audit.
- *Packaging and transportation of products:* the means of packaging and transportation is to be set forth in the individual purchase orders or otherwise agreed.

Revenue recognition

We recognise revenue when or as the control of our goods is transferred to our customers. For further details of our revenue recognition policy, please refer to our significant accounting policies in the section headed “Financial Information — Significant accounting policies — Revenue recognition” of this prospectus.

Our top five customers

For FY2017, FY2018 and 4M2019, sales to our top five customers accounted for approximately 52.1%, 65.9% and 78.0% of our revenue, respectively. In the corresponding year/period, sales to our largest customer were approximately HK\$10.9 million, HK\$9.4 million and HK\$5.7 million, which accounted for approximately 24.9%, 20.4% and 33.0% of our revenue, respectively. The percentage of sales amount to our largest customer of our revenue increased from 20.4% for FY2018 to 33.0% for 4M2019, mainly due to the fact that the products ordered by such customer in late 2018 were delivered to it in early 2019. Despite such customer concentration, our Directors consider that we do not place over-reliance on any single customer because we had a range of customers (comprising general wholesale traders, distributors and leading Japanese manufacturers or their affiliates) during the Track Record Period. Further, to the best knowledge of our Directors, part of our slewing rings were re-sold to other markets in other countries through some of our customers. As such, we believe that our products can be sold to other markets or other customers globally even if some of our customers decide not to source from us.

To the best knowledge, information and belief of our Directors having made all reasonable enquiries, all of our top five customers during the Track Record Period are Independent Third Parties, and none of our Directors, their close associates or any existing Shareholder, who or which, to the best knowledge of our Directors’ knowledge, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date, had any interest in any of our top five customers during the Track Record Period. Save as disclosed in the paragraph headed “Business — Raw materials — Overlapping sales and purchases transactions with our top-ten supplier and top-ten customer” above, none of our top five customers was our supplier during the Track Record Period.

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The tables below set forth certain information of our top five customers during the Track Record Period:

For FY2017

Name of customer	Location	Typical credit terms and payment method	Number of years relationship as at the Latest Practicable Date (approximate)	Example of products purchased	Sales amount (approximate) (HK\$)	Percentage of revenue of our Group (approximate) (%)
Customer A (Note 1)	Singapore	90 days; Bank transfer	9	Slewing rings	10,937,000	24.9
Customer B (Note 2)	U.S.	90 day; Bank transfer	9	Slewing rings	3,846,000	8.7
Customer C (Note 3)	Singapore	90 days; Bank transfer	2	Slewing rings and track chains	3,632,000	8.3
Customer D (Note 4)	Hong Kong	60 days; Bank transfer	6	Slewing rings	2,329,000	5.3
Customer E (Note 5)	Hong Kong	30 days; Bank transfer	3	Slewing rings	2,162,000	4.9

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For FY2018

Name of customer	Location	Typical credit terms and payment method	Number of years relationship as at the Latest Practicable Date (approximate)	Example of products purchased	Sales amount (approximate) (HK\$)	% of revenue of our Group (approximate) (%)
Customer A (Note 1)	Singapore	90 days; Bank transfer	9	Slewing rings	9,431,000	20.4
Customer C (Note 3)	Singapore	90 days; Bank transfer	2	Slewing rings and track chains	8,779,000	19.0
Customer F (Note 6)	Singapore	60 days; Bank transfer	2	Slewing rings	5,762,000	12.5
Customer G (Note 7)	Malaysia	90 days; Bank transfer	8	Slewing rings and other machinery parts	3,508,000	7.6
Customer H (Note 8)	Hong Kong	60 days; Bank transfer	2	Slewing rings and other machinery parts	2,987,000	6.4

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For 4M2019

Name of customer	Location	Typical credit terms and payment method	Number of years relationship as at the Latest Practicable Date (approximate)	Example of products purchased	Sales amount (approximate) (HK\$)	% of revenue of our Group (approximate) (%)
Customer A (Note 1)	Singapore	90 days; Bank transfer	9	Slewing rings	5,722,000	33.0
Customer F (Note 6)	Singapore	60 days; Bank transfer	2	Slewing rings	3,062,000	17.7
Customer G (Note 7)	Malaysia	90 days; Bank transfer	8	Slewing rings and other machinery parts	2,002,000	11.6
Customer I (Note 9)	Malaysia	90 days; Bank transfer	1	Slewing rings	1,564,000	9.0
Customer C (Note 3)	Singapore	90 days; Bank transfer	2	Slewing rings and track chains	1,168,000	6.7

Notes:

- (1) Customer A is a sole proprietorship set up in Singapore. It principally engages in general wholesale trading.
- (2) Customer B is a private corporation incorporated in the U.S.. It principally engages in import, distribution and wholesale of construction heavy equipment parts. Based on its website information, it is also a construction equipment dismantler in North America and supplies new and used parts for all the major makes and models of excavators, wheel loaders, bulldozers, and articulated trucks.
- (3) Customer C is a private limited liability company incorporated in Singapore and is principally engaged in wholesale of a variety of goods including industrial, construction and related machineries and equipment. Customer C and Customer H are owned by the same shareholder. To the best knowledge of our Directors, Customer C, which carries its own brand, is a wholesaler of slewing rings and among other businesses it carries on, it is also the purchasing agent of a U.S. based customer. Based on the website information of such U.S. based customer, it principally engages in wholesale distribution of hydraulic excavator components and parts including slewing rings.
- (4) Customer D is a private limited liability company incorporated in Hong Kong with a paid-up share capital of HK\$4,000,000. It principally engages in the trading of machineries and vehicles.
- (5) Customer E is a private limited liability company incorporated in Hong Kong and is a machinery spare parts distributor.

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- (6) Customer F is a private limited company incorporated in Singapore which principally engages in general wholesale trading, which include import and export of goods.
- (7) Customer G is a private limited liability company incorporated in Malaysia which principally engages in trading of spare parts of heavy machineries.
- (8) Customer H is sole proprietorship established in Hong Kong which principally engages in sales and trading of machinery and provision of engineering services. Customer H and Customer C are owned by the same shareholder.
- (9) Customer I is a sole proprietorship established in Malaysia which principally engages in the trading of hardware building and construction materials. The owner of Customer I (the “**Owner**”) initially purchased from our Group in FY2018 through another sole proprietorship owned by him as well (“**Customer O**”). Both Customer O and Customer I were not customers of our Group in 2017. Customer O was not within the top five customers of our Group in 2018.

Customer O was set up in 2007 and principally engages in the trading of textile software, hardware and materials. To the best knowledge of the Directors having made all reasonable enquires, as time went by, the Owner started trading different areas of products, he therefore decided to set up Customer I in 2018 to deal mainly with the trading of hardware, building and construction materials, while Customer O remained focused on the trading of textile products.

SEASONALITY

Our Directors consider that there is no material seasonal pattern of the manufacture and sales of slewing rings.

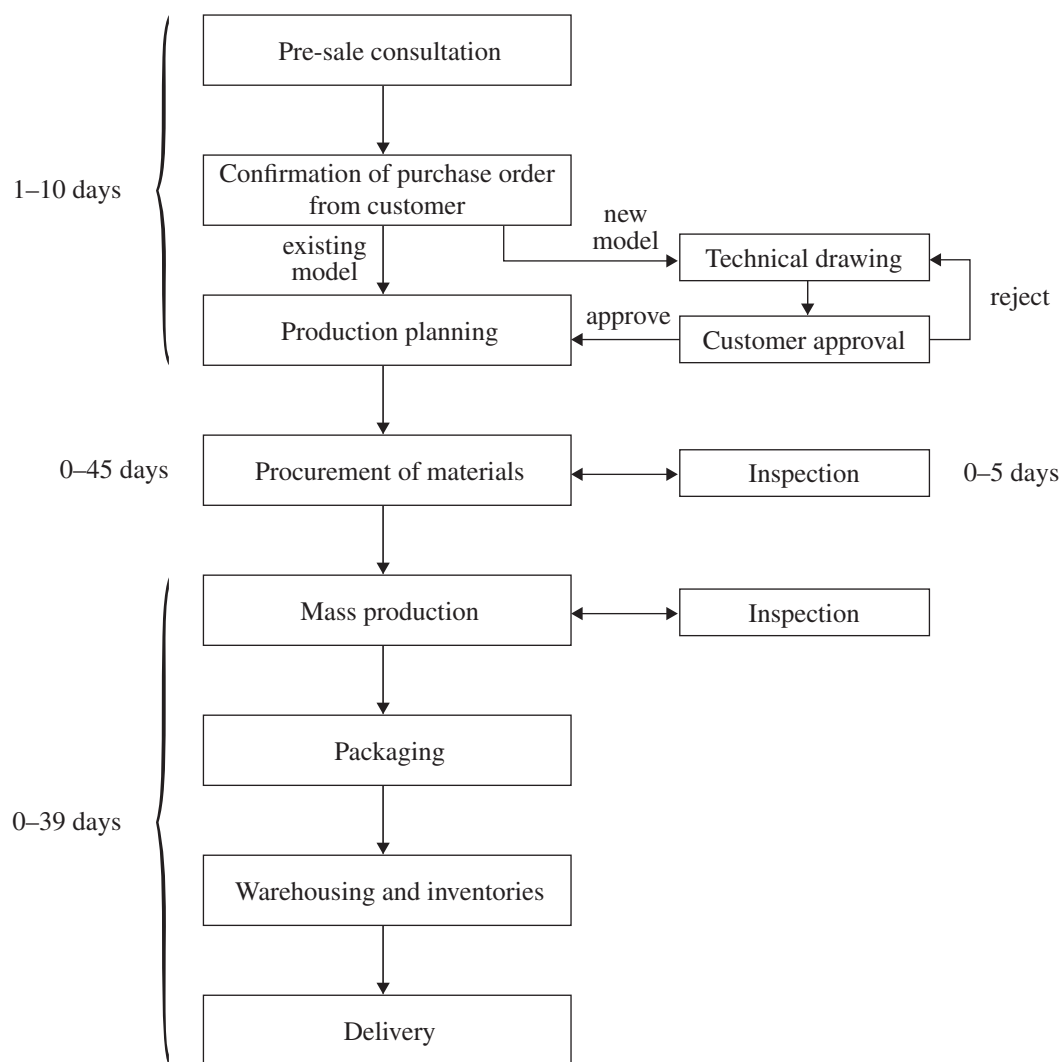
RESEARCH AND DEVELOPMENT

Based on the development of our manufacturing process through the effort of the research and development department over the years, our Company was accredited as a High and New Technology Enterprise by Guangdong Provincial Science and Technology Department (廣東省科學技術廳), Guangdong Provincial Finance Bureau (廣東省財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局) and Guangdong Provincial Local Taxation Bureau (廣東省地方稅務局) in 2017. Not only did we receive a grant for HK\$415,000 in 2018, we were benefited for a reduction of the unified enterprise income tax rate from 25% to a preferential income tax rate of 15% under the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法). Our Chairman, Mr. YP Chan, who has in-depth knowledge in the industry and spearheaded our Group's growth from a start-up to our current market position, continually contributed to the development of the slewing ring manufacturing industry with his in-depth industry knowledge. He was one of the main drafters for the draft for examination and approval (送審稿) of several JB relating to the slewing rings manufacturing. Under his leadership, our Group also contributed to the industry development by cooperating with an independent university institution in 2012 for a research and development regarding the new model of high precision production equipment for the manufacture of slewing rings.

During the Track Record Period and up to the Latest Practicable Date, the research and development expenses incurred by our Group did not have a material impact on our financial condition or results of operations.

PRODUCTION OF SLEWING RINGS

Our operation process for our slewing rings production can be illustrated by the flowchart below. The lead time between the placing of orders by our customers to product delivery is generally around 4 days (if we have in stock the relevant models of the slewing rings that our customers would like to order) to 99 days.



Note: “0 day” denotes the scenario in which our Group has the relevant products in stock and hence does not need to procure the relevant materials, or undergo mass production or inspect.

Pre-sale consultation

All customers related enquiries are directed to our sales department for follow-up and handling. Our sales personnels liaise with our customers to gather information relating to intended purchases. They typically begin the process by making enquiry of the purpose of the intended purchase, such as whether it is for replacement of an existing product or for new machinery. They then obtain further information regarding the desired products, such as the intended application, the dimensions.

In the event that the customer would like to purchase our slewing rings for replacement of an existing worn out products, our sales personnel will make enquiry into the type of machine and its model number, and will check with our technical department to see if we have the technical drawings of such mode in our data base.

Our technical department devises the technical drawings in the case of a new model. Our sales personnel will also communicate with our General Manager to determine the selling price for customers' confirmation.

Confirmation of purchase order from customers

Upon customers' confirmation, the purchase orders from our customers are placed with the sales department. Our general manager will then analyse the order and consolidate all information for devising the timetable for each department and the production road map. Our finance department will enter the details into our in-house database system and then issue invoice to customers.

Technical drawings and customer approval

Our technical department will take the lead in devising the technical drawings if we do not have the technical drawings in our database. Our technicians will take a number of matters into consideration, such as the intended application, operating environment, desired dimension, torque, axial and radial load.

The completed technical drawings are then submitted to customers for review. If our customers have any comments, we will discuss with them further and revise the technical drawings further if appropriate. The process is repeated until our customers sign off the final drawing.

Production planning

Our production department and procurement department work closely to monitor the entire production process to ensure the entire production process is smooth and on schedule. Our sales department is also responsible for reporting the progress to our customers. Our production department is responsible for preparing production plans, setting out the manpower allocation, raw materials delivery timeline, production timeline, warehousing, etc. for the approval and review by our general manager. To ensure that our production could meet the purchase orders, our procurement department works closely with our sales department to conduct production rolling forecast for the upcoming three-month periods. Our production staff will adjust the machine setting if needed.

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The implementation of the production plans is reviewed regularly to ensure that our operations are on schedule. In general, our sales department will evaluate our production capacities with our production department before accepting a sales order. For our OEM customers, when we come across new models that have not been produced by us before, they may engage us for a trial production at their own costs.

Procurement of materials

Our procurement department is responsible for the purchase of raw materials from suppliers upon receipt of the raw materials sourcing lists from our production department. Our procurement department will then source the raw materials required in accordance with the sourcing list. The raw materials delivered to us are checked by our quality assurance department. Random checks on a sampling basis are performed on the raw materials and any substandard raw materials and supplies are returned to our suppliers. The raw materials will be stored in the storage area of our production facilities.

Mass production

Please refer to the paragraph headed “Production process” for the details on the production process, and the paragraph headed “Quality assurance” in this section on the relevant quality assurance measurements accompanying the production process for further details.

Packaging

We affix labels imprinted with serial numbers onto the finished products. Our production staff will then pack the finished products with packaging materials. We typically pack our products with plastic film and kraft paper. We will keep the finished products in a dry and cool place to avoid our products becoming rusty. The place is guarded by floormen on shifts, and is overseen by the security team of our Group.

Warehousing and inventories

Our production is based on the purchase orders we received and a rolling forecast for upcoming three-month periods. As such, we do not keep excessive inventory of finished products. Our finished products are only temporarily stored in our production facilities prior to delivery to our customers. During the Track Record Period, we have not encountered any issue with obsolete inventories.

Delivery

During the Track Record Period, our Group engaged independent logistic service providers for the transportation of our products to the destinations specified by customers. We select our logistic service providers primarily based on the quality and punctuality of their services and pricing. We normally deliver our products on FOB terms or Ex Works terms. Delivery costs are already built into our fee quotations.

Our Directors confirm that we have not suffered any material loss or paid any material compensation as a result of delays in product delivery during the Track Record Period.

QUALITY ASSURANCE

We pride ourselves in our ability to produce slewing rings adopting both applicable national JB or JB/T standards and JIS and it is crucial for us to have sufficient measurement in place to ensure that our products conform to these standards at all times. Further, we manufacture slewing rings on an OEM basis for various leading manufacturers of heavy machines in Japan and it is necessary for us to be able to manufacture products with consistent quality and adhere to their production specifications and guidelines. We are also required to undergo their internal factory audit at regular intervals. As such, we have developed an effective quality assurance system throughout our operation and we improved it from time to time. Our Group achieved internationally recognised standards for manufacturing slewing rings since 2008 (certificate was issued in January 2009). In 2009, we engaged an external consultant to review our production process, including our quality assurance system. As at Latest Practicable Date, we had 2 quality control management personnel with over 10 years of experience in the slewing ring manufacturing business.

Our quality assurance department is in charge of the quality assurance matters. The following is the typical quality assurance measures we adopt to ensure quality products are produced:

Supplier qualification

We only source raw materials from our list of approved suppliers, who have passed our internal evaluation criteria. We assess them based on a variety of factors, including their market reputation, and the quality and pricing of their products. For new supplier, we will place small orders with them to check the quality of raw materials. It is only after the products supplied have passed our inspection by our quality assurance department will we procure in bulk from such new supplier. We typically enter into technical standards agreements with our suppliers of forged rings for specifying the technical requirements that we require, for instance those relating to chemical composition, mechanical performance, appearance, defects, impurities of the forged rings, and we also set forth the testing methodology, which include the areas to be tested, the frequency, the position of the product to be tested, and the applicable national JB or JB/T standards, pursuant to which the forged rings would be checked. Our suppliers of forged rings also provide lab reports to us about the quality of their products periodically for quality assurance. We review our list of approved suppliers regularly with respect to, in particular, the quality of raw materials and delivery time, to ensure that we only source from quality suppliers. If a supplier repeatedly provides raw materials that cannot pass our quality assurance standards, we will remove it from our list of approved suppliers.

Raw material inspection and testing

Our quality assurance team inspects the incoming materials to ensure they are in line with our purchase order, such as the quantity, specifications, serial number, material, dimension and the physical condition. We will also check the test report provided by our supplier. For forged rings, we also check the serial number marked or imprinted on them to ensure that the material supplied is correct. We will take measurement of, and conduct visual inspection on our forged rings to see if there are any defects on their surface on a sampling basis. Further, we will arrange for independent services providers to check the chemical composition of our incoming raw materials

on a sampling basis. This is to make sure that the chemical composition conforms to our specifications set forth in our purchase order. For the steel balls, our inspection team regularly inspects their sphericity and hardness on a sampling basis.

We return substandard raw materials to suppliers if they do not pass our inspection.

Production quality assurance

Upon passing our internal control check, we attach an identification tag to the forged ring to record the passing of the quality assurance check. Our inspection team and measurement team conduct quality assurance tests at each stage of the production process as described in the paragraph headed “Production process”. We conduct physical inspection by deploying measurements tools and magnetic particles inspection tools. The objective is to ensure that the products will meet the quality requirements (including the size, shape and dimension of the gear teeth, backlash, turned ring, raceway, etc.), and identify any defect in the production process.

Final inspection and sampling testing

Upon completion of the manufacturing process, our quality assurance department will conduct final quality assurance test on the products, which includes measuring the assembly clearance and whether the outer and inner rings can rotate smoothly. We conduct quality testing on all finished products to ensure that they comply with our customers’ specifications.

In order to ensure that our heat treatment is carried out properly and up to the standard required by our customers, we take samples from the finished products for tests and dissect them to perform various tests on their precision and accuracy and other quality requirements. We check whether the heat treatment is done properly for the entire work-in-progress and the average passing rate during the Track Record Period was approximately 99%. In the case of any product return or complaint, we will also test the products to identify any quality assurance issue. We hold regular meetings to discuss our quality assurance procedure and improve it from time to time.

JIS, JB or JB/T compliance checking process

(i) Customer specifications

We produce slewing rings in accordance with our customer’s requirements.

The slewing rings produced by us are usually based upon JIS. Apart from JIS, our products can also fulfil other standards like JB or JB/T, or a mixture of them.

(ii) Customers’ approval

Our technical drawings, which will specify the applicable standards, will be approved by our customers before we commence with the production process.

(iii) Checking by our quality assurance department

As set forth in the paragraph headed “Final inspection and sampling testing” above, our quality assurance department is responsible for the quality testing of all finished products upon completion of the manufacturing process. Our in-house inspection checklists are based on primarily JIS. According to F&S, JIS covers the essential structural parts of slewing rings. Depending on the model of the slewing rings, it can encompass measurement of the outer ring, the total height of product, the diameter, size and distribution of the mounting holes, the raceway contact angle, the raceway surface quenching hardness, number of gears, gear surface hardness, measurement of axial clearance, radial clearance, axial run-out, radial run-out, gear radial pulsation, starting torque, gear radial jump mark, etc.. Where our customers have requested for modification to comply with other standards such as JB or JB/T, our checklist will be revised to reflect the modification. The checklist can also ensure that the products are in compliance with the required standards.

(iv) Acceptance of products by our customers

Our customers will inspect the slewing rings upon receipt. If the products are in accordance with the order specifications and if there are no product defect, they will accept the same.

OUR PRODUCTION FACILITY

Our Group’s production facility is located in Changping Town of Dongguan City and is leased from an Independent Third Party. Our production facilities, office, dormitory and building surrounding land, occupy a total gross floor area of approximately 7,463.9 sq.m. For FY2017, FY2018 and 4M2019, the depreciation charged against the right of use of such production facility were approximately HK\$411,000, HK\$424,000 and HK\$138,000, respectively.

As at the Latest Practicable Date, we did not own any real property. We use our leased properties for non-property activities as defined under Rule 8.01(2) of the GEM Listing Rules. According 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 the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

BUSINESS

The following table sets forth the annual production capacity, actual production volume and the average utilisation rate of the key machineries and equipment used for turning (i.e. step no. 1, 2, 6, 13, 16 of the section headed “Business — Production process”), heat treatment (i.e. step no. 4, 5, 9 and 12 of the section headed “Business — Production process”) and gear cutting (i.e. step no. 7 of the section headed “Business — Production process”), which are considered key steps of our production process, for the years indicated.

Name of unit	FY2017			FY2018			4M2019		
	Annual	Actual	Average	Annual	Actual	Average	Annual	Actual	Average
	production capacity ¹ (set)	production volume (set)	utilisation rate ^{2, 3}	production capacity ¹ (set)	production volume (set)	utilisation rate ^{2, 3}	production capacity ¹ (set)	production volume (set)	utilisation rate ^{2, 3}
Turning unit	3,752	2,650	70.6%	3,752	3,533	94.2%	1,251	1,240	99.1%
Heat treatment unit	5,181	2,650	51.1%	5,181	3,533	68.2%	1,727	1,240	71.8%
Gear cutting unit	3,350	2,650	79.1%	3,350	3,533	105.5%	1,117	1,240	111.0%

Notes:

1. The annual production capacity for each financial year/period of each of the production unit is calculated based on the assumption that these production units can be operated (i) on all working days of each financial year/period, being 268 days, 268 days and 89 days for FY2017, FY2018 and 4M2019, respectively; (ii) 16 hours per day (i.e. eight hours per shift) in respect of the turning unit and the quenching unit, and 20 hours per day (i.e. 10 hours per shift) in respect of the gear cutting unit; (iii) and at their optimum production speed. These figures had taken into account the routine maintenance, replacement of raw materials and other factors which arise in the ordinary course of operation).
2. The average utilisation rate is worked out by dividing the actual production volume produced in each financial year/period by the annual production capacity for the same machineries and equipment. As the annual production capacity is worked in accordance with assumptions adopted under Note 1 above, the average utilisation rates of our machineries and equipment are subject to change if any one or more of the underlying assumptions is, due to reasons beyond our control, varied.
3. Some of the slewing rings that we produce do not bear gears at all and we have excluded them for the purposes of ascertaining the annual production capacity of the gear cutting unit. As such, the actual production volume (which included slewing rings with or without gears) may exceed the annual production capacity.

BUSINESS

Machineries and equipment

Our production facility is equipped with a variety of machineries and equipment for different stages of production. All of our major machineries and equipment are owned by our Group and were mainly purchased in the PRC. The table below sets forth our primary machineries and equipment as at the Latest Practicable Date:

Our key machineries and equipment used	Number of machineries	Acquisition costs	Carry amount as at 31 December 2018 (Note 1) (in RMB)	Year of acquisition	Estimated remaining useful life (Note 2)	Key steps
Turning unit						
• CNC lathe (數控車床)	1	RMB338,000 (equivalent to approximately HK\$399,000)	RMB17,000 (equivalent to approximately HK\$19,000)	2009	0 year	• No. 1 Rough turning (粗車)
• CNC lathe (數控車床)	5	RMB2,660,000 (equivalent to approximately HK\$3,139,000)	RMB345,000 (equivalent to approximately HK\$392,000)	2008–2011	0–2 years	• No. 2 Half-finish turning (construction of the raceway) (半精車(車滾道)) • No. 6 Finish turning (精車) • No. 13 Finish turning (精車)
• CNC raceway grinder (數控滾道磨床)	1	RMB468,000 (equivalent to approximately HK\$552,000)	RMB23,400 (equivalent to approximately HK\$27,000)	2008	0 year	• No. 16 Grinding raceway (磨滾道)
Heat treatment unit						
• Raceway quenching machine (滾道淬火機床)	1	RMB154,000 (equivalent to approximately HK\$182,000)	RMB10,000 (equivalent to approximately HK\$11,000)	2009	0 year	• No. 4 Raceway quenching (滾道淬火)
• Quenching machine (淬火機床)	1	RMB2,045,000 (equivalent to approximately HK\$2,413,000)	RMB1,753,000 (equivalent to approximately HK\$1,989,000)	2017	8 years	• No. 4 Raceway quenching (滾道淬火) • No. 9 Teeth surface quenching (齒面淬火)
• Bell-shaped tempering furnace (單式回火爐)	1	RMB174,500.00 (equivalent to approximately HK\$206,000)	RMB9,000 (equivalent to approximately HK\$10,000)	2008	0 year	• No. 5 Tempering (low temperature) (回火(低溫)) • No. 12 Tempering (low temperature) (回火(低溫))
• Tooth-by-tooth gear quenching machine (單齒淬火機床)	1	RMB368,000 (equivalent to approximately HK\$434,000)	RMB18,000 (equivalent to approximately HK\$20,000)	2008	0 year	• No. 9 Teeth surface quenching (齒面淬火)

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Our key machineries and equipment used	Number of machineries	Acquisition costs	Carry amount as at 31 December 2018 (Note 1) (in RMB)	Year of acquisition	Estimated remaining useful life (Note 2)	Key steps
Gear cutting unit						
• CNC milling machine (數控銑齒機床)	1	RMB2,067,000 (equivalent to approximately HK\$2,439,000)	RMB578,000 (equivalent to approximately HK\$656,000)	2011	2 years	• No. 7 Gear cutting (製齒)
• CNC gear cutting machine (數控插齒機)	7	RMB7,455,000 (equivalent to approximately HK\$8,797,000)	RMB810,000 (equivalent to approximately HK\$919,000)	2008–2010	0–1 years	• No. 7 Gear cutting (製齒)
• CNC gear hobbing machine (數控滾齒機)	1	RMB266,000 (equivalent to approximately HK\$314,000)	RMB13,000 (equivalent to approximately HK\$15,000)	2009	0 year	• No. 7 Gear cutting (製齒)
Others						
• Lathe (車床)	1	RMB38,000 (equivalent to approximately HK\$45,000)	RMB2,000 (equivalent to approximately HK\$2,300)	2008	0 year	• No. 3 Boring the loading hole (鑄堵塞孔)
• Gear grinding machine (磨碟機)	5	N/A	N/A	N/A	N/A	• No. 8 Gear chamfering (倒齒角)
• Magnetic particle flaw detector (熒光磁粉探傷機)	1	RMB270,000 (equivalent to approximately HK\$319,000)	RMB91,000 (equivalent to approximately HK\$103,000)	2011	2 years	• No. 10 Magnetic particles inspection (磁粉探傷)
• Hydraulic collaborator (油壓式校圓器)	1	N/A	N/A	N/A	N/A	• No. 11 Product calibration (產品校圓)
• CNC drilling machine (數控鑽床)	2	RMB2,154,000 (equivalent to approximately HK\$2,542,000)	RMB655,000 (equivalent to approximately HK\$743,000)	2009–2013	0–4 years	• No. 14 Mounting hole drilling and chamfering (鑽安裝孔，倒角)
• Drilling machine (鑽床)	3	RMB176,000 (equivalent to approximately HK\$208,000)	RMB9,000 (equivalent to approximately HK\$10,000)	2008	0 year	• No. 15 Tapping (攻絲) • No. 14 Mounting hole drilling and chamfering (鑽安裝孔，倒角)
						• No. 15 Tapping (攻絲)

Notes:

- The estimated remaining useful life is calculated based on the estimated useful life of ten years deducted by the age of the machinery and using a straight-line method to calculate depreciation. For avoidance of doubt, the estimated remaining useful life may not be the same as the basis for our depreciation expenses as stated in the Accountant's Report set out in Appendix I to this prospectus.
- The carrying amount is translated into HK\$ from RMB at historical exchange rate.

BUSINESS

Repair and maintenance

Our manufacturing process is capital-intensive and depends heavily on the normal operation of various large-scale production machineries and heavy equipment. Our maintenance team of the production department comprising two employees is responsible for the repair and maintenance of machineries and equipment. We implement regular repair and maintenance procedures for our key machineries and equipment to ensure high production efficiency on a monthly basis. We typically carry out routine inspections and maintenance such as replenishment of lubricant, replacement of worn-out parts and components (if needed) on our machineries and equipment on a daily basis, and conduct detailed checking on a monthly basis. For FY2017, FY2018 and 4M2019, our overall costs incurred for repair and maintenance were approximately HK\$21,000, HK\$150,000 and HK\$59,600, respectively. Our Directors confirm that during the Track Record Period, we did not experience any significant interruption to our production due to breakdown of our machineries and equipment.

COMPETITION

According to the Industry Report, the market of the manufacturing and sales of slewing rings in China is fragmented, with the top three manufacturers together accounted for approximately 30.6% of the market in 2018. Our Company is a medium sized player in the market. In 2018, our Company accounted for approximately 0.5% of the total market in terms of sales revenue. The market of overseas sales of slewing rings is also fragmented. Our Company ranked at the fifth place, accounting for approximately 1.3% of the market in 2018 in terms of sales revenue to the overseas market. Our Company is the largest manufacturer of slewing rings in South China in terms of sales revenue to the overseas market. In addition to the competition in China, our Group also faces potential competition from non-PRC players in the overseas markets, especially in the developed regions such as Japan and Europe, where local manufacturers have more experience and are more acquainted with the needs of the local markets, and have established business connections. The major entry barriers of the PRC's slewing ring market include (i) the possession of relatively more advanced and profession equipment and technology; (ii) the ability to have strong capital strength; (iii) the ability to retain good relationships with its customers; and (iv) the ability to establish its own brand name.

Supported by the country's strategy in revitalising the manufacturing industry, it is expected that there will be a growing demand for the products in the slewing ring industry. Our Directors believe that we are able to compete on the basis of our stringent quality assurance control and in-depth industry understanding. In order to compete effectively against the overseas manufacturers in the overseas market, our Directors will ensure that our Group's products are competitively priced in a bid to attract customers from the overseas. For details of our competitive strengths, please refer to the paragraph headed "Competitive strengths" in this section. Further, we have plans to expand and enhance our production capacity and to upgrade our production machineries. We also endeavour to embrace smart manufacturing and higher level of automation with the application of Industry 4.0. For further details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

BUSINESS

PROPERTY INTERESTS

Leased properties

As at the Latest Practicable Date, we entered into two tenancy agreements with Independent Third Parties, for leasing the following properties (the “**Leased Properties**”):

Address	Yearly rent	Tenure	Area
Tutang village, Changping town, Dongguan City (東莞市常平鎮土塘村)	RMB432,000	1 July 2016 to 30 June 2026	7,463.86 sq.m. (3,600 sq.m. plant, the rest is open area and buildings)
Unit 1226B, Star House, No. 3 Salisbury Road, Kowloon	HK\$108,000	10 October 2018 to 9 October 2020	330 sq.ft.

Title defect of our Leased Property in Dongguan City

As at the Latest Practicable Date, we leased a property with a total gross floor area of approximately 7,463.86 sq.m. located in Tutang Village, Changping Town, Dongguan City, the PRC (the “**DG Leased Property**”), which was primarily used as our production facility and staff dormitory, from an Independent Third Party. On 25 June 2016, we as tenant and the Independent Third Party as landlord entered into a lease agreement for the leasing of the DG Leased Property as our production facility and staff dormitory in the PRC for a term of ten years commencing from 1 July 2016 at an annual rent of RMB432,000. The rent for the DG Leased Property was agreed between our Company and the landlord based upon the rent payable for similar properties in proximity, the long tenure of the lease and the property market condition of such locations. Our Company was not aware of the title defect as set out below at the start of the lease.

The landlord of our DG Leased Property did not possess a valid Property Ownership Certificate to lease. As such, the lease of the DG Leased Property with the landlord could be deemed invalid by the court. Please refer to the section headed “Regulatory Overview — Laws and regulations relating to our lease agreement” of this prospectus for details.

Further, as advised by the PRC Legal Advisers, according to the Laws on Rural and Urban Planning of the People’s Republic of China 《中華人民共和國城鄉規劃法》, since the landlord of the DG Leased Property has not been issued with the construction planning permit (建設工程規劃許可證) for the production factory and utilities in the DG Leased Property, the landlord could be ordered by the relevant PRC authorities to dismantle the production factory and utilities in the DG Leased Property within a prescribed time limit.

As advised by the PRC Legal Advisers, it is extremely remote that the abovementioned problem will have any effect to the DG Leased Property, for the following reasons:

- the landlord already paid tax to the local Dongguan authority on the rental received for the DG Leased Property. The acceptance of tax payment has demonstrated that the local authority accepted the lease agreement was valid;

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- the title defect of the DG Leased Property has been reported to and registered with the City Administration and Integrated Law Enforcement Bureau of Dongguan City (東莞市城市管理和綜合執法局) (the “**Dongguan City Law Enforcement Bureau**”), and got the Registration Record Receipt in 2009. The relevant authority has not taken any action up to the Latest Practicable Date; the Dongguan City Law Enforcement Bureau is the competent authority to make report and register title defects;
- based on the interview with the Planning Management Bureau of Changping Town, Dongguan City (東莞市常平鎮規劃管理局) (the “**Changping Planning Bureau**”) conducted by our PRC Legal Advisers, it was confirmed that (1) the usage of the DG Leased Property was in accordance with the land usage planning; (2) our DG Leased Property is not expected to be included in any demolition plan for public infrastructure projects or other projects in the coming years; (3) the risk of the DG Leased Property being demolished or expropriated is remote since the DG Leased Property has been reported to and registered with the City Administration and Integrated Law Enforcement; and (4) we are not liable for the title defects and are not in breach of the applicable laws and regulations. The party in default was the landlord who may be subject to a fine. Changping Planning Bureau is the competent government authority to identify and handle illegal constructions related matters;
- based on the interview with the Housing Planning and Construction Bureau of Changping Town, Dongguan City (東莞市常平鎮人民政府住房規劃建設局) (the “**Changping Construction Bureau**”) conducted by our PRC Legal Advisers, it was confirmed that (1) as the DG Leased Property has been reported to and registered with the Dongguan City Law Enforcement Bureau, the landlord could apply for the Property Ownership Certificate in accordance with the Implementation Rules for Post-register for the Property Ownership Certificate of the Built Houses in Dongguan City 《東莞市已建房屋補辦<房地產權證>實施細則》 and its supplemental provisions; and (2) we are not liable for the title defects and are not in breach of the applicable laws and regulations. Changping Construction Bureau is the competent government authority to identify and handle illegal constructions related matters;
- as confirmed by our Directors, from the date we leased the DG Leased Property and up to the Latest Practicable Date, we and the landlord of the DG Leased Property, had not received, and the relevant government authorities had not issued, any notice, letter or order, about the title defect of our DG Leased Property.

As a tenant, we are not liable for the title defects and are not in breach of the applicable laws and regulations. In addition, we will not be subject to any administrative punishment or penalties in this regard.

Accordingly, our PRC Legal Advisers are of the view that the title defect of the DG Leased Property as described above will very unlikely affect the operation of our production facility.

Based on the building structure safety appraisal reports issued in April 2019 by an independent professional organisation approved by the PRC government to carry out safety appraisals on the structure of the properties, the DG Leased Property is structurally safe. On the basis of the forgoing, we intend to continue to lease the DG Leased Property in accordance with the terms of the lease agreement.

BUSINESS

As stipulated in the lease agreement, if anything happens which renders the performance of the lease agreement impossible during the tenure, the lessor will compensate us for all losses, liabilities and expenses.

Contingency plan

The DG Leased Property is our sole production facility and is crucial to our business operation. In the unlikely event that we are required to relocate our production facilities and dormitory, our management will, inter alia, take the following factors into account when we implement our contingent relocation plan, including (i) size of the relocation land, which should preferably be bigger than our existing factory premises and dormitory to accommodate our expansion plan; (ii) location, which preferably should be in close proximity to our existing factory premises; (iii) rent, which should be comparable to the market rent of other premises of similar size, location and usage; (iv) relocation time needed, priority will be given to sites which are immediately available which will require less commute time between the DG Leased Property and the relocation land; (v) requisite certificates, our management will ensure that such site shall possess all requisite certificates and licenses to support our business operation; and (vi) construction costs or dismantling costs. Our management will also take other factors into account, such as whether there is any existing vacant factory premises and dormitory that we can use immediately as opposed to those with no facilities or with facilities not suitable for our business needs. We will also consider if we need to incur any substantial construction costs.

Based on our enquiries made with the local estate agents, our Directors consider that there is an abundant supply of vacant sites in the Guangdong Province that is readily available for our contingency plan. It is also anticipated that we can, as shown below, carry out our relocation plan in a gradual manner so that we do not need to put our production process to a standstill to a material extent and on such basis, it is estimated that there will not be a material loss in our revenue. Save for the relocation cost stated below, we do not expect any material loss in profit due to relocation alone.

Based on our management's estimation, in the unlikely event we have to move, it will take us less than three months to relocate our entire factory and dormitory to another suitable site in Dongguan. We intend to use less than two months in the construction and strengthening of the foundation for the production facilities in the new site, and we need to use about one month in moving our production line from the DG Leased Property to the new site. To avoid interruption in our production process, we shall carry out the moving of the machineries in phases. Our Directors estimate that it will take around three to six days to disassemble and transport our production machineries and equipment to the new site, and about two to four days to install, test and calibrate one set of machineries and equipment. If we need to relocate, we will strive to minimise any material disruption to our production process. To this end, we will group machineries and equipment of similar function and transport them in one phase, and prior to the relocation of such group of machineries and equipment, we will increase the production level of such group of machineries and equipment to ensure there will be sufficient products produced for the next group of machineries and equipment to work on while this group of machineries and equipment are being moved over and put out-of-use.

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Further, based on the advice of our PRC Legal Advisers, in the unlikely event that the landlord of the DG Leased Property is ordered to dismantle our production facilities and utilities, a statutory period of up to six months will be given prior to the dismantlement. As such, our Directors believe that we have sufficient time in planning and to carry out the relocation if such situation arises. It is further anticipated that the costs of such relocation plan will mainly include the rental payment of about three months of the DG Leased Property for completing the relocation, the estimated difference in yearly rental payment between the existing lease of the DG Leased Property and that of the new location, the transportation costs of the raw materials, work-in-progress, finished goods, other related materials and the equipment and machineries, the relocation insurance premium, and the meal and travel subsidy for employees. Based on the information currently available, our Directors estimate that the total relocation cost will be approximately RMB1.7 million.

As described above, if anything happens which renders the performance of the lease agreement for the DG Leased Property impossible during the term, as per the advice of the PRC Legal Advisers, according to the lease agreement the lessor of the DG Leased Property will have to compensate us for all actual losses, which should include the costs caused by the relocation above, as well as any increase in rental payable by us throughout the original term of the lease for the DG Leased Property.

INTELLECTUAL PROPERTY

Trademarks

Details of the trademarks registered and applied by us, and those registrations and applications as at the Latest Practicable Date are set out in the section headed “Statutory and General Information — Further information about the business of our Group — 8. Intellectual property rights of our Group” in Appendix IV to this prospectus.

Patents

As at the Latest Practicable Date, our Group had registered thirteen patents, which are related to our business. Details of the patents registered which are material to our business as at the Latest Practicable Date are set out in the section headed “Statutory and General Information — Further information about the business of our Group — 8. Intellectual property rights of our Group” in Appendix IV of this prospectus.

As at the Latest Practicable Date, all our patents and patents applications were not involved in any litigation relating to allegations of infringement of intellectual property rights and other violation of other parties’ rights.

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AWARDS AND RECOGNITIONS

The table below sets forth some of our major awards and recognitions.

Awards/Recognitions	Issuing Entity	Year(s) of Receipt
Quality Management System Certificate CNAS/IAF GB/T 19001–2000 idt ISO 9001:2000 (質量管理體系認證證書)	Beijing Xingguo Global Certification Co., Ltd. (北京興國環球認證有限 公司)	2009
Quality Management System Certificate CNAS/IAF GB/T 19001–2008 idt ISO 9001:2008 (質量管理體系認證證書)	Beijing Xingguo Global Certification Co., Ltd. (北京興國環球認證有限 公司)	2009, 2011
Certificate for Measurement Assurance System (Level 3) (計量保證體系確認合格證書)	Bureau of Quality Supervision of Dongguan City (東莞市質量技術 監督局)	2012, 2015, 2018
Certificate SGS/UKAS ISO 9001:2008	SGS United Kingdom Ltd.	2014
Heat Treatment Certification* (熱處理認定證)	Sumitomo (S.H.I.) Construction Machinery Company Limited (住友 建機株式會社)	2014, 2018
Certificate of High and New Technology Enterprise (高新技術企業證書)	Guangdong Provincial Science and Technology Department (廣東省 科學技術廳), Guangdong Provincial Finance Bureau (廣東省 財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局) and Guangdong Provincial Local Taxation Bureau (廣東省地方 稅務局)	2017
Certificate SGS/UKAS ISO 9001:2015	SGS United Kingdom Ltd.	2017

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INSURANCE

We maintain accidental insurance, which is part of the employee benefit insurance plan, to cover employer's liabilities associated with workplace injuries to all our employees.

For each of FY2017, FY2018 and 4M2019, the total insurance cost paid by our Group amounted to approximately HK\$391,000, HK\$474,000 and HK\$191,000, respectively. These policies cover the sum to pay as compensation for personal injuries by accident or disease sustained in the course of employment of the workers. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not face any material claim not covered by insurance policies taken out by us.

In considering the prevailing industry practice and our current operations, our Directors are of the view that our present insurance policies are adequate to cover the risks associated to the operation of our business and are in line with the industry norm.

We make contributions to social insurance for our employees in the PRC comprising insurance for retirement, unemployment, sickness, maternity and injury, as required by PRC social insurance regulations. We also maintain employee compensation insurance in respect of our operations in Hong Kong.

EMPLOYEES

As at the Latest Practicable Date, we had a total of 87 full-time employees in the PRC and Hong Kong. The following table sets out a breakdown of our employees categorised by region and function as at the Latest Practicable Date:

Function	PRC	Hong Kong	Total
Finance	4	1	5
Administrative	7	1	8
Production	43	0	43
Quality assurance	12	0	12
Technical	2	0	2
Human resource	7	1	8
Sales	0	1	1
Procurement	2	0	2
Logistics	6	0	6
Total	83	4	87

Our Group generally recruits employees from the open market and through job advertisements on job websites. During the Track Record Period, our Group has not paid any fees to any recruitment agency for recruitment/employment services.

Our human resources department provides our new workers with training and orientation on the first day they report duty. They are also briefed on our employment policies and procedures, our in-house guidelines regarding operation of the machineries and the related safety guidelines. Our workers

need to attend in-house trainings to keep them abreast of the updated technological knowledge, skills, updated workflow of production process and workplace safety from time to time. The compensation package of our employees includes salary and required benefits under PRC laws. During the Track Record Period, we did not experience any difficulty in recruiting suitable staff for our operations nor did we experience any material labour dispute with our employees.

In accordance with the relevant national and local labour and social welfare laws and regulations in the PRC, our Group is required to contribute to social insurance and housing provident funds for our employees in the PRC. As confirmed by our Directors, save as disclosed below, as at the Latest Practicable Date, our Group has complied with the applicable laws and regulations in the PRC regarding social insurance and housing provident funds for our PRC employees.

Social insurance contribution

During the Track Record Period, Kyoei Seiki made social insurance contributions for all our employees in the PRC which reached the minimum regulatory requirements of the Dongguan Human Resources and Social Security Bureau (東莞市人力資源和社會保障局). Nevertheless, the contributions made by Kyoei Seiki fell short of the standard under the Social Insurance Law of the PRC (中華人民共和國社會保險法) in the amount of approximately RMB235,000, RMB413,000 and RMB92,000 for FY2017, FY2018 and 4M2019, respectively.

To the best knowledge of our Directors, such non-compliance incident was primarily due to (i) the personnel in the human resources department handling social insurance contribution did not have a comprehensive understanding of the legal requirement in relation to social insurance contribution; and (ii) some of our employees were unwilling to bear or make up their own contribution in the social insurance contribution imposed by local authorities. Our Directors confirm that none of our Directors and senior management was directly involved in such incident as the personnel in the human resources department were delegated the task of handling the social insurance registration contribution.

According to the Social Insurance Law of the PRC, if the employers fail to fully contribute to the social insurance fund on time, the social insurance administration department may demand the employer to make full contributions or to pay the shortfall within a prescribed time period and impose a late fee of 0.05% of the total outstanding balance per day. If the employer still fails to do so within the prescribed time limit, the employer may be subject to a fine ranging between one to three times the amount of the total outstanding balance. Our Directors confirm that Kyoei Seiki will immediately settle the outstanding contribution together with such additional late payment fee upon receipt of such notice or order from the relevant government authority, such that the maximum liability against Kyoei Seiki in its non-compliance with the Social Insurance Law of the PRC will comprise (i) such additional late payment fee in the maximum amount of approximately RMB0.12 million; and (ii) the shortfall in social insurance under the PRC laws.

We obtained letters of confirmation (the “**Social Insurance Confirmation**”) from Dongguan Human Resources and Social Security Bureau, which stipulated that from 1 January 2016 to 30 June 2019, Kyoei Seiki had no record of administrative penalty imposed.

Our PRC Legal Advisers conducted a further interview with the Dongguan Changping Social Insurance Fund Management Centre (東莞市常平社會保險基金管理中心), the sub-branch of the Dongguan Human Resources and Social Security Bureau in Changping, which in their view is the

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competent authority to give the confirmation, confirming that, for enterprises which made the social insurance contribution which met the minimum regulatory requirements of the Centre, the relevant authorities will not request enterprises to pay any shortfall in the contribution, unless complaints were received from employees.

We have confirmation letters from all relevant employees whereby they agreed to renounce their rights to any potential claim against our Group in respect of the social insurance contributions.

Based on the foregoing, our PRC Legal Advisers were of the view that (i) the relevant governmental authorities aforesaid were competent authorities to issue the Social Insurance Confirmation and to give verbal confirmation during the interview; and (ii) the likelihood that we will be fined or will be required by the relevant social insurance fund authority to make up the social insurance fund contributions is extremely low.

Our PRC Legal Advisers were also of the view that unless there will be any change in Social Insurance Law or policy or there is any complaint made by any employee, we can continue in making the social insurance contributions which meet the minimum regulatory requirements of the Dongguan Human Resources and Social Security Bureau.

Housing provident fund

During the Track Record Period, starting from August 2018, Kyoei Seiki registered with the relevant housing provident fund authorities and made housing provident fund contributions for all our employees in the PRC which reached the minimum regulatory requirements of the Dongguan Housing Provident Fund Management Centre (東莞市住房公積金管理中心). Nevertheless, the registration was not done on time and the contributions made by Kyoei Seiki fell short of the standard under the Administrative Regulations on Housing Provident Fund of the PRC (住房公積金管理條例) in the amount of approximately RMB112,000, RMB137,000 and RMB31,000 for FY2017, FY2018 and 4M2019, respectively.

To the best knowledge of our Directors, such non-compliance incident was primarily due to (i) the personnel in the human resources department handling housing provident fund contribution did not have a comprehensive understanding of the legal requirement in relation to housing provident fund contribution; and (ii) some of our personnel were unwilling to bear or make up their own contribution in the housing provident fund contribution imposed by local authorities. Our Directors confirm that none of our Directors and senior management was directly involved in the non-compliance incident as the personnel in the human resources department were delegated the task of handling the housing provident fund registration contribution.

According to the Administrative Regulations on Housing Provident Fund (住房公積金管理條例), if an employer fails to register and establish an account for housing provident fund, the housing provident fund management centre could order the employer to correct it within a prescribed time limit. If the employer still fails to do so within the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 could be imposed. Where an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre could order the employer to make the payment and deposit within a prescribed time limit. If the employee still does not do so within the prescribed time limit, an application may be made to a people's court for compulsory enforcement. According to our PRC Legal Advisers, since no penalty or fine was involved in Kyoei

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Seiki's non-compliance with the Administrative Regulations on Housing Provident Fund, the maximum liability against Kyoei Seiki will be the shortfall in housing provident contributions under the PRC laws.

As at the Latest Practicable Date, Kyoei Seiki had already registered with the competent housing provident fund authorities, and has obtained written confirmation letters (the "**Housing Provident Fund Confirmation Letters**") from the Dongguan Housing Provident Fund Management Centre, which stipulated that Kyoei Seiki had opened housing provident fund contribution accounts in August 2018 and had no record of material violations of the housing provident fund regulations.

Our PRC Legal Advisers held the view that since Kyoei Seiki already registered with the relevant housing provident fund authorities in August 2018 and the breach was minor, the risk of sanction over Kyoei Seiki for failure to register with the relevant housing provident fund authority does not exist.

Our PRC Legal Advisers conducted a further interview with the Dongguan Housing Provident Fund Management Centre Changping Sub-branch which in their view is the competent authority to give the confirmation, confirming that, for enterprises which fail to pay housing provident fund for employees in accordance with regulations, the relevant authorities will not voluntarily request enterprises to pay the shortfall, unless complaints from employees were received.

We received confirmation letters from all our relevant employees whereby they agreed to renounce their rights to any potential claim against our Group in respect of the housing provident fund contributions.

Based on the foregoing, our PRC Legal Advisers held the view that (i) Dongguan Housing Provident Fund Management Centre was the competent authority to issue the Housing Provident Fund Confirmation Letters; and (ii) the likelihood that we will be fined or will be required by the relevant housing provident fund authority to pay the housing provident fund contributions is extremely low.

Our PRC Legal Advisers were also of the view that unless there will be any change in the Administrative Regulations on Housing Provident Fund or there is any complaint made by any employee, we can continue in making the housing provident fund contributions which meet the minimum regulatory requirements of the Dongguan Housing Provident Fund Management Centre.

In Hong Kong, our Group participates in the mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance. As confirmed by our Directors, as at the Latest Practicable Date, our Group is in compliance with applicable Hong Kong laws and regulations in relation to the mandatory provident fund scheme and has not received any notice from any relevant authority in Hong Kong concerning its failure to make contribution to the mandatory provident fund.

For each of FY2017, FY2018 and 4M2019, our total employee benefits were approximately HK\$4.9 million, HK\$7.0 million and HK\$2.6 million, which accounted for approximately 16.2%, 20.3% and 15.2% of our total expenditure, respectively.

ENVIRONMENTAL PROTECTION

We are subject to various PRC national and local environmental laws and regulations related to our operations. For further details on such laws and regulations, please refer to the section headed “Regulatory Overview — Laws and regulations relating to environmental protection and fire prevention” of this prospectus.

We believe that it is important and essential to protect the environment. For this reason, we have in place environmental protection policies for discharge of all of our wastes generated during our production process.

During the Track Record Period, we have commissioned a third party to dispose of the waste water generated during our production process, which, under PRC laws and regulations, are required to be handled by a waste disposal specialist.

During the Track Record Period, Kyoei Seiki did not refile the environmental impact registration forms for construction projects in accordance with the law and regulation before they implemented construction projects at its production facility at the DG Leased Property. On 27 April 2018, an Administrative Penalty Decision (行政處罰決定書) had been made by the Dongguan Environmental Protection Bureau to impose a fine of RMB5,000 on Kyoei Seiki. On 3 May 2018, Kyoei Seiki made payment of the fine of RMB5,000 and conducted the procedure of environmental impact assessment as required.

As at the Latest Practicable Date, Kyoei Seiki has rectified this non-compliance issue concerning environmental protection. The noise and solid waste pollution prevention and control facilities of the company have satisfied the requirements set by the Dongguan Environmental Protection Bureau.

The Changping Branch of the Dongguan Environmental Protection Bureau also confirmed that Kyoei Seiki has abided by the laws and regulations on environmental protection since 12 September 2018. No environmental pollution accident and dispute has occurred, and no administrative penalty has been imposed.

Based on the foregoing, our PRC Legal Advisers confirmed that Kyoei Seiki has satisfied the environmental protection formalities and conform with the provisions of the PRC environmental protection law.

In respect of our scrap metal, we collect and place them at a designated place of our factory and will sell them to the metal recyclers.

We consider the costs to be incurred in relation to environmental protection are immaterial to our Group. Save as disclosed above, we were not in breach of any specific environmental regulations applicable to our business and were not involved in any material incident involving waste handling or noise during the Track Record Period.

WORK SAFETY

We believe that the safety of our employees is imperative to our Group's success and we strive to provide an accident-free workplace for them/minimise potential hazards and threats posed to them. In this connection, we have established measures to promote work safety and to ensure compliance with applicable PRC laws and regulations.

Our production facilities are installed with numerous large-scale production machineries and heavy equipment, and there are potential hazards associated with their operation during our operation. We have identified these potential hazards and placed safety signs and slogans in the accident-prone area. We have also devised written manual and guidelines to provide our workers with step-by-step guidance on how to operate the machineries and equipment safely.

In addition, we provide training and orientation for our employees on the first day they report duty, which includes the safety operation of production machineries and equipment. We also strive to promote the importance of and to raise the awareness of work safety among our employees and ensure all our employees are familiar with the applicable laws and policies by providing regular trainings.

We have also established a series of safety guidelines, rules and procedures for different aspects of our production activities, including chemicals handling and storage, fire safety, electrical safety, work-related injuries and emergency and evacuation procedures. We have installed appropriate fire safety equipment.

Our Directors confirm that we did not encounter material accidents concerning work safety during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we have not experienced any material or prolonged stoppages of production due to equipment failure, nor have we experienced any major accidents during the production process.

INTERNAL CONTROL

With a view to strengthen the internal control procedures of our Group, we have engaged an independent business consulting and internal audit firm (the “**Internal Control Consultant**”), to perform a review over selected areas (the “**Internal Control Review**”). The Internal Control Consultant had been engaged in pre-IPO internal control reviews for other companies listed on the Stock Exchange. Following this review, we have taken some remedial measures to improve our internal control system.

Our Group has adopted the measures and policies as outlined in the Internal Control Review in order to improve our internal control systems and to ensure our compliance with the relevant GEM Listing Rules and Hong Kong laws. Based on the results of the Internal Control Review, our Directors are of the view that adequate and effective internal control procedure and policies have been put in place by our Group.

LICENCES AND PERMITS

As advised by our PRC Legal Advisers, we have obtained all material requisite licences, permits and approvals for operating our business in the PRC during the Track Record Period and up to the Latest Practicable Date. To ensure that we would be able to timely obtain all necessary licences for our operations, we have assigned personnel to keep track of the expiry dates of all relevant licences and apply for renewal in a timely manner. Our Directors confirmed that they were not aware of any difficulty in the renewal of other abovementioned licenses when they expire.

NON-COMPLIANCE

Our Directors confirmed that we have complied with all applicable laws and regulations in relation to our business in all material respects during the Track Record Period and up to the Latest Practicable Date.

LITIGATION

During the Track Record Period and up to the Latest Practicable Date, our Group was not involved in any actual, pending or threatened claim, litigation, administrative action or arbitration which could have a material adverse effect on our business, financial position or result of operations.

REGULATORY COMPLIANCE

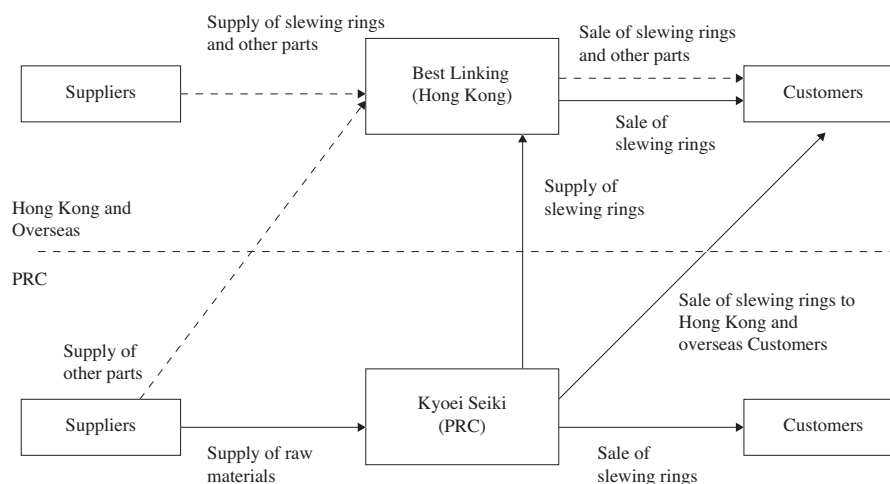
We are headquartered in Hong Kong and the PRC and all of our operations are in Hong Kong and the PRC. All of our employees are located in Hong Kong and the PRC.

Our Directors confirm that Hong Kong and the PRC are the applicable jurisdictions in relation to our operation. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any incident of non-compliance which, in the opinion of our Directors, is likely to materially and adversely affect our business, financial condition or results of operations. During the Track Record Period and up to the Latest Practicable Date, we have complied with all applicable laws and regulations in Hong Kong and the PRC in all material respects.

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Transfer pricing arrangement

During the Track Record Period and up to the Latest Practicable Date, the major operations of our Group were in Hong Kong and the PRC while we entered transactions with our customers from all over the world. Our suppliers were mainly located in the PRC. The following diagram illustrates the business and logistics flow of our raw materials and finished goods within our Group during the Track Record Period and up to the Latest Practicable Date:



Our production was carried out by Kyoei Seiki in our factory located in Dongguan City, the PRC. Kyoei Seiki purchased the raw materials from suppliers in the PRC. The raw materials were shipped directly to our factory in Dongguan City, PRC for processing. Our slewing rings were then sold to customers located in the PRC, Hong Kong or overseas directly from Kyoei Seiki, and the slewing rings were delivered by independent logistics service providers to the destinations specified by customers, usually on FOB terms or Ex Works terms. Kyoei Seiki also supplied slewing rings to Best Linking for onward sale to customers in Hong Kong and overseas. Meanwhile, Best Linking procured slewing rings and other parts that we do not produce from suppliers in Hong Kong and the PRC, which attracts customers in Hong Kong or overseas. Also, there are customers who prefer to conduct business with Best Linking as Best Linking is a company incorporated under the laws of Hong Kong and the terms of sales is governed by the law of Hong Kong. For sales from Kyoei Seiki, Kyoei Seiki issued the invoices direct to customers for settlement, and for sales from Best Linking, Best Linking issued invoices direct to Hong Kong or overseas customers for settlement.

As illustrated above, the supply of slewing rings by Kyoei Seiki for onward sale by Best Linking was regarded as intra-group related party transactions (the “**Transfer Pricing Arrangements**”). The amount of this intra-group transactions were HK\$9,332,000, HK\$12,354,000 and HK\$4,208,000 for FY2017, FY2018 and 4M2019, respectively.

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We engaged an independent tax adviser to conduct transfer pricing study concerning the above transactions for FY2017 and FY2018 taking into account of the applicable laws and regulations on transfer pricing in Hong Kong and the PRC. The key basis of the benchmarking study involved the comparison of the transactional net margin of Kyoei Seiki and the transactional net margin of the market comparables. According to the transfer pricing study, the interquartile range of the three-year weighted average full cost mark up ratio of the 11 comparable companies for fiscal years 2015 to 2017 is 5.00% to 13.96%, with a median of 6.72%. The weighted average full cost mark up ratio of Kyoei Seiki calculated for the period covering FY2017 and FY2018 is 13.71%, which is within the interquartile range derived from the transactional net margin method analysis. Therefore, our independent tax adviser concluded with the opinion that the said Transfer Pricing Arrangements were in compliance with the applicable rules and regulations in China and Hong Kong for FY2017 and FY2018 and neither Kyoei Seiki nor Best Linking is subject to tax exposure relating to the Transfer Pricing Arrangements in Hong Kong or the PRC.

To ensure ongoing compliance with the applicable transfer pricing arrangement, the following measures are adopted by our Company:

- To keep track on regulatory update to ensure our Company is complying with those transfer pricing rules and regulations;
- To review the transfer pricing arrangements regularly with reference to the latest benchmarking data;
- To document all relevant information properly to support the reasonableness and appropriateness of the transfer pricing arrangements; and
- To revisit transfer pricing arrangements if necessary (e.g. when there will be any significant change in the functional and risk profiles of corresponding entities).

Please refer to the section headed “Risk Factors — We may be subject to transfer pricing challenge by the relevant tax authorities and hence additional tax liabilities, which could have adverse impacts on the result of our operation” of this prospectus for details on the risk of potential challenge on our transfer pricing arrangements.

As at the Latest Practicable Date, our Directors were not aware of any outstanding enquiry, audit or investigation by any tax authority in Hong Kong or the PRC with respect to our Transfer Pricing Arrangements.

DIRECTORS AND SENIOR MANAGEMENT

Our Board of Directors consists of two executive Directors and three independent non-executive Directors. The following table sets out the information concerning our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Executive Directors						
Mr. Chan Yuk Pan (陳煜彬)	40	Executive Director, chief executive officer and chairman	25 June 2007	26 October 2018	Overall management, sales and business development and strategic planning of our Group	Brother of Mr. LP Chan
Mr. Chan Lung Pan (陳龍彬)	38	Executive Director	12 March 2019	12 March 2019	Human resources management of our Group	Brother of Mr. YP Chan
Independent Non-Executive Directors						
Mr. Chan Wan Tsun Adrian Alan (陳弘俊)	41	Independent non-executive Director	21 October 2019	21 October 2019	Supervising on the issues of strategy, policy, performance, accountability, internal control and corporate governance	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Ms. Tsang Hau Lam (曾巧臨)	45	Independent non-executive Director	21 October 2019	21 October 2019	Supervising on the issues of strategy, policy, performance, accountability, internal control and corporate governance	N/A
Ms. Tam Ho Ting (譚可婷)	41	Independent non-executive Director	21 October 2019	21 October 2019	Supervising on the issues of strategy, policy, performance, accountability, internal control and corporate governance	N/A

Senior Management

Name	Age	Position	Date of joining our Group	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Mr. Chan Ho Chee Gilbert (陳浩賜)	32	Chief financial officer & chief operating officer & company secretary	1 November 2018	Overseeing overall accounting, financial management, operation and compliance functions and company secretarial matters	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Chen Fang (陳芳)	48	Financial controller and assistant to chief executive officer	September 2007	Overseeing the financial and accounting management of Kyoei Seiki	N/A

DIRECTORS

Executive Directors

Mr. Chan Yuk Pan (陳煜彬), aged 40, is the executive Director, chief executive officer and chairman of our Board, and the Controlling Shareholder of our Group. He is also the chairman of the Remuneration Committee. Since 2007, Mr. YP Chan has been responsible for the overall management of our Group, including strategic planning, as well as sales and business development. He was appointed director of Wing Fung, Kyoei Seiki and Best Linking in June 2007, August 2007 and December 2018 respectively and was appointed Director on 26 October 2018 and was re-designated as an executive Director on 12 March 2019.

Mr. YP Chan is an entrepreneur with over 10 years operational experience. He was involved in the trading of machineries and spare parts in Hong Kong and manufacture and sales of spare parts in the PRC. After completing the advanced Japanese language course at the Japanese Language Institute of Sapporo in Sapporo, Japan in 2004, Mr. YP Chan worked as a sales and marketing executive in a company engaged in distribution and exportation of confectionery and related products from December 2004 to December 2005 in Sapporo, Japan, which enabled him not only to further his Japanese language skill, but also gave him the opportunity to develop his network within the Japanese business community. After returning to Hong Kong, starting from January 2006, Mr. YP Chan worked in South Wing Machinery Company Limited, a company which specialised in the trading of new and used construction machineries, with his last position as a sales and marketing executive and gained experience in the sale and supply of heavy duty equipment and parts industry. In September 2007, he founded Kyoei Seiki through Wing Fung which is principally engaged in the manufacturing and sales of slewing rings. Throughout the past 10 years, Mr. YP Chan has established and maintained strong business relationship with general wholesale traders or distributors of machineries or parts in Asia, USA, Europe and Japan and gained valuable experience in the manufacture and sale of spare parts for machineries.

Mr. YP Chan completed his Form 7 education in Avondale College in Auckland, New Zealand. From 1999 to 2002, Mr. YP Chan attended Auckland University of Technology and took courses in business computing, applied science and information technology. In March 2004, Mr. YP Chan obtained a certificate in advanced Japanese language course) at the Japanese Language Institute of Sapporo in Sapporo, Japan.

DIRECTORS AND SENIOR MANAGEMENT

Mr. YP Chan is the elder brother of Mr. LP Chan, who is also an executive Director.

Mr. YP Chan has not held directorship in any listed company, the securities of which are or have been listed on any securities market in Hong Kong in the last three years immediately preceding the Latest Practicable Date.

Mr. Chan Lung Pan (陳龍彬), aged 38, was appointed an executive Director on 12 March 2019. He first joined our Group in November 2005 as director and shareholder of Wing Fung. Wing Fung had no business operations until September 2007 when Mr. YP Chan utilised his personal resources and internal resources of Wing Fung to establish Kyoei Seiki. Mr. LP Chan resigned from his directorship position in April 2011 to pursue his other career development. He is also a member of the Remuneration Committee. He is responsible for human resources management of our Group.

Mr. LP Chan has over 15 years of experience in procurement and management. He commenced his career in South Wing Machinery Co. Limited in September 2003 as a trainee. He was subsequently promoted to the post of purchase and sales manager from 1 April 2009 to 30 September 2011, being responsible for purchase management, inventory control, contract negotiations, department co-ordination and complaints handling. Since January 2012, Mr. LP Chan worked as a manager overseeing purchasing and human resources management at Pacific Infinity Resources Holdings Limited and was a consultant of the same company from 13 March 2019 to 12 April 2019.

Mr. LP Chan attended Avondale College in Auckland, New Zealand, where he was enrolled as an international student in Year 12 from February 1998 to December 1999. He obtained his school certificate from the New Zealand Qualifications Authority in New Zealand in 1999 and later studied Japanese in Tohoku Foreign Language and Tourism College in Japan from October 2000 to March 2002.

Mr. LP Chan is the youngest brother of Mr. YP Chan, an executive Director and a Controlling Shareholder. Save as disclosed above, Mr. LP Chan is not connected with other Directors, members of the senior management, Substantial Shareholders or Controlling Shareholders of our Company.

Mr. LP Chan has not held directorship in any listed company, the securities of which are or have been listed on any securities market in Hong Kong in the last three years immediately preceding the Latest Practicable Date.

Independent non-executive Directors

Mr. Chan Wan Tsun Adrian Alan (陳弘俊) (“**Mr. Adrian Chan**”), aged 41, was appointed an independent non-executive Director on 21 October 2019. He is also the chairman of the Audit Committee and a member of the Nomination Committee. He is responsible for overseeing the areas with regard to the strategy, policy, performance, accountability, internal control, corporate governance and providing independent advice to our Group.

Mr. Adrian Chan graduated from the University of New South Wales, Australia with a bachelor degree in commerce in accounting and finance in April 2000. He became a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants in June 2006 and November 2009 respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Adrian Chan has over 9 years of experience in the field of corporate finance. He started his career with Deloitte Touche Tohmatsu and worked in the audit department of the firm from January 2000 to March 2000. Mr. Adrian Chan then worked in various financial institutions and investment banks, including DBS Vickers Securities, with his last position as an executive in the corporate finance department, from April 2000 to December 2001, DBS Asia Capital Limited, with his last position as assistant vice president in equity capital markets, wholesale banking-global financial markets from January 2002 to July 2005, and UOB Asia (Hong Kong) Limited, with his last position as associate director, from July 2005 to November 2009.

After leaving UOB Asia (Hong Kong) in November 2009, Mr. Adrian Chan switched his career from corporate finance to financial management. From November 2009 to June 2015, he was the chief financial officer of Enviro Energy International Holdings Limited (stock code: 1102), where he was responsible for overall financial management, internal control function and accounting function. In July 2015, Mr. Adrian Chan was appointed as the chief financial officer of Sun Ray Capital Investment Corporation, in July 2018, Mr. Adrian Chan was appointed as the chief financial officer of LabyRx Immunologic Therapeutics Limited and in August 2018, Mr. Adrian Chan was appointed as the chief financial officer of Lifespans Limited.

The details of directorship held in public listed companies by Mr. Adrian Chan are as follows:

Company name	Principal business activities of our Company	Stock code	Stock Exchange	Position	Duration
Petromin Resources Ltd.	Petroleum and natural gas exploration and production	PTR.H	Toronto Venture Stock Exchange	Director, chief financial officer and corporate secretary	December 2015 to March 2018
Grand Baoxin Auto Group Limited	Sales and service of motor vehicles	01293	Main Board of the Stock Exchange	Independent non-executive director	November 2011 to present

Save as disclosed above, Mr. Adrian Chan has not been a director of any listed company in the three years immediately preceding the Latest Practicable Date.

Ms. Tsang Hau Lam (曾巧臨) (“Ms. Tsang”), aged 45, was appointed an independent non-executive Director on 21 October 2019. She is also a member of the Audit Committee and the Remuneration Committee. She is responsible for overseeing the areas with regard to the strategy, policy, performance, accountability, internal control, corporate governance and providing independent advice to our Group.

Ms. Tsang graduated from The University of Melbourne, Australia with a bachelor’s degree of commerce in December 1996 and a master degree in practising accounting from Monash University, Australia in November 2000. She became a member of CPA Australia in July 2001.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Tsang has over 22 years of experience in the field of taxation. She started her career in PricewaterhouseCoopers in Hong Kong and had worked with the firm from February 1997 to March 2003, with her last position as senior consultant, where she obtained experience in tax compliance matters. Between November 2004 and February 2007, Ms. Tsang worked in Ross Melville PKF in Auckland, New Zealand with her last position as tax consultant. She then rejoined PricewaterhouseCoopers in Hong Kong as senior consultant in February 2007 and stayed with the firm until April 2010 with her last position as manager. Between April 2010 and April 2015, Ms. Tsang was employed by BDO Limited with her last position as tax principal of Hong Kong tax team. From April 2015 up to now, she has been working in a private equity real estate investment group as vice president responsible for overseeing the tax matters.

Ms. Tsang has not been a director of any listed company in the three years immediately preceding the Latest Practicable Date.

Ms. Tam Ho Ting (譚可婷) (“Ms. Tam”), aged 41, was appointed an independent non-executive Director on 21 October 2019. She is also a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee. She is responsible for overseeing the areas with regard to the strategy, policy, performance, accountability, internal control, corporate governance and providing independent advice to our Group.

Ms. Tam obtained a bachelor degree in business administration from The Chinese University of Hong Kong in May 2000. In January 2008, she was admitted as an associate member of The Institute of Chartered Accountants in England and Wales. Ms. Tam has been a fellow member of the Association of Chartered Certified Accountants since July 2009 as well as a fellow member of the Hong Kong Institute of Certified Public Accountants since October 2015.

Ms. Tam has over 18 years of work experience in the accounting and financial work sector. Before joining our Group, Ms. Tam worked in various accounting firms and multi-national companies. She started her career in the assurance and business advisory department in Moores Rowland and worked there from September 2000 to December 2002, with her last position as associate III. From December 2002 to March 2004, Ms. Tam worked as an assistant manager in KPMG, Hong Kong. From April 2004 to June 2007, she worked in Hutchison Telecommunications (Hong Kong) Limited, a wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (stock code: 215), a company listed on the Main Board of the Stock Exchange with her final position as senior accountant in the finance and administration division. From June 2007 to August 2010, Ms. Tam worked in Avery Dennison Hong Kong, B.V., with her last position as finance manager in the production and costing sector of the financial planning and analysis department. Ms. Tam then worked as manager in the financial analysis department in Hasbro Far East Limited, Hong Kong from August 2011 to August 2013. Since November 2013, Ms. Tam has provided accounting and book-keeping services to private companies engaged in various sectors of industries in Hong Kong, including pharmacy services and other services. In September 2018, Ms. Tam established CT Business Services Limited whose principal activity is the provision of accounting and book-keeping services.

Ms. Tam has not been a director of any listed company in the three years immediately preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, none of our Directors (i) held other position in our Company or other members of our Group as at the Latest Practicable Date; (ii) had relationship with other Directors, senior management or Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; and (iii) held directorship in public listed companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in the section headed “Substantial Shareholders” of this prospectus and in the paragraph headed “Statutory and General Information — Further information about Directors, management and staff” in Appendix IV to this prospectus, none of our Directors held any interest in the Shares within the meaning of Part XV of the SFO.

None of our Directors has any interest in any business which competes or is likely to compete, either directly or indirectly, with business of our Group. Please refer to Appendix IV to this prospectus for further information about our Directors, including details of the interest of our Directors in the Shares and underlying Shares of our Company (within the meaning of Part XV of the SFO) and particulars of the service contract and remuneration.

SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Chan Ho Chee Gilbert (陳浩賜) (“**Mr. Chan**”), aged 32, joined our Group as the chief financial officer on 1 November 2018. He was later appointed as chief operation officer and company secretary of our Group on 12 March 2019. He is primarily responsible for overseeing overall accounting, financial management, operation and compliance functions and company secretarial matters.

Mr. Chan obtained a bachelor degree in commerce (accounting) from Macquarie University in Australia in September 2009. He further obtained a master’s degree in financial analysis from The University of New South Wales in August 2010. Mr. Chan has been a member of CPA Australia since December 2013.

Mr. Chan has over 8 years of work experiences in accounting and finance covering clientele including manufacturing and food and beverage industries. From December 2010 to October 2013, Mr. Chan worked in BDO Limited, with his last position as senior associate, where he participated in the annual audit and special engagement of listed companies in Hong Kong. From October 2013 to July 2018, Mr. Chan worked in PricewaterhouseCoopers, with his last position as manager in assurance practice, where he has been involved in audits for public, sizable private and multinational companies as well as initial public offerings.

Ms. Chen Fang (陳芳) (“**Ms. Chen**”), aged 48, is our financial controller and assistant to the chief executive officer. Ms. Chen joined the finance department of Group in September 2007. She is primarily responsible for overseeing the financial and accounting management of Kyoei Seiki.

Ms. Chen graduated from Shaanxi Labor College (陝西工運學院) in the PRC in July 1998 with a diploma in computing and accounting (計算機與會計專業) and has over 10 years of experience in accounting work. Prior to joining our Group, between January 2002 and December 2003, Ms. Chen worked in Guangzhou BaiJi Engineering Machinery Parts Co., Ltd* (廣州市柏基工程機械配件有限公司) in Guangzhou, the PRC in the accounting department.

None of our senior management has held directorship in any listed company, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE OFFICER

Mr. YP Chan serves as the compliance officer of our Company for the purpose of the GEM Listing Rules. His biography is set out in the paragraph headed “Executive Directors” of this section above.

BOARD COMMITTEES

The Audit Committee, Remuneration Committee, Nomination Committee of our Company were established by resolutions passed by our Board on 21 October 2019.

Each of the three committees has written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules (the “CG Code”).

Audit Committee

Our Company established an audit committee on 21 October 2019 by a resolution of the Board on 21 October 2019 with written terms of reference in compliance with Rule 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code. The audit committee comprises three independent non-executive Directors: Mr. Adrian Chan, Ms. Tam and Ms. Tsang. Mr. Adrian Chan was appointed to serve as the chairman of the audit committee. The primary duties of our audit committee are to make recommendations to the Board on the appointment and dismissal of the external auditor, to review the financial statements and information and provide advice in respect of financial reporting and oversee the risk management and internal control systems of our Company.

Remuneration Committee

Our Company established a remuneration committee on 21 October 2019 by a resolution of the board on 21 October 2019 with written terms of reference in compliance with Rule 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1.2 of the CG Code. The remuneration committee comprises two independent non-executive Directors and one executive Director: Mr. LP Chan, Ms. Tam and Ms. Tsang. Ms. Tam was appointed chairman of the remuneration committee. The primary functions of our remuneration committee are to make recommendations to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors is in a position to determine his own remuneration.

Nomination Committee

Our Company established a nomination committee on 21 October 2019 by a resolution of the Board on 21 October 2019 with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The nomination committee comprises two independent non-executive Directors and one executive Director: Mr. Adrian Chan, Ms. Tam and Mr. YP Chan. Mr. YP Chan was appointed as the chairman of the nomination committee. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement our Company’s corporate strategy; identify individuals suitably qualified as potential Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of our independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning of Directors, in particular our chairman and the chief executive officer.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

Our Nomination Committee is also responsible for ensuring the diversity of our Board and will review our board diversity policy from time to time to ensure its continued effectiveness and the implementation of the board diversity policy.

We have adopted a board diversity policy which sets out the approach to achieve a balanced skills, experience and diversity of perspectives appropriate to the requirements of our Company's business from time to time including but not limited to gender, age, cultural and educational background, nationality and professional qualifications. The appointment will be based on meritocracy and contribution that the selected candidates will bring to the Board.

Our Board currently comprises three male Directors and two female Directors and has a balanced mix of experiences and industry background, including experiences in entrepreneurship, human resources management, taxation, accounting and financial management. Our Directors consider that the current composition of our Board satisfies our board diversity policy.

REMUNERATION POLICY

The aggregate amounts of remuneration (comprising fees, salaries, other allowances and benefits in kind, discretionary bonuses and contribution to pension schemes) of our Directors for FY2017, FY2018 and 4M2019 were approximately HK\$799,000, HK\$778,000 and HK\$379,000, respectively. The aggregate amounts of salaries, other allowances and benefits, and contributions to pension schemes of our five highest paid individuals (excluding the emoluments paid to our Directors) for FY2017, FY2018 and 4M2019 were approximately HK\$526,000, HK\$561,000 and HK\$313,000, respectively. Details of the arrangement for remuneration are set out in Note 7 to the Accountant's report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' service contracts and letters of appointment referred to in "Statutory and General Information — Further information about Directors, management and staff — 9. Directors — (a) Particulars of service contracts and letters of appointment" in Appendix IV to this prospectus, the aggregate amount of Directors' fee and other emoluments payable to our Directors (excluding any discretionary bonuses for the year ending 31 December 2019) is estimated to be approximately HK\$1,260,000.

Our Group's principal policies concerning the remuneration of Directors or staff of high calibre are determined based on the relevant Director's or staff's duties, responsibilities, experience and skills. Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. Our Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to our Group or executing their functions in relation to our operations. Our Company provides discretionary bonuses to our senior management and key employees as incentive. Our Company will regularly review and determine the remuneration and compensation packages of our Directors and senior management.

To enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group, our Company has conditionally adopted the Share Option Scheme on 21 October 2019. Please refer to the section headed "Statutory and General Information — Share option scheme" in Appendix IV to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

After Listing, our Remuneration Committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to the salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Track Record Period, no remuneration was paid by our Company to, or received by, our Directors as an inducement to join or upon joining our Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company will comply with the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the “**Corporate Governance Code**”) with the exception of code provision A.2.1, which requires the roles of chairman and chief executive be held by different individuals.

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. YP Chan currently holds both positions. Mr. YP Chan has been responsible for the overall management of our Group, including strategic planning as well as sales and business development. The Board considers that Mr. YP Chan is the suitable candidate to hold both positions and such arrangement will be beneficial to our Group.

Our Directors will review our corporate governance policies and compliance with the CG Code every financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the Listing.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, we have appointed LY Capital Limited as the compliance adviser. The compliance adviser will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular, or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issue and share repurchase;
- (iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry to our Company in accordance with Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), 75% of the issued share capital of our Company will be owned by C Centrum, which is a company wholly-owned by Mr. YP Chan. In this regard, Mr. YP Chan, together with C Centrum, are our Controlling Shareholders within the meaning of the GEM Listing Rules. For the background of Mr. YP Chan, please refer to section headed “Directors and Senior Management” of this prospectus.

Save as disclosed above, there is no other person who will, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account the allotment and issue of Shares upon the exercise of options to be granted under the Share Option Scheme), be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors consider that our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates (other than the members of our Group) upon the Listing.

Financial independence

We are financially independent of our Controlling Shareholders and their respective close associates. We have sufficient capital and banking facilities to operate our business independently, and have adequate resources to support our daily operations. In addition, our Group makes financial decisions according to our own business needs.

Operational independence

We have sufficient operational capacity in terms of capital, facilities, premises and employees to operate our business independently. We also have independent access to suppliers and customers and our Group has established our own organisational structure made up of individual departments, each with specific area of responsibilities, to handle our day-to-day operations.

Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. We did not share any operational resources, such as office premises, sales and marketing and general administration resources, and facilities and equipment with our Controlling Shareholders and their close associates during the Track Record Period. We have also established a set of internal controls to facilitate the effective operation of our business. We also have our own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, human resources and information technology.

Our suppliers are all independent from our Controlling Shareholders. We do not rely on our Controlling Shareholders or their close associates and have independent access to our suppliers for the provision of services and materials.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

Management independence

Although our Controlling Shareholders will maintain controlling interests in our Company upon completion of the Share Offer, the day-to-day management and operations of our Group will be the responsibility of all our executive Directors and senior management of our Company. The Board has five Directors comprising two executive Directors, and three independent non-executive Directors. The Board and senior management operate independently of our Controlling Shareholders and they are in a position to fully discharge their duties to the Shareholders as a whole after the Listing without reference to our Controlling Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing our Group's business independently from our Controlling Shareholders.

RULE 11.04 OF THE GEM LISTING RULES

Our Controlling Shareholders and Directors confirm that they do not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (a) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested unless a majority of the independent non-executive Directors expressly requested him/her to attend;
- (b) our Company has appointed LY Capital Limited as the compliance adviser, which upon enquiry of our Company, will provide advice and guidance to our Company in respect of compliance with the GEM Listing Rules;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) the independent non-executive Directors will be responsible for deciding whether or not to allow our Controlling Shareholders and/or their respective close associates to involve or participate in a restricted business and if so, any condition to be imposed; and
- (d) the independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures comprising the measures set out above, our Directors believe that the interest of the Shareholders will be protected.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company immediately following the completion of the Capitalisation Issue and Share Offer is as follows:

	Nominal value <i>HK\$</i>
<i>Authorised share capital:</i>	
<u>10,000,000,000</u> Shares of HK\$0.01 each	<u>100,000,000</u>
<i>Shares in issue or to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and Share Offer:</i>	
100 Shares in issue as at the Latest Practicable Date	1
299,999,900 Shares to be issued pursuant to Capitalisation Issue	2,999,999
<u>100,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,000,000</u>
<u>400,000,000</u> Total	<u>4,000,000</u>

ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Share Offer are made. It has not taken into account of any Shares which may be allotted and issued pursuant to the exercise of the any options that may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

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

RANKING

The Offer Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares now in issue or to be issued as mentioned in this prospectus and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus save for the entitlements under the Capitalisation Issue.

SHARE CAPITAL

CIRCUMSTANCES WHERE GENERAL MEETING AND CLASS MEETING OF OUR COMPANY 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, we will hold general meetings as prescribed for under our Articles and the Memorandum of Association, a summary of which is set out in Appendix III to this prospectus. There are certain circumstances where annual general meetings or extraordinary general meetings of our Company are required under our Articles and the GEM Listing Rules. A general summary of such circumstances are set out below, details of which is set out in paragraph headed “2. Articles of Association — (e) Meetings of members — (iv) Notices of meetings and business to be conducted” in Appendix III to this prospectus.

- an annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by our Board.
- our Board may, at its discretion, call extraordinary general meetings. However, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of our Company carrying the right of voting at general meetings of our Company (the “**requisitionist**”) shall have the right, by written requisition to our Board or the secretary of our Company, to require an extraordinary general meeting to be called by our Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit our Board fails to proceed to convene such meeting the requisitionist(s) himself/herself/itself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Board shall be reimbursed to the requisitionist(s) by our Company.

Other than the above circumstances, certain corporate actions may require the approval of members, which would be obtained at a general meeting. For details, please refer to the section headed “Summary of the constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Statutory and General Information — Share option scheme” in Appendix IV to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

SHARE CAPITAL

CAPITALISATION ISSUE

Pursuant to the written resolutions of our sole Shareholder passed on 21 October 2019, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors are authorised to allot and issue a total of 299,999,900 new Shares credited as fully paid at par to the Shareholder(s) on the register of members of our Company at the close of business on the business day immediately before the Listing Date (or as they may direct) in proportion to its/their then respective shareholdings by way of capitalisation of the sum of HK\$2,999,999 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. For further details, please refer to the section headed “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 21 October 2019” in Appendix IV to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure and Conditions of the Share Offer — The Public Offer — Conditions of the Public Offer” of this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with 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 number of 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 the Shareholders) shall not exceed:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the total number of such Shares which may be repurchased pursuant to the authority granted to our Directors as referred to in the paragraph headed “General Mandate to Repurchase Shares” in this section below.

Our Directors may, in addition to our Shares which they are authorised to issue under the general mandate, allot, issue and deal in our Shares pursuant to a rights issue, scrip dividends or similar arrangements or options granted or to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the date by which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or

SHARE CAPITAL

- (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors.

For further details of this general mandate, please refer to the section headed “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 21 October 2019” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the paragraph headed “Structure and Conditions of the Share Offer — The Public Offer — Conditions of the Public Offer” of this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to exercise all the 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 aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme).

This general 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 which are in accordance with the GEM Listing Rules and all applicable laws and regulations. A summary of the relevant requirements in the GEM Listing Rules is set out in the section headed “Statutory and General Information — Further Information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 21 October 2019” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) at the conclusion of our Company’s next annual general meeting; or
- (b) the date by which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- (c) the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying or renewing the authority given to our Director.

For further details of this general mandate, please see the section headed “Statutory and General Information — Further information about our Company and its subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 21 October 2019” in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), based on the information available on the Latest Practicable Date, the following persons/entities will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/Nature of interest	Immediately following completion of the Share Offer	
		Number of Shares held immediately after the Share Offer <i>(Note 1)</i>	Approximate percentage of shareholding immediately after the Share Offer
C Centrum	Beneficial owner <i>(Notes 1, 2)</i>	300,000,000 Shares (L)	75%
Mr. YP Chan	Interest of controlled corporation <i>(Notes 1, 2)</i>	300,000,000 Shares (L)	75%
Ms. Leung Tak Yee	Interest of controlled corporation <i>(Note 3)</i>	300,000,000 Shares (L)	75%

Notes:

1. The Letter “L” denotes the person’s long position in the relevant Shares.
2. Mr. YP Chan legally and beneficially owns the entire issued share of C Centrum and is its sole director. Accordingly, Mr. YP Chan is deemed to be interested in the Share held by C Centrum by virtue of the SFO.
3. Ms. Leung Tak Yee is the spouse of Mr. YP Chan and is deemed to be interested in all the underlying Shares that Mr. YP Chan is interested through C Centrum by virtue of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Share Offer (excluding any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

SUBSTANTIAL SHAREHOLDERS

UNDERTAKINGS

Each of the Controlling Shareholders has given certain undertakings in respect of the Shares held by them to our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters and the Stock Exchange, details of which are set out in the section headed “Underwriting — Lock-up undertakings”.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with the Accountant's Report of our Group for FY2017, FY2018, 4M2018 and 4M2019, including notes thereto, as set forth in Appendix I to this prospectus, all of which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). Potential investors should read the whole of the Accountant's Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion and analysis contains forward-looking statements concerning events that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Forward-looking statements", "Risk factors" and elsewhere in this prospectus. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this prospectus, except as required by applicable law.

OVERVIEW

Our Group is principally a slewing ring manufacturer in the PRC. A slewing ring is a necessary transmission part for some large-size machinery equipment, which can ensure the relative rotational motion between objects, as well as bearing the axial force, radial force and tilting moment simultaneously. Generally, it is a rotational rolling-element bearing that typically supports a heavy but slow-turning or slow-oscillating load.

For FY2017, FY2018 and 4M2019, our Group's revenue was mainly derived from the sales of slewing rings, represented approximately 83.9%, 89.3% and 98.1% of our Group's total revenue, respectively. The following table sets forth a breakdown of our revenue by product category during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Slewing rings								
— ODM	27,588	62.7	31,114	67.3	7,013	52.3	13,221	76.3
— OEM	1,403	3.2	1,272	2.7	551	4.1	379	2.2
— OBM	3,897	8.9	1,304	2.8	127	0.9	967	5.6
— Others (Note)	<u>4,008</u>	<u>9.1</u>	<u>7,620</u>	<u>16.5</u>	<u>4,613</u>	<u>34.4</u>	<u>2,439</u>	<u>14.1</u>
	36,896	83.9	41,310	89.3	12,304	91.7	17,006	98.1
Other machinery parts	<u>7,076</u>	<u>16.1</u>	<u>4,957</u>	<u>10.7</u>	<u>1,118</u>	<u>8.3</u>	<u>325</u>	<u>1.9</u>
Total	<u><u>43,972</u></u>	<u><u>100.0</u></u>	<u><u>46,267</u></u>	<u><u>100.0</u></u>	<u><u>13,422</u></u>	<u><u>100.0</u></u>	<u><u>17,331</u></u>	<u><u>100.0</u></u>

Note: Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

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Our Group recorded gross profit of approximately HK\$18.5 million, HK\$21.7 million and HK\$8.4 million for FY2017, FY2018 and 4M2019, respectively. Our Group recorded profit/(loss) of approximately HK\$12.5 million, HK\$9.7 million and HK\$(0.7) million for FY2017, FY2018 and 4M2019, respectively. The loss for 4M2019 was primarily due to the recognition of non-recurring listing expenses which amounted to HK\$5.9 million. Adjusted profit for FY2017, FY2018 and 4M2019 amounted to approximately HK\$12.5 million, HK\$14.4 million and HK\$5.2 million, respectively, if the non-recurring listing expenses were excluded. For further details, please refer to the paragraphs headed “Summary of results of operations” and “Review of historical operating results” in this section.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 October 2018 under the Company Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the Reorganisation under the section headed “History, Reorganisation and Group Structure” in this prospectus, our Company became the holding company of the companies now comprising our Group.

Immediately prior to and after the Reorganisation, our Company and its subsidiaries now comprising our Group are ultimately controlled by, in the opinion of our Directors of our Company, Mr. YP Chan. Our Group’s business is mainly conducted through Best Linking and Kyoei Seiki. Our Company is an investment holding company and has not involved in any other significant activities prior to the Reorganisation. Since the Reorganisation did not result in any change in the management and the ultimate control of our Group’s business, the historical financial information of our Group is presented using the carrying values of the companies now comprising our Group for all years/periods presented as if the current group structure has been in existence throughout the Track Record Period.

The historical financial statements have been prepared in accordance with HKFRSs. It should be noted that accounting estimates and assumptions are used in the preparation of the financial information of our Company and its subsidiaries. Although these estimates are based on our management’s best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 4 to the Accountant’s Report.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our profitability may be adversely affected by the fluctuations of raw material prices

The raw materials we use in our manufacturing process are primarily forged rings, steel balls and spacers, of which forged rings accounted for most of our total purchases. For FY2017, FY2018 and 4M2019, the total purchases of forged rings accounted for approximately 82.7%, 81.5% and 77.8% of the total purchases of raw materials, respectively. Our forged rings are primarily made from gear steel and carbon round steel. During the Track Record Period, our average purchasing price for forged rings (VAT included) was approximately RMB7,470 per tonne, RMB8,090 per tonne and RMB7,900 per tonne for FY2017, FY2018 and 4M2019, respectively. Nearly all of our raw materials are sourced from suppliers based in the PRC.

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There are many factors which can cause fluctuation in the price of raw materials, in particular the economic conditions in the PRC, supply and demand of raw materials and international trade, all of which may have an impact on the market price from time to time. For details of the average unit purchase price of raw materials and certain hypothetical illustrations during the Track Record Period, please refer to the paragraph headed “Description of selected items in consolidated statements of comprehensive income — Cost of sales” in this section. If we cannot pass the increase in the costs of raw materials to our customers, our operating margin and cash flow may be adversely affected, resulting in lower revenue and profitability.

Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations, profitability and prospects

The production of slewing rings is not a fully automated but only a partially mechanised process. It requires skilled workers to operate at various stages of the production process, in particular, turning, heat treatment, gear cutting. To support our business operation, we had a total of 87 full-time employees at the Latest Practicable Date. For FY2017, FY2018 and 4M2019, our direct labour costs accounted for approximately 10.3%, 16.3% and 16.5% of our total cost of sales, respectively. Our performance partly relies on the steady supply of labour in the PRC. There is no assurance that we can secure sufficient number of workers to meet our production needs, or that our labour costs will not increase substantially. In the event that we fail to retain existing workers, or recruit sufficient qualified workers on a timely basis at reasonable costs, or if the turnover rate of our workers is high and we do not have time to train up a sufficient number of workers in a timely manner, we may suffer material interruption to our production process. If we are not be able to meet the schedule of production as required by our customers, or achieve our target production level, accommodate any sudden increase in the demand for our products, our business, prospects, financial condition and results of operations could be materially and adversely affected.

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

We sell our products mainly to wholesale traders, distributors and leading Japanese manufacturers or their affiliates. The business performance of our customers will in turn affect their purchases from us. The business performance of our customers can be affected by a number of factors, such as changes in the economic conditions, business strategies, changes in the market demand, etc.. If the business performance of our customers deteriorates, they could reduce their purchases from us, or even terminate their business relationship with us altogether. If the situation gets worse, they can close down for business which could adversely and materially affect our business and financial condition, results of operations and prospects as not only will we lose their orders, we may have difficulty recovering our entitlement on products shipped to them.

EFFECTS OF THE NEW AND AMENDMENTS TO HKFRS TO OUR GROUP

Adoption of HKFRS 9, HKFRS 15 and HKFRS 16

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which HKFRS 9 “Financial instruments” (“**HKFRS 9**”), HKFRS 15 “Revenue from contracts with customers” (“**HKFRS 15**”) and HKFRS 16 “Leases” (“**HKFRS 16**”) have been adopted. We have applied HKFRS 9, HKFRS 15 and HKFRS 16 using the full retrospective approach

FINANCIAL INFORMATION

with which the relevant accounting policies have been consistently applied to our Group's consolidated financial statements throughout the Track Record Period, such that our historical consolidated financial information prepared under HKFRS 9, HKFRS 15 and HKFRS 16 is comparable on a period-to-period basis.

HKFRS 9

HKFRS 9 has replaced the previous standard HKAS 39 "Financial Instruments" ("**HKAS 39**") and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. We have consistently applied HKFRS 9 to our financial statements during the Track Record Period.

We have assessed the effects of the early adoption of HKFRS 9 on our financial statements as compared to the requirements of HKAS 39. All our financial assets and financial liabilities had been measured on the same bases under HKFRS 9 and HKAS 39 and the application of expected credit loss model under HKFRS 9 did not cause a material impact on the impairment loss allowance for our financial assets measured at amortized cost during the Track Record Period as compared with the incurred loss model under HKAS 39.

Based on the above, we believe that the adoption of HKFRS 9, as compared to the requirements of HKAS 39, did not have any significant impact on our financial position and performance during the Track Record Period.

HKFRS 15

HKFRS 15 has replaced the previous standard HKAS 18 "Revenue" ("**HKAS 18**") and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. We have consistently applied HKFRS 15 to our financial statements during the Track Record Period.

We have assessed the effects of the early adoption of HKFRS 15 on our financial statements as compared to the requirements of HKAS 18. As at 31 December 2017, advances from customers of approximately HK\$0.5 million under HKAS 18 were classified as contract liability under HKFRS 15.

Based on the above, we believe that the adoption of HKFRS 15, as compared to the requirements of HKAS 18, did not have any significant impact on our financial position and performance during the Track Record Period.

HKFRS 16

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which HKFRS 16, "Leases" ("**HKFRS 16**") has been adopted and applied consistently since the beginning of, and throughout, the Track Record Period. Given that the Track Record Period spans from January 2017 to April 2019 by which time HKFRS 16 would be mandatorily applied, we have to adopt HKFRS 16, in lieu of HKAS 17, "Leases" ("**HKAS 17**") in the preparation of our underlying financial statements, such that our historical consolidated financial information under HKFRS 16 is comparable on a period-to-period basis and allows the investors to better understand our financial performance and position. Accordingly, we have prepared and maintained only one set of

FINANCIAL INFORMATION

consolidated financial statements adopting HKFRS 16 for the Track Record Period. Neither we had prepared, nor the reporting accountant had audited or reviewed, our consolidated financial statements for the Track Record Period prepared based on HKAS 17.

Nonetheless, in order to provide additional information to investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 17, and set forth below certain estimated key impact on our financial position and performance if HKAS 17 was adopted instead.

Under HKAS 17, operating lease commitments are disclosed separately in a note to the consolidated financial statement and are recognised outside of the consolidated statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of assets (being the right-of-use assets classified under properties, plant and equipment in our financial statements) and financial liabilities (being the lease liabilities in our financial statements) on our consolidated statements of financial position at the commencement of respective leases.

Based on our internal assessments, except for the recognition of right of use assets and lease liability resulting in the increase in total assets and liabilities, the impact on profit after tax and net assets would have been not significant if HKAS 17 had been adopted. The table set forth below summarises the impacts of the adoption of HKFRS 16 on certain key items of our consolidated financial statements and key ratios:

	Currently reported under HKFRS 16 (a)	As if reported under HKAS 17 (b)	Difference (a)–(b)
<i>(in HKD'000)</i>			
Profit after tax			
— For the year ended 31 December 2017	12,463	12,491	(28)
— For the year ended 31 December 2018	9,735	9,772	(37)
— For the four months ended 30 April 2019	(664)	(650)	(14)
Total assets			
— As at 31 December 2017	63,325	59,687	3,638
— As at 31 December 2018	49,523	46,232	3,291
— As at 30 April 2019	53,414	50,428	3,166
Total liabilities			
— As at 31 December 2017	12,330	9,837	2,493
— As at 31 December 2018	9,908	7,176	2,732
— As at 30 April 2019	13,814	11,037	2,777

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<i>(in HKD'000)</i>	Currently reported under HKFRS 16 (a)	As if reported under HKAS 17 (b)	Difference (a)–(b)
Net assets			
— As at 31 December 2017	50,995	49,850	1,145
— As at 31 December 2018	39,615	39,056	559
— As at 30 April 2019	39,600	39,391	389
Current ratio (Note 1)			
— As at 31 December 2017	5.2	5.2	—
— As at 31 December 2018	5.5	5.6	(0.1)
— As at 30 April 2019	4.0	4.0	—
Quick ratio (Note 2)			
— As at 31 December 2017	3.1	3.1	—
— As at 31 December 2018	1.7	1.8	(0.1)
— As at 30 April 2019	1.6	1.6	—
Gearing ratio (Note 3)			
— As at 31 December 2017	—	—	—
— As at 31 December 2018	—	—	—
— As at 30 April 2019	—	—	—

Notes:

- (1) Current ratio is calculated by dividing current assets by current liabilities.
- (2) Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.
- (3) Gearing ratio is calculated by dividing net debts (being the total interest-bearing loans including banks and other borrowings less cash and cash equivalents) by total equity as at the respective end of the year/period. The Group had no interest-bearing loans as at the respective end of the year/period.

SIGNIFICANT ACCOUNTING POLICIES

The financial information of our Group has been prepared based on accounting policies which conform with HKFRSs issued by the HKICPA. The basis of preparation is set out in Note 2 to the Accountant's Report in Appendix I to this prospectus.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and rendering of services in the ordinary course of our Group's activities.

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Revenue is recognised when or as the control of the good is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good may be transferred over time or at a point in time.

Control of the good is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer,
- creates or enhances an asset that the customer controls as our Group performs; or
- does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If control of the goods 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 goods. Specific criteria where revenue is recognised are described below.

When either party to a contract has performed, our Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or our Group has a right to an amount of consideration that is unconditional, before our Group transfers a good to the customer, our Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our Group's obligation to transfer goods to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when our Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for our Group's activity as described below:

Our Group manufactures and sells a range of machinery products to customers. Sales of goods transferred at a point in time are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the usage of the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with market practice.

If a customer pays consideration or our Group has a right to an amount of consideration that is unconditional, before our Group transfers the promised goods to the customer, our Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is our Group's obligation to transfer the promised goods to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

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Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation of property and equipment is calculated using the straight line method to allocate their cost to their residual values over its estimated useful lives.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses), net" in the consolidated statements of comprehensive income.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment of financial assets

Our Group assess on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, our Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade

FINANCIAL INFORMATION

receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Our Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

Our Group is subject to income taxes mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

(b) Loss allowance of receivables

Our Group makes provision for impairment of receivables based on assumptions about risk of default and expected loss rates. Our Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on our Group's historical default rates, existing market conditions as well as forward looking estimates at the end of each reporting period. Our Group recognised lifetime expected credit loss for trade receivables carried at amortised cost based on either individually customers who are long overdue with significant amounts or known insolvencies or non-response to collection activities, or collectively assessing them for likelihood of recovery based on ageing of the balances with similar risk characteristics taking into account the forward looking information. The identification of impairment of receivables requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivables recognised in the periods in which such estimates have been changed.

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(c) Impairment of right of use assets

Our Group leased land and buildings in the PRC for the purpose of its office premises and manufacturing plant under an operating lease of 20 years where our Group's right of use assets were without land and property ownership certificates and the construction planning permit. Without the certificates and permit, the existing land and buildings might be ordered for demolition or confiscated and the lease may be deemed as invalid. Our Directors are of the opinion, based on the advice from our Group's external legal adviser, that the title defect of the leased land and building does not affect the operation of production facility of our Group. It is unlikely to be terminated or interrupted or to have a material effect on the carrying amount of the right of use assets which was included in right of use assets totalling HK\$3.6 million, HK\$3.0 million and HK\$3.0 million as at 31 December 2017 and 2018 and 30 April 2019 respectively.

(d) Impairment of inventories

Our Group makes provision for inventories based on an assessment of the realisability of inventories. Provisions are recognised where events or changes in circumstances indicate that the carrying value of inventories may not be realised. The identification of provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and provision for inventories in the period in which such estimate has been changed.

SUMMARY OF RESULTS OF OPERATIONS

The following table below sets forth our Group's consolidated statements of comprehensive income during the Track Record Period. This information is derived and should be read in conjunction with the consolidated financial information contained in the Accountant's Report set forth in Appendix I to this prospectus.

	FY2017 <i>HK\$'000</i>	FY2018 <i>HK\$'000</i>	4M2018 <i>HK\$'000</i> <i>(unaudited)</i>	4M2019 <i>HK\$'000</i>
Revenue	43,972	46,267	13,422	17,331
Cost of sales	<u>(25,452)</u>	<u>(24,559)</u>	<u>(8,376)</u>	<u>(8,886)</u>
Gross profit	18,520	21,708	5,046	8,445
Other income	71	942	107	85
Other gains/(losses), net	807	(151)	18	3
Selling and distribution expenses	(476)	(675)	(164)	(172)
Administrative expenses	<u>(4,159)</u>	<u>(9,268)</u>	<u>(1,577)</u>	<u>(8,064)</u>
Operating profit	14,763	12,556	3,430	297
Finance income	47	41	13	1
Finance cost	<u>(115)</u>	<u>(130)</u>	<u>(44)</u>	<u>(46)</u>

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	FY2017 HK\$'000	FY2018 HK\$'000	4M2018 HK\$'000 (unaudited)	4M2019 HK\$'000
Profit before income tax	14,695	12,467	3,399	252
Income tax expense	<u>(2,232)</u>	<u>(2,732)</u>	<u>(598)</u>	<u>(916)</u>
Profit/(loss) for the year/period attributable to owners of our Company	<u>12,463</u>	<u>9,735</u>	<u>2,801</u>	<u>(664)</u>
Other comprehensive income				
Items that may be reclassified to profit or loss				
Currency translation differences	<u>1,906</u>	<u>(1,655)</u>	<u>1,027</u>	<u>649</u>
Total comprehensive income/(loss) for the year/period	<u>14,369</u>	<u>8,080</u>	<u>3,828</u>	<u>(15)</u>

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Revenue by product category

Our Group's revenue was mainly derived from sales of slewing rings. The following table sets forth the breakdown of our revenue, quantities sold and average selling price by product category during the Track Record Period:

	FY2017				FY2018				4M2018				4M2019			
			Average				Average				Average				Average	
	Quantities		selling	Quantities		selling	Quantities		selling	Quantities		selling	Quantities		selling	
	Total		price	Total		price	Total		price	Total		price	Total		price	
	HK\$'000	%	Pcs	HK\$	HK\$'000	%	Pcs	HK\$	HK\$'000	%	Pcs	HK\$	HK\$'000	%	Pcs	HK\$
	(unaudited)															
Slewing rings																
— ODM	27,588	62.7	2,049	13,464	31,114	67.3	2,283	13,629	7,013	52.3	461	15,213	13,221	76.3	968	13,658
— OEM	1,403	3.2	456	3,077	1,272	2.7	412	3,087	551	4.1	180	3,061	379	2.2	119	3,185
— OBM	3,897	8.9	388	10,044	1,304	2.8	109	11,963	127	0.9	6	21,167	967	5.6	97	9,969
— Others (Note)	4,008	9.1	254	15,780	7,620	16.5	463	16,458	4,613	34.4	282	16,358	2,439	14.1	188	12,973
	36,896	83.9	3,147		41,310	89.3	3,267		12,304	91.7	929		17,006	98.1	1,372	
Other machinery parts	7,076	16.1			4,957	10.7			1,118	8.3			325	1.9		
Total	43,972	100.0			46,267	100.0			13,422	100.0			17,331	100.0		

Note: Others mainly include revenue derived from the sales of slewing rings that we do not currently produce.

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During the Track Record Period, there was no significant change in our product mix and slewing rings remained our major category of products sold to our customers. Sales of slewing rings accounted for approximately 83.9%, 89.3% and 98.1% for FY2017, FY2018 and 4M2019, respectively. During the Track Record Period, the increase in our revenue is generally in line with our increase in sales volume and primarily attributable to increases in our major customers' demand for our slewing rings in order to cope with their business expansion.

ODM

Our ODM customers include companies engaged in general wholesale trading and distributors of machineries and equipment or their parts, which will re-sell our products to the end-users in the market and may provide the related after-sales service. Our revenue from sales of ODM slewing rings remained the largest amongst our slewing ring products and amounted to approximately HK\$27.6 million, HK\$31.1 million and HK\$13.2 million for FY2017, FY2018 and 4M2019, representing approximately 62.7%, 67.3% and 76.3% of the total revenue, respectively.

OEM

We manufacture for some overseas customers on an OEM basis. Our OEM customers include leading Japanese manufacturers of various machineries and equipment or their affiliates. Our OEM business involves the manufacture and sale of products based on customers' specifications and guidelines. Our revenue from sales of OEM slewing rings remained stable at approximately HK\$1.4 million, HK\$1.3 million and HK\$0.4 million for FY2017, FY2018 and 4M2019, represented approximately 3.2%, 2.7% and 2.2% of the total revenue, respectively.

OBM

We also derived our revenue from sales of our proprietary branded products under an OBM basis. Our revenue from sales to OBM customers amounted to approximately HK\$3.9 million, HK\$1.3 million and HK\$1.0 million for FY2017, FY2018 and 4M2019, representing approximately 8.9%, 2.8% and 5.6% of the total revenue, respectively.

Others

Others mainly include revenue derived from the sales of slewing rings we source for our customers that we do not currently produce and those which would not be commercially sound for our Group to produce ourselves when compared to sourcing due to small scale orders or low profit margin. Our revenue from such sales amounted to approximately HK\$4.0 million, HK\$7.6 million and HK\$2.4 million for FY2017, FY2018 and 4M2019, representing approximately 9.1%, 16.5% and 14.1% of the total revenue, respectively.

Other machinery parts

We source other mechanical parts and components of machineries for customers who have purchased slewing rings from us. We maintain such line of business to complement our main line of business which is the manufacture and sale of slewing rings to enable our customers to enjoy a more comprehensive "one-stop service" from us. Our revenue from sale of other machinery parts amounted to approximately HK\$7.1 million, HK\$5.0 million and HK\$0.3 million for FY2017, FY2018 and 4M2019,

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representing approximately 16.1%, 10.7% and 1.9% of the total revenue, respectively. The sales of other machinery parts were fluctuating since we only provide such “one-stop service” upon request from our customers.

The following table sets forth a breakdown of our sales of slewing rings by product size during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	<i>Quantities sold</i>		<i>Quantities sold</i>		<i>Quantities sold</i>		<i>Quantities sold</i>	
	<i>Pcs</i>	<i>%</i>	<i>Pcs</i>	<i>%</i>	<i>Pcs</i>	<i>%</i>	<i>Pcs</i>	<i>%</i>
	<i>(unaudited)</i>							
Slewing Rings <i>(Note)</i>								
Small size	1,770	56.2	1,932	59.1	640	68.9	800	58.3
Medium size	1,299	41.3	1,295	39.6	278	29.9	488	35.6
Large size	<u>78</u>	<u>2.5</u>	<u>40</u>	<u>1.3</u>	<u>11</u>	<u>1.2</u>	<u>84</u>	<u>6.1</u>
	<u>3,147</u>	<u>100.0</u>	<u>3,267</u>	<u>100.0</u>	<u>929</u>	<u>100.0</u>	<u>1,372</u>	<u>100.0</u>

Note: Small, medium and large size represents the inner diameter of slewing rings of less than approximately 0.9 meter, approximately 1.0 meter to 1.3 meter and more than approximately 1.4 meter, respectively.

Revenue by geographical location

The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	<i>(unaudited)</i>							
Singapore	17,575	40.0	24,082	52.1	6,691	49.9	9,953	57.4
Hong Kong	7,232	16.4	6,445	13.9	2,553	19.0	789	4.6
Malaysia	1,536	3.5	5,603	12.1	1,902	14.2	3,567	20.6
the PRC	4,850	11.0	3,153	6.8	739	5.5	958	5.5
Northern Ireland	772	1.8	2,350	5.1	686	5.1	—	—
the United States	3,846	8.7	1,312	2.8	—	—	744	4.3
Japan	2,976	6.8	961	2.1	178	1.3	409	2.4
Thailand	2,533	5.8	734	1.6	23	0.2	—	—
Others <i>(Note)</i>	<u>2,652</u>	<u>6.0</u>	<u>1,627</u>	<u>3.5</u>	<u>650</u>	<u>4.8</u>	<u>911</u>	<u>5.2</u>
	<u>43,972</u>	<u>100.0</u>	<u>46,267</u>	<u>100.0</u>	<u>13,422</u>	<u>100.0</u>	<u>17,331</u>	<u>100.0</u>

Note: Others includes Taiwan, Canada, Turkey, the Philippines and New Zealand.

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Singapore

During the Track Record Period, our customers located in Singapore contributed approximately 40.0%, 52.1% and 57.4% of our revenue for FY2017, FY2018 and 4M2019, respectively. Despite such concentration, two major customers located in Singapore are wholesale traders and part of our slewing rings, to the best knowledge of our Directors, are re-sold to other market in other countries such as the United States and Europe through them. We do not place over-reliance on single customer in any geographical area because we have a range of worldwide customers (comprising general wholesale traders, distributors and OEM customers) during the Track Record Period.

Contribution by customers in Singapore increased by approximately HK\$6.5 million, or 36.9%, from approximately HK\$17.6 million for FY2017 to approximately HK\$24.1 million for FY2018 mainly due to the increase in sales to Customer F, a new customer since second half of FY2017, from approximately HK\$1.5 million for FY2017 to approximately HK\$5.8 million for FY2018.

Contribution by customers in Singapore increased by approximately HK\$3.3 million, or 49.3%, from approximately HK\$6.7 million for 4M2018 to approximately HK\$10.0 million for 4M2019. This was mainly due to the increase in sales to Customer A from approximately HK\$1.6 million for 4M2018 to approximately HK\$5.7 million for 4M2019. Revenue was recognised upon the delivery of finished goods to Customer A for its purchase orders placed in late 2018.

Hong Kong

During the Track Record Period, our customers located in Hong Kong contributed approximately 16.4%, 13.9% and 4.6% of our revenue for FY2017, FY2018 and 4M2019, respectively.

Contribution by customers in Hong Kong was stable for FY2017 and FY2018 but decreased by approximately HK\$1.8 million, or 69.2%, from approximately HK\$2.6 million for 4M2018 to approximately HK\$0.8 million for 4M2019, mainly due to the decrease in sales of other slewing rings and other machinery parts, which was fluctuating and depending on the request from our customers.

Malaysia

Contribution by Malaysia segment increased by approximately HK\$4.1 million, or 273.3%, from approximately HK\$1.5 million for FY2017 to approximately HK\$5.6 million for FY2018 mainly due to the increase in sales to Customer G and the contribution by a new customer in Malaysia.

Contribution by Malaysia segment increased by approximately HK\$1.7 million, or 89.5%, from approximately HK\$1.9 million for 4M2018 to approximately HK\$3.6 million for 4M2019, mainly due to the increase in sales of ODM slewing rings to Customer G during the period. To our Director's understanding, Customer G is undergoing expansion.

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The PRC

During the Track Record Period, contribution by customers in the PRC decreased by approximately HK\$1.7 million, or 34.7%, from approximately HK\$4.9 million for FY2017 to approximately HK\$3.2 million for FY2018. The decrease was mainly due to a decrease in the purchase orders received from a manufacturer in the PRC which underwent internal reorganisation in FY2018. Sales to such customer decreased from approximately HK\$1.3 million for FY2017 to approximately HK\$0.1 million for FY2018.

For 4M2019, contribution by customers in the PRC remained stable at approximately HK\$0.7 million and HK\$1.0 million for 4M2018 and 4M2019, respectively.

The United States

During the Track Record Period, contribution by customers in the United States decreased by approximately HK\$2.5 million, or 65.8%, from approximately HK\$3.8 million for FY2017 to approximately HK\$1.3 million for FY2018. The decrease was mainly due to the decrease in purchase order from a customer in the United States, which may be caused by its change in warehouse.

Contribution by customers in the United States increased by approximately HK\$0.7 million, from nil for 4M2018 to approximately HK\$0.7 million for 4M2019, mainly due to the sales of ODM slewing rings to Customer B. No sales to customer B was recorded in 4M2018.

Japan

During the Track Record Period, contribution by customers in Japan decreased by approximately HK\$2.0 million, or 66.7%, from approximately HK\$3.0 million for FY2017 to approximately HK\$1.0 million for FY2018. The decrease was mainly due to the absence of order from a Japanese customer during FY2018. Such Japanese customer's order in FY2017 was one-off.

Contribution by customers in Japan increased by approximately HK\$0.2 million, or 100.0%, from approximately HK\$0.2 million for 4M2018 to approximately HK\$0.4 million for 4M2019, mainly due to the increase in sales of ODM slewing rings to a Japanese customer during the period.

Thailand

During the Track Record Period, contribution by customers in Thailand decreased by approximately HK\$1.8 million, or 72.0%, from approximately HK\$2.5 million for FY2017 to approximately HK\$0.7 million for FY2018. No sales to Thailand was recorded for 4M2019. According to the Industry Report, the economic environment in Thailand is relatively uncertain due to the political instability.

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Revenue by customer types

The following table sets forth the breakdown of our revenue by customer types during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Wholesale traders and distributors	41,264	93.8	44,892	97.0	12,823	95.5	16,900	97.5
Manufacturers	<u>2,708</u>	<u>6.2</u>	<u>1,375</u>	<u>3.0</u>	<u>599</u>	<u>4.5</u>	<u>431</u>	<u>2.5</u>
	<u>43,972</u>	<u>100.0</u>	<u>46,267</u>	<u>100.0</u>	<u>13,422</u>	<u>100.0</u>	<u>17,331</u>	<u>100.0</u>

Wholesale traders and distributors

Sales to wholesale traders and distributors slightly increased from approximately 93.8% and 97.0% of the total revenue for FY2017 and FY2018. Our revenue from sales to wholesale traders and distributors increased by approximately HK\$3.6 million, or 8.7%, from approximately HK\$41.3 million for FY2017 to approximately HK\$44.9 million for FY2018. The increase was mainly the combined effect of:

- (a) an increase in sales to Customer F, a new customer since second half of FY2017, from approximately HK\$1.5 million for FY2017 to approximately HK\$5.8 million for FY2018;
- (b) an increase in sales to Customer C, a new customer since FY2017, from approximately HK\$3.6 million for FY2017 to approximately HK\$8.8 million for FY2018;
- (c) an absence of an order from a Japanese customer in FY2018 of approximately HK\$1.8 million to our sales for FY2017;
- (d) a decrease in sales to a customer in the United States from approximately HK\$3.8 million for FY2017 to approximately HK\$1.3 million for FY2018;
- (e) a decrease in sales to customers in Thailand from approximately HK\$2.5 million for FY2017 to approximately HK\$0.7 million for FY2018;
- (f) a decrease in sales to Customer A from approximately HK\$10.9 million for FY2017 to approximately HK\$9.4 million for FY2018; and
- (g) sales to a new customer in Malaysia amounted to approximately HK\$1.9 million for FY2018.

For 4M2018 and 4M2019, sales to wholesale traders and distributors increased from approximately 95.5% for 4M2018 to approximately 97.5% for 4M2019 of the total revenue. Our revenue from sales to

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wholesale traders and distributors increased by approximately HK\$4.1 million, or 32.0%, from approximately HK\$12.8 million for 4M2018 to approximately HK\$16.9 million for 4M2019. The increase was mainly the combined effect of:

- (a) an increase in sales to Customer A in Singapore from approximately HK\$1.6 million for 4M2018 to approximately HK\$5.7 million for 4M2019;
- (b) an increase in sales of ODM slewing rings to Customer G in Malaysia from nil for 4M2018 to approximately HK\$2.0 million for 4M2019;
- (c) a decrease in sales of other slewing rings and other machinery parts to customers in Hong Kong from approximately HK\$2.6 million for 4M2018 to approximately HK\$0.8 million for 4M2019; and
- (d) an increase in sales of ODM slewing rings to Customer B from nil for 4M2018 to approximately HK\$0.7 million for 4M2019.

Manufacturers

Sales to manufacturers decreased from approximately 6.2% of the total revenue for FY2017 to approximately 3.0% of the total revenue for FY2018. Our sales to manufacturers decreased by approximately HK\$1.3 million, or 48.1%, from approximately HK\$2.7 million for FY2017 to approximately HK\$1.4 million for FY2018 mainly due to the decrease in purchase orders received from a manufacturer in the PRC from approximately HK\$1.3 million for FY2017 to approximately HK\$0.1 million for FY2018.

Sales to manufacturers decreased from approximately 4.5% for 4M2018 to approximately 2.5% for 4M2019 of the total revenue. Our sales to manufacturers decreased by approximately HK\$0.2 million, or 33.3%, from approximately HK\$0.6 million for 4M2018 to approximately HK\$0.4 million for 4M2019 mainly due to a decrease in sales to a customer in the PRC which underwent internal reorganisation in FY2018.

Cost of sales

Our cost of sales primarily consist of cost of inventories and consumables, depreciation on plant and machinery, overhead and direct labour costs relating to our production. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Cost of inventories and consumables	18,888	74.2	15,886	64.7	6,011	71.8	6,186	69.6
Depreciation	2,507	9.9	2,496	10.2	823	9.8	658	7.4
Overheads	1,435	5.6	2,160	8.8	614	7.3	579	6.5
Direct labour costs	2,622	10.3	4,017	16.3	928	11.1	1,463	16.5
	<u>25,452</u>	<u>100.0</u>	<u>24,559</u>	<u>100.0</u>	<u>8,376</u>	<u>100.0</u>	<u>8,886</u>	<u>100.0</u>

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Cost of inventories and consumables

Cost of inventories and consumables represent costs paid for materials such as forged rings, steel balls and spacer for the production of our products. Our cost of inventories and consumables decreased by approximately HK\$3.0 million, or 15.9%, from approximately HK\$18.9 million for FY2017 to approximately HK\$15.9 million for FY2018 and increased by approximately HK\$0.2 million, or 3.3%, from approximately HK\$6.0 million for 4M2018 to approximately HK\$6.2 million for 4M2019 as a result of the following reasons:

	FY2017	FY2018	4M2018	4M2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Cost of slewing rings				
Raw materials and consumables used	9,900	18,120	8,214	6,449
Change in work-in-progress	667	(2,379)	(1,871)	333
Change in finished goods	<u>2,322</u>	<u>(3,739)</u>	<u>(1,421)</u>	<u>(891)</u>
	12,889	12,002	4,922	5,891
Cost of other machinery parts	<u>5,999</u>	<u>3,884</u>	<u>1,089</u>	<u>295</u>
	<u><u>18,888</u></u>	<u><u>15,886</u></u>	<u><u>6,011</u></u>	<u><u>6,186</u></u>

Cost of slewing rings

Raw materials and consumables used

The cost of raw materials and consumables used remained the largest component of our cost of sales for the Track Record Period. During the Track Record Period, nearly all of our raw materials are sourced from suppliers based in the PRC. Our cost of raw materials and consumables used for production of slewing rings increased by approximately HK\$8.2 million, or 82.8%, from approximately HK\$9.9 million for FY2017 to HK\$18.1 million for FY2018, was mainly due to the increase in production of slewing rings under the increase in purchase orders from our customers and also the increase in raw material costs during FY2018.

Our cost of raw materials and consumables used decreased by approximately HK\$1.8 million, or 21.9%, from approximately HK\$8.2 million for 4M2018 to approximately HK\$6.4 million for 4M2019, mainly due to the change in production plan where production slewing rings with smaller size increased, in which less raw materials used for production, leading to the lower of the cost of raw materials and consumables used.

Change in work-in-progress and finished goods

Changes in our inventories of work in progress and finished goods during the Track Record Period moved in line with our production and also purchase orders received from our customers as at the end of the corresponding year.

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Although it is our policy not to keep excessive inventory of finished goods, there were occasions where we had to accumulate sufficient stock to make a shipment to customers.

The increase in our work-in-progress and finished goods as at 31 December 2018 was mainly due to the increased purchase orders from customers during FY2018 where more slewing rings were produced.

Our work-in-progress decreased and finished goods increased as at 30 April 2019 as a result of the completion of production of slewing rings and included under finished goods.

Depreciation

Depreciation represents depreciation on plant and machinery and the portion of right of use assets incurred for the production of our products. Our depreciation charges remained stable at approximately HK\$2.5 million and HK\$2.5 million for FY2017 and FY2018, respectively. Our depreciation charges decreased from approximately HK\$0.8 million for 4M2018 to approximately HK\$0.7 million for 4M2019 since certain plant and machinery were fully depreciated in prior year.

Overall cost of slewing rings

Cost of slewing rings remained stable at approximately HK\$12.9 million and HK\$12.0 million for FY2017 and FY2018, respectively, mainly due the combined effect of (a) an increase in quantities sold from 3,147 sets for FY2017 to 3,267 sets for FY2018; and (b) the change in sales mix that sales of slewing rings with smaller size increased for FY2018.

Cost of slewing rings for 4M2019 increased by approximately HK\$1.0 million, or 20.4%, from approximately HK\$4.9 million for 4M2018 to approximately HK\$5.9 million for 4M2019, mainly due to an increase in quantities sold from 929 sets for 4M2018 to 1,372 sets for 4M2019.

Cost of other machinery parts

Cost of other machinery parts represents costs of other mechanical parts and components of machineries we sources for customers who have purchased slewing rings from us. The costs of other machinery parts were fluctuating since we only provide such “one-stop service” upon request from our customers and the amounts moved in line with of sales of other machinery parts during the Track Record Period.

Overheads

Overheads represent water charges, transportation fees and other charges on the production of our products. Our overheads increased by approximately HK\$0.8 million, or 57.1%, from approximately HK\$1.4 million for FY2017 to approximately HK\$2.2 million for FY2018 was mainly due to increase in our production volume under the increase on demand from sales. Our overheads decreased by approximately HK\$0.1 million, or 14.3%, from approximately HK\$0.7 million for 4M2018 to approximately HK\$0.6 million for 4M2019, mainly due to the decrease in our transportation costs on raw materials after we changed our suppliers on forged rings since FY2018. For FY2017, FY2018 and 4M2019, overheads represented approximately 5.6%, 8.8% and 6.5% of our costs of sales, respectively.

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Direct labour costs

Direct labour costs represent salaries and other benefits paid to personnel directly involved in the production of our products. Our direct labour costs increased by approximately HK\$1.4 million, or 53.8%, from approximately HK\$2.6 million for FY2017 to approximately HK\$4.0 million for FY2018 was mainly due to (a) the salary increment during FY2018; and (b) the increase in average number of labour employed from 40 for FY2017 to 48 for FY2018 under the increase in production during FY2018. Our direct labour costs increased by approximately HK\$0.6 million, or 66.7%, from approximately HK\$0.9 million for 4M2018 to approximately HK\$1.5 million for 4M2019 mainly due to (a) the salary increment during the second half of FY2018; and (b) the increase in average number of labour employed from 55 for 4M2018 to 73 for 4M2019. For FY2017, FY2018 and 4M2019, staff costs represented approximately 10.3%, 16.3% and 16.5% of our cost of sales, respectively.

Sensitivity analysis

The following table illustrate the impact of hypothetical fluctuations on our profit before tax during the Track Record Period, assuming all other variables remain constant. The percentage adopted in the below analysis is based on the reasonable change in that cost variable with reference to the historical year-on-year fluctuation of our cost of inventories and direct labour costs:

	(Decrease)/increase in profit before taxation			
	FY2017	FY2018	4M2018	4M2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hypothetical fluctuations in our cost of inventories (Note 1)				
+5%	(906)	(724)	(280)	(294)
-5%	906	724	280	294
+10%	(1,813)	(1,448)	(560)	(588)
-10%	1,813	1,448	560	588
Hypothetical fluctuations in our direct labour costs (Note 2)				
+5%	(131)	(201)	(46)	(73)
-5%	131	201	46	73
+10%	(262)	(402)	(93)	(146)
-10%	262	402	93	146

Notes:

- (1) Hypothetical fluctuations in our cost of inventories is calculated by the cost of inventories of the respective year/period multiplied by the corresponding percentage.
- (2) Hypothetical fluctuations in our direct labour costs is calculated by the direct labour costs of the respective year/period multiplied by the corresponding percentage.

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Gross profit and gross profit margin

The following table sets forth a breakdown of the gross profit and gross profit margin of slewing rings by product category during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	Gross	Gross	Gross	Gross	Gross	Gross	Gross	Gross
	profit	profit	profit	profit	profit	profit	profit	profit
	margin	margin	margin	margin	margin	margin	margin	margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Slewing rings								
ODM	14,493	52.5	17,149	55.1	3,382	48.2	7,018	53.1
OEM	250	17.8	223	17.6	75	13.6	80	21.1
OBM	1,611	41.4	609	46.7	57	44.9	479	49.5
Other rings	<u>1,089</u>	<u>27.2</u>	<u>2,654</u>	<u>34.8</u>	<u>1,503</u>	<u>32.6</u>	<u>838</u>	<u>34.4</u>
	17,443	47.3	20,635	50.0	5,017	40.8	8,415	49.5
Other machinery parts	<u>1,077</u>	<u>15.2</u>	<u>1,073</u>	<u>21.6</u>	<u>29</u>	<u>2.6</u>	<u>30</u>	<u>9.2</u>
Total	<u>18,520</u>	<u>42.1</u>	<u>21,708</u>	<u>46.9</u>	<u>5,046</u>	<u>37.6</u>	<u>8,445</u>	<u>48.7</u>

Our gross profit increased by HK\$3.2 million, or 17.3%, from approximately HK\$18.5 million for FY2017 to approximately HK\$21.7 million for FY2018 as a result of the increase in sales of slewing rings during FY2018.

Our gross profit margin increased by approximately 4.8% from approximately 42.1% for FY2017 to approximately 46.9% for FY2018 as a result of the change in sales mix where sales of slewing rings with smaller size increased. Less raw materials were used for production of smaller size slewing rings, leading to the lowering of the overall cost of sales.

Our gross profit margin increased by approximately 11.1% from approximately 37.6% for 4M2018 to approximately 48.7% for 4M2019 as a result of the change in sales mix. Our sales of ODM slewing rings, which have a higher gross profit margin, increased from approximately HK\$3.4million for 4M2018 to approximately HK\$7.0 million for 4M2019.

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Other income

Other income mainly included income on sales scrapped materials and government grants obtained under the certification of Kyoei Seiki as High and New Technology Enterprise in the PRC. The following table sets forth a breakdown of our other income during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Sales of scrapped materials	71	100.0	481	51.1	107	100.0	85	100.0
Government grants	—	—	415	44.1	—	—	—	—
Sundry income	—	—	46	4.8	—	—	—	—
	<u>71</u>	<u>100.0</u>	<u>942</u>	<u>100.0</u>	<u>107</u>	<u>100.0</u>	<u>85</u>	<u>100.0</u>

Sales of scrapped materials increased by approximately HK\$0.4 million, or 400.0%, from approximately HK\$0.1 million for FY2017 to approximately HK\$0.5 million for FY2018 was mainly due to the increase in production volume that more scrapped materials existed. Sales of scrapped materials remained stable at approximately HK\$0.1 million for 4M2018 and 4M2019.

Kyoei Seiki obtained a Certificate of High and New Technology Enterprise issued by Guangdong Provincial Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office of State Administration of Taxation and Guangdong Provincial Local Taxation Bureau in 2018. Government grants in relation to this certification amounted to approximately HK\$0.4 million and was received and recorded as other income during FY2018.

Government grants and sundry income for FY2018 were non-recurring in nature.

Other gains/(loss), net

Other gains/(loss) mainly represented exchange differences recognised on translation of our deposits in banks. The following table sets forth a breakdown of our other gain/(loss), net during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Exchange differences	<u>807</u>	<u>100.0</u>	<u>(151)</u>	<u>100.0</u>	<u>(18)</u>	<u>100.0</u>	<u>3</u>	<u>100.0</u>

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Exchange differences changed from exchange gain of approximately HK\$0.8 million for FY2017 to exchange loss of approximately HK\$0.2 million for FY2018 was mainly due to the recognition of translation difference on bank deposit denominated in AUD. We acquired AUD fixed deposits to enjoy a higher bank interest income in prior years. The AUD fixed deposits was subsequently disposed of during FY2018 and a realised exchange loss was recognised. As at the Latest Practicable Date, we did not hold any AUD deposit and we do not subject to any exchange risk on AUD.

Exchange loss of approximately HK\$18,000 was recorded for 4M2018 while exchange gain of approximately HK\$3,000 was recorded for 4M2019.

Selling and distribution expenses

Selling and distribution expenses mainly comprised of customs and declaration and freight and transportation charges on the shipping of our products to customers. The following table sets forth a breakdown of our selling and distribution expenses during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Customs and declaration	298	62.6%	311	46.1%	148	90.3%	57	33.1%
Freight and transportation charges	173	36.3%	296	43.9%	15	9.1%	51	29.7%
Others	<u>5</u>	<u>1.1%</u>	<u>68</u>	<u>10.0%</u>	<u>1</u>	<u>0.6%</u>	<u>64</u>	<u>37.2%</u>
	<u>476</u>	<u>100.0%</u>	<u>675</u>	<u>100.0%</u>	<u>164</u>	<u>100.0%</u>	<u>172</u>	<u>100.0%</u>

Freight and transportation charges increased by approximately HK\$0.1 million, or 50.0%, from approximately HK\$0.2 million for FY2017 to approximately HK\$0.3 million for FY2018 and increased by approximately HK\$36,000, or 240.0%, from approximately HK\$15,000 for 4M2018 to approximately HK\$51,000 for 4M2019, mainly due to increase in sales of slewing rings for FY2018 compared to FY2017 and 4M2019 compared to 4M2018.

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Administrative expenses

Administrative expenses mainly comprised staff costs, depreciation, government charges, legal and professional fees, security service fee and listing expenses. The following table sets forth the breakdown of administrative expenses during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Courier and telephone charges	41	1.0%	43	0.5%	16	1.0%	8	0.1%
Depreciation	392	9.4%	375	4.0%	126	8.0%	90	1.1%
Insurance	61	1.5%	52	0.6%	52	3.3%	4	0.1%
Government charges	163	3.9%	55	0.6%	1	0.1%	83	1.0%
Legal and professional fee	228	5.5%	134	1.5%	56	3.6%	123	1.5%
Listing expenses	75	1.8%	4,681	50.5%	—	—	5,875	72.9%
Office expenses	36	0.9%	30	0.3%	7	0.4%	11	0.1%
Security service fee	189	4.5%	188	2.0%	68	4.3%	64	0.8%
Staff costs	2,265	54.5%	2,970	32.0%	1,001	63.5%	1,153	14.3%
Travelling expenses	53	1.3%	49	0.5%	7	0.4%	8	0.1%
Utility expenses	66	1.6%	63	0.7%	15	1.0%	20	0.2%
Others	590	14.1%	628	6.8%	228	14.4%	625	7.8%
	<u>4,159</u>	<u>100.0%</u>	<u>9,268</u>	<u>100.0%</u>	<u>1,577</u>	<u>100.0%</u>	<u>8,064</u>	<u>100.0%</u>

Included in “administrative expenses — others” are donations, office consumables expenses, recruiting expenses travelling expenses, training expenses, etc., in which the individual amounts are minimal.

Staff costs

Our staff costs increased by approximately HK\$0.7 million, or 30.4%, from approximately HK\$2.3 million for FY2017 to approximately HK\$3.0 million for FY2018 and increased by approximately HK\$0.2 million, or 20%, from approximately HK\$1.0 million for 4M2018 to approximately HK\$1.2 million for 4M2019, mainly due to (a) the increase in number of administrative staff employed in Hong Kong and the PRC, and (b) the increment in staff salaries during the second half of FY2018.

Finance income

Finance income comprised of interest income on bank deposits. The following table sets forth a breakdown of finance income during the Track Record Period:

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Interest income on bank deposits	<u>47</u>	<u>100.0</u>	<u>41</u>	<u>100.0</u>	<u>13</u>	<u>100.0</u>	<u>1</u>	<u>100.0</u>

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Finance cost

Finance cost mainly comprised of unwinding interest on leases. The following table sets forth the breakdown of our finance cost during the Track Record Period.

	FY2017 HK\$'000	FY2018 HK\$'000	4M2018 HK\$'000 (unaudited)	4M2019 HK\$'000
Finance cost	<u>(115)</u>	<u>(130)</u>	<u>(44)</u>	<u>(46)</u>

Our finance cost increased from approximately HK\$115,000 for FY2017 to approximately HK\$130,000 for FY2018 was mainly due to the leasing of new office in Hong Kong. Our finance cost remained stable at approximately HK\$44,000 and HK\$46,000 for 4M2018 and 4M2019, respectively.

Income tax expense

We are subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which we are domiciled and those in which we operate.

Cayman Islands and the British Virgin Islands

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, our Group is not subject to any taxation in the Cayman Islands and the British Virgin Islands.

PRC

During the Track Record Period, our Group was subject to EIT in the PRC. On 9 November 2017, Kyoei Seiki obtained a Certificate of High and New Technology Enterprise (高新技術企業證書) issued by Guangdong Provincial Science and Technology Department (廣東省科學技術廳), Guangdong Provincial Finance Bureau (廣東省財政廳), Guangdong Provincial Office of State Administration of Taxation (廣東省國家稅務局) and Guangdong Provincial Local Taxation Bureau (廣東省地方稅務局) and is qualified to enjoy a preferential EIT rate of 15%. For further details, please refer to the section headed “Regulatory overview — Laws and regulations on taxation — Enterprise income tax” of this prospectus.

Hong Kong

During the Track Record Period, our Group was subject to Profits Tax in Hong Kong. Provision for Hong Kong Profits Tax was provided at the statutory Profits Tax rate of 16.5% of the estimated assessable profits for FY2017.

On 28 March 2018, the Inland Revenue (Amendment) (No. 3) Ordinance 2018, was signed into law and was gazetted on the following day, which introduces the two-tiered Profits Tax rates regime. Under the two-tiered Profits Tax rates regime, the first HK\$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. For the annual reporting periods ending on or after 1 April 2018, Hong Kong Profits Tax of the qualified entity is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong

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not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Our group companies in Hong Kong are qualified entities in which the profits is calculated under the two-tiered profits tax rates regime for FY2018 and 4M2019.

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

	FY2017		FY2018		4M2018		4M2019	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Current tax								
— the PRC	474	21.2	904	33.0	89	14.8	565	61.5
— Hong Kong	<u>1,762</u>	<u>78.8</u>	<u>1,833</u>	<u>67.0</u>	<u>511</u>	<u>85.2</u>	<u>353</u>	<u>38.5</u>
	2,236	<u>100.0</u>	2,737	<u>100.0</u>	600	<u>100.0</u>	918	<u>100.0</u>
Deferred income tax	<u>(4)</u>		<u>(5)</u>		<u>(2)</u>		<u>(2)</u>	
	<u>2,232</u>		<u>2,732</u>		<u>598</u>		<u>916</u>	

The tax on our Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the entities in our Group as follows:

	FY2017	FY2018	4M2018	4M2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(unaudited)</i>			
Profit before income tax	<u>14,695</u>	<u>12,467</u>	<u>3,399</u>	<u>252</u>
Tax calculated at tax rates applicable to profits of the respective subsidiaries	2,363	1,951	559	(23)
Expenses not deductible for tax purposes	190	954	45	1,039
Research and development tax credit	(160)	(172)	(5)	(100)
Income not subject to tax	<u>(161)</u>	<u>(1)</u>	<u>(1)</u>	<u>—</u>
Income tax expense	<u>2,232</u>	<u>2,732</u>	<u>598</u>	<u>916</u>

For FY2017 and FY2018, our effective tax rates, calculated by dividing income tax expense by profit before taxation, were approximately 15.2% and 21.9%, respectively. Increase in effective tax rate for FY2018 was mainly due to the inclusion of non-deductible listing expenses of approximately HK\$4.7 million. The effective tax rate was approximately 15.7% for FY2018 if the listing expenses were excluded.

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Effective tax rate for 4M2018 was 17.6%. Profit before income tax for 4M2019 included non-deductible listing expenses which amounted to approximately HK\$5.9 million. Adjusted profit before tax for 4M2019 after the exclusion of non-recurring listing expenses was approximately HK\$6.1 million and adjusted effective tax rate for 4M2019 was approximately 14.6%.

Currency translation differences

Exchange reserve of the Group comprises all currency translation differences arising from translation differences of the financial statements of the Group's subsidiary in the PRC.

REVIEW OF HISTORICAL OPERATING RESULTS

FY2017 vs FY2018

Revenue

Our Group's revenue increased by approximately HK\$2.3 million, or 5.2%, from approximately HK\$44.0 million for FY2017 to approximately HK\$46.3 million for FY2018 as a result of the following reasons:

(a) ODM

Our sales of ODM slewing rings increased by approximately HK\$3.5 million, or 12.7%, from approximately HK\$27.6 million for FY2017 to approximately HK\$31.1 million for FY2018. The increase was mainly due to the increase in purchase orders from Customer C, a new customer since FY2017, from approximately HK\$3.6 million for FY2017 to approximately HK\$8.8 million for FY2018.

(b) OEM

During FY2017 and FY2018, our sales of OEM slewing rings remained stable at approximately HK\$1.4 million and HK\$1.3 million, represented approximately 3.2% and 2.7% to our total revenue, respectively.

(c) Others

Our revenue from sales of other slewing rings increased by approximately HK\$3.6 million, or 90.0%, from approximately HK\$4.0 million for FY2017 to approximately HK\$7.6 million for FY2018, was mainly due to the increase in sourcing of other slewing rings for Customer F during FY2018.

(d) Other machinery parts

Our revenue from sale of other machinery parts decreased by approximately HK\$2.1 million, or 29.6%, from approximately HK\$7.1 million for FY2017 to approximately HK\$5.0 million for FY2018, was mainly due to the decrease in purchase orders on other machinery parts from Customer H by approximately during FY2018. The sales of other machinery parts were fluctuating since we provide such "one-stop service" upon request from our customers.

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Cost of sales

Cost of sales decreased by approximately HK\$0.9 million, or approximately 3.5%, from approximately HK\$25.5 million for FY2017 to approximately HK\$24.6 million for FY2018. The decrease was mainly due to a decrease in cost of inventories and consumables of approximately HK\$3.0 million, or 15.9%, from approximately HK\$18.9 million in FY2017 to approximately HK\$15.9 million in FY2018 under the change in sales mix for FY2018, offset partially by (a) an increase in overhead expenses of approximately HK\$0.8 million, or 57.1%, from approximately HK\$1.4 million in FY2017 to approximately HK\$2.2 million in FY2018 under the increase in transportation costs; and (b) an increase in direct labour costs of approximately HK\$1.4 million, or 53.8%, from approximately HK\$2.6 million in FY2017 to approximately HK\$4.0 million in FY2018 under the salary increment and employment of additional labour for production during FY2018.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$3.2 million, or 17.3%, from approximately HK\$18.5 million for FY2017 to approximately HK\$21.7 million for FY2018 and our gross profit margin increased by approximately 4.8% from approximately 42.1% for FY2017 to approximately 46.9% for FY2018:

(a) ODM

Our gross profit on sales of ODM slewing rings increased by approximately HK\$2.6 million, or 17.9%, from approximately HK\$14.5 million for FY2017 to approximately HK\$17.1 million for FY2018 was mainly due to the increase in purchase orders from Customer C, a new customer since FY2017, from approximately HK\$3.6 million for FY2017 to approximately HK\$8.8 million for FY2018.

Our gross profit margin on sales of ODM slewing rings increased from approximately 52.5% for FY2017 to approximately 55.1% for FY2018 was mainly due to the change in sales mix of ODM slewing rings where products with higher gross profit margin were requested from our customers during FY2018.

(b) OEM

Our gross profit on sales of OEM slewing rings remained stable at approximately HK\$0.2 million for both FY2017 and FY2018. Our gross profit margin on sales of OEM slewing rings were 17.8% and 17.6% for FY2017 and FY2018, respectively.

(c) Others

Our gross profit on sales of other slewing rings increased by approximately HK\$1.6 million, or 145.5%, from approximately HK\$1.1 million for FY2017 to approximately HK\$2.7 million for FY2018 was mainly due to the increase in sourcing of other slewing rings for Customer F under the increase in their demand.

Our gross profit margin on sales of other slewing rings increased from approximately 27.2% for FY2017 to approximately 34.8% for FY2018 was mainly due to the change in other slewing rings category requested from our customers.

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(d) Other machinery parts

Our gross profit on sales of other machinery parts remained stable at approximately HK\$1.1 million for FY2017 and FY2018.

Our gross profit margin on sales of other machinery parts increased from approximately 15.2% for FY2017 to approximately 21.6% for FY2018 was mainly due to the change in other machinery parts requested from our customers.

Other income

Other income increased by approximately HK\$0.8 million from approximately HK\$0.1 million for FY2017 to approximately HK\$0.9 million for FY2018. The increase was mainly due to the increase in sales of scrapped materials and the government grants obtained under the certification of Kyoei Seiki as High and New Technology Enterprise in the PRC during FY2018.

Administrative expenses

Administrative expenses increased by approximately HK\$5.1 million, or 121.4%, from approximately HK\$4.2 million for FY2017 to approximately HK\$9.3 million for FY2018. The increase was mainly due to (a) the recognition of non-recurring listing expenses amounting to HK\$4.7 million during FY2018 and; (b) the increase in staff cost under the increased number of administrative staff employed in Hong Kong and the PRC and the increment in staff salaries during FY2018.

Income tax

Income tax increased by approximately HK\$0.5 million, or 22.7%, from approximately HK\$2.2 million for FY2017 to approximately HK\$2.7 million for FY2018. The effective tax rates were approximate 15.2% and 21.9% for FY2017 and FY2018, respectively. The effective tax rate for FY2018 was higher than that of FY2017 mainly due to the recognition of listing expenses amounting to HK\$4.7 million which are not deductible.

Profit for the year and net profit margin

Our profit for the year decreased by approximately HK\$2.8 million, or 22.4%, from approximately HK\$12.5 million for FY2017 to approximately HK\$9.7 million for FY2018 as a result of the non-recurring listing expenses. Net profit margin was 28.3% and 21.0%, respectively.

For FY2017 and FY2018, we incurred listing expenses amounted to approximately HK\$0.1 million and approximately HK\$4.7 million, respectively. If we exclude the non-recurring listing expenses, the adjusted profit for the year of our Group increased by approximately HK\$1.9 million, or 15.2%, from approximately HK\$12.5 million for FY2017 to approximately HK\$14.4 million for FY2018. The adjusted net profit margin of our Group was approximately 28.5% and 31.2% for FY2017 and FY2018, respectively.

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4M2018 vs 4M2019

Revenue

Our Group's revenue increased by approximately HK\$3.9 million, or 29.1%, from approximately HK\$13.4 million for 4M2018 to approximately HK\$17.3 million for 4M2019 as a result of the following reasons:

(a) ODM

Our sales of ODM slewing rings increased by approximately HK\$6.2 million, or 88.6%, from approximately HK\$7.0 million for 4M2018 to approximately HK\$13.2 million for 4M2019. The increase was mainly due to (a) an increase in sales to Customer A from approximately HK\$1.6 million for 4M2018 to approximately HK\$5.7 million for 4M2019; and (b) an increase in sales to Customer G from approximately HK\$1.9 million for 4M2018 to approximately HK\$3.6 million for 4M2019.

(b) OEM

During 4M2018 and 4M2019, our sales of OEM slewing rings remained stable at approximately HK\$0.6 million and HK\$0.4 million, representing approximately 4.1% and 2.2% to our total revenue, respectively.

(c) Others

Our revenue from sales of other slewing rings decreased by approximately HK\$2.2 million, or 47.8%, from approximately HK\$4.6 million for 4M2018 to approximately HK\$2.4 million for 4M2019, mainly due to the decrease in request on sourcing of other slewing rings from customers during 4M2019.

(d) Other machinery parts

Our revenue from sale of other machinery parts decreased by approximately HK\$0.8 million, or 72.7%, from approximately HK\$1.1 million for 4M2018 to approximately HK\$0.3 million for 4M2019, mainly due to the decrease in purchase orders on other machinery parts from customers. The sales of other machinery parts were fluctuating since we provide such "one-stop service" upon request from our customers.

Cost of sales

Cost of sales increased by approximately HK\$0.5 million, or approximately 6.0%, from approximately HK\$8.4 million for 4M2018 to approximately HK\$8.9 million for 4M2019. The increase was mainly due to the combined effect of (a) an increase in cost of inventories and consumables of approximately HK\$0.2 million, or 3.3%, from approximately HK\$6.0 million in 4M2018 to approximately HK\$6.2 million in 4M2019 under the increase in number of slewing rings sold, (b) an increase in direct labour costs of approximately HK\$0.6 million, or 66.7%, from approximately HK\$0.9 million in 4M2018 to approximately HK\$1.5 million in 4M2019 under the salary increment and employment of additional labour for production since FY2018, offset partially by (a) a decrease in depreciation of approximately HK\$0.1 million, or 12.5%, from approximately HK\$0.8 million in 4M2018 to approximately HK\$0.7 million in 4M2019 under certain plant and machinery were fully

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depreciated in prior year; and (b) a decrease in overhead expenses of approximately HK\$0.1 million, or 14.3%, from approximately HK\$0.7 million in 4M2018 to approximately HK\$0.6 million in 4M2019 under the decrease in transportation costs on change of suppliers.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$3.3 million, or 62.7%, from approximately HK\$5.1 million for 4M2018 to approximately HK\$8.4 million for 4M2019 and our gross profit margin increased by approximately 11.1% from approximately 37.6% for 4M2018 to approximately 48.7% for 4M2019:

(a) ODM

Our gross profit on sales of ODM slewing rings increased by approximately HK\$3.6 million, or 105.9%, from approximately HK\$3.4 million for 4M2018 to approximately HK\$7.0 million for 4M2019 was mainly due to an increase in sales to Customer A from approximately HK\$0.6 million for 4M2018 to approximately HK\$5.7 million for 4M2019.

Our gross profit margin on sales of ODM slewing rings increased from approximately 48.2% for 4M2018 to approximately 53.1% for 4M2019 was mainly due to the change in sales mix of ODM slewing rings where products with higher gross profit margin were requested from our customers during 4M2019.

(b) OEM

Our gross profit on sales of OEM slewing rings remained stable at approximately HK\$80,000 for both 4M2018 and 4M2019. Our gross profit margin on sales of OEM slewing rings were 13.6% and 21.1% for 4M2018 and 4M2019, respectively.

(c) Others

Our gross profit on sales of other slewing rings decreased by approximately HK\$0.7 million, or 46.7%, from approximately HK\$1.5 million for 4M2018 to approximately HK\$0.8 million for 4M2019 was mainly due to the decrease in sourcing of other slewing rings for customers under the decrease in their demand.

Our gross profit margin on sales of other slewing rings remained stable at approximately 32.6% and 34.4% for 4M2018 and 4M2019, respectively.

(d) Other machinery parts

Our gross profit on sales of other machinery parts remained stable at approximately HK\$30,000 for 4M2018 and 4M2019. Our gross profit margin on sales of other machinery parts increased from approximately 2.6% for 4M2018 to approximately 9.2% for 4M2019 was mainly due to the change in other machinery parts requested from our customers.

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Other income

Other income remained stable at approximately HK\$0.1 million for 4M2018 and 4M2019.

Administrative expenses

Administrative expenses increased by approximately HK\$6.5 million, or 406.3%, from approximately HK\$1.6 million for 4M2018 to approximately HK\$8.1 million for 4M2019. The increase was mainly due to (a) the recognition of non-recurring listing expenses amounting to HK\$6.0 million during 4M2019 and; (b) the increase in staff cost of approximately HK\$0.2 million from approximately HK\$1.0 million for 4M2018 to approximately HK\$1.2 million for 4M2019 under the increased number of administrative staff employed in Hong Kong and the PRC during FY2018.

Income tax

Income tax increased by approximately HK\$0.3 million, or 50.0%, from approximately HK\$0.6 million for 4M2018 to approximately HK\$0.9 million for 4M2019. Excluding the non-recurring listing expenses amounted to nil and approximately HK\$6.0 million, the adjusted profit before tax for 4M2018 and 4M2019 was approximately HK\$3.4 million and HK\$6.2 million, respectively.

The effective tax rates were approximate 17.6% and 14.6% for 4M2018 and 4M2019 respectively. The effective tax rate for 4M2019 was lower than that of 4M2018 was mainly due to the recognition of research and development expense which entitled tax deduction during the period.

Profit for the period and net profit margin

Loss of approximately HK\$0.7 million was recorded for 4M2019 as a result of the recognition of the non-recurring listing expenses amounted to approximately HK\$6.0 million. If we exclude the non-recurring listing expenses, the adjusted profit for 4M2019 increased by approximately HK\$2.5 million, or 89.3%, from approximately HK\$2.8 million for 4M2018 to approximately HK\$5.3 million for 4M2019. The adjusted net profit margin of our Group was approximately 20.9% and 30.1% for 4M2018 and 4M2019, respectively.

CONSOLIDATED BALANCE SHEETS

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11,763	9,328	8,797
Intangible asset	26	—	—
Prepayments and deposits	230	18	18
Deferred tax assets	6	11	13
	<u>12,025</u>	<u>9,357</u>	<u>8,828</u>

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	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Current assets			
Inventories	20,461	27,573	27,158
Trade receivables	4,885	3,821	8,262
Prepayments, deposits and other receivables	1,738	2,210	4,854
Amount due from a shareholder	7,112	—	—
Cash and cash equivalents	17,104	6,562	4,312
	<u>51,300</u>	<u>40,166</u>	<u>44,586</u>
Total assets	<u>63,325</u>	<u>49,523</u>	<u>53,414</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of our Company			
Share capital	—	—	—
Reserves	50,995	39,615	39,600
Total equity	<u>50,995</u>	<u>39,615</u>	<u>39,600</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities	2,493	2,575	2,685
Current liabilities			
Trade payables	1,450	3,386	4,760
Accruals and other payables	1,388	3,313	5,434
Amount due to a shareholder	5,755	—	—
Contract liabilities	482	—	—
Current income tax liabilities	762	477	843
Leases liabilities	—	157	92
	<u>9,837</u>	<u>7,333</u>	<u>11,129</u>
Total liabilities	<u>12,330</u>	<u>9,908</u>	<u>13,814</u>
Total equity and liabilities	<u>63,325</u>	<u>49,523</u>	<u>53,414</u>

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ANALYSIS OF MAJOR COMPONENTS OF THE CONSOLIDATED BALANCE SHEETS

Property, plant and equipment

Our Group's property, plant and equipment mainly comprised office equipment, right of use assets, plant and machinery and motor vehicles. For FY2017, FY2018 and 4M2019, we acquired property, plant and equipment amounted to approximately HK\$2.5 million, HK\$0.9 million and HK\$21,000, respectively. Depreciation charges for FY2017, FY2018 and 4M2019 amounted to approximately HK\$2.9 million, HK\$2.9 million and HK\$0.7 million, respectively. The carrying amount of property, plant and equipment amounted to approximately HK\$11.8 million, HK\$9.3 million and HK\$8.8 million as at 31 December 2017 and 2018 and 30 April 2019, respectively. Plant and machinery represented approximately 66.1%, 62.4% and 61.5% of the total property, plant and equipment as at 31 December 2017 and 2018 and 30 April 2019, respectively.

Intangible asset

Our intangible asset mainly comprised of computer software for use in office. The carrying amount of intangible asset amounted to approximately HK\$26,000 as at 31 December 2017 and the amount was fully amortised as at 31 December 2018.

Deferred tax assets

Our deferred tax assets mainly comprised of temporary differences arising from leased contracts of our Group. The carrying amount of deferred tax assets amounted to approximately HK\$6,000, HK\$11,000 and HK\$13,000 as at 31 December 2017 and 2018 and 30 April 2019, respectively.

Deposits, prepayments and other receivables

Deposits, prepayments and other receivables mainly consist of prepayments of leased land and buildings expenses, prepayment for purchase of property, plant and equipment, rental deposits, prepayments of inventories and prepayments for listing expenses.

The following table sets out prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Non-current			
Prepayments for purchase of property, plant and equipment	230	—	—
Rental deposits	—	18	18
	<u>230</u>	<u>18</u>	<u>18</u>

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	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Current			
Deposits and other receivables	326	241	395
Prepayments of inventories	1,187	424	889
Prepayments for listing expenses	<u>225</u>	<u>1,545</u>	<u>3,570</u>
	<u>1,738</u>	<u>2,210</u>	<u>4,854</u>
Total	<u><u>1,968</u></u>	<u><u>2,228</u></u>	<u><u>4,872</u></u>

Our deposits, prepayments and other receivables remained stable at approximately HK\$2.0 million and approximately HK\$2.2 million as at 31 December 2017 and 2018, respectively. The amount of deposits, prepayments and other receivables increased by approximately HK\$2.7 million, or 122.7%, from approximately HK\$2.2 million as at 31 December 2018 to approximately HK\$4.9 million as at 30 April 2019 mainly due to an increase in prepayments for listing expenses.

Our prepayments for listing expenses are payments to professional parties for services rendered which relate to the issuance of new shares. As at 31 December 2017 and 2018 and 30 April 2019, prepayments for listing expenses amounted to approximately HK\$0.2 million, HK\$1.5 million and HK\$3.6 million, respectively. For further details of our listing expenses, please refer to the paragraph headed “Listing expenses” in this section.

The following table sets forth the carrying amounts of our deposits, prepayments and other receivables denominated in currencies as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
RMB	1,736	404	636
HK\$	232	1,523	3,610
USD	—	295	566
JPY	<u>—</u>	<u>6</u>	<u>60</u>
	<u><u>1,968</u></u>	<u><u>2,228</u></u>	<u><u>4,872</u></u>

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Inventories

Our inventory consists of raw materials (including forged rings, steel balls and spacers), work in progress and finished goods. The level of raw materials will generally depend on our stocks on hand, and the projected production plans based on the purchase orders we received from our customers. We will maintain a sufficient level of raw materials to meet our production need.

The following table sets forth the carrying amounts of our inventories as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Raw materials	8,686	9,680	8,707
Work in progress	2,223	4,602	4,269
Finished goods	<u>9,552</u>	<u>13,291</u>	<u>14,182</u>
	<u>20,461</u>	<u>27,573</u>	<u>27,158</u>

Our inventories increased from approximately HK\$20.5 million as at 31 December 2017 to approximately HK\$27.6 million as at 31 December 2018 was mainly due to (a) the purchase of additional forged rings when the market price is relatively low during FY2018; and (b) increase in finished goods as at 31 December 2018 under the increased purchase orders we received from our customers.

Our inventories remained stable at approximately HK\$27.2 million as at 30 April 2019.

Ageing analysis on finished goods

The following table sets forth an aging analysis of our finished goods as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Up to 90 days	1,934	4,540	4,350
91 to 180 days	1,178	3,163	1,981
181 to 365 days	950	2,212	3,605
Over 1 year	<u>5,490</u>	<u>3,376</u>	<u>4,246</u>
	<u>9,552</u>	<u>13,291</u>	<u>14,182</u>

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Our Group recorded finished goods aged over one year of approximately HK\$5.5 million, HK\$3.4 million and HK\$4.2 million for FY2017, FY2018 and 4M2019, respectively. It is mainly attributable to (a) the nature of slewing rings which have a long life cycle of approximately 10 years and (b) our Group's ability to provide a diverse range of different models of slewing rings for customers' selection.

During the Track Record Period, there was no provision made on finished goods.

As at the Latest Practicable Date, approximately HK\$4.6 million, or 53.0% of our raw materials and approximately HK\$3.9 million, or 91.9% of our work in progress as at 30 April 2019 were utilised, and approximately HK\$8.4 million, or 59.3% of our unsold finished goods as at 30 April 2019 were sold. Accordingly, approximately HK\$16.9 million, or 62.4%, of the total inventories held at 30 April 2019 was subsequently sold.

Inventory turnover days

The following table sets forth our inventory turnover days for the years indicated:

	FY2017	FY2018	4M2019
Average inventory balance (HK\$'000) ⁽¹⁾	19,634	24,017	27,366
Inventory turnover days (days) ⁽²⁾	281	358	369

Notes:

- (1) Average inventory balance is the sum of beginning and ending inventory balances for the respective year/period divided by two.
- (2) The inventory turnover days are calculated by dividing the average inventory balance by the cost of sales for the respective year/period and multiplied by 365 days/120 days.

The increase in our inventory turnover days from 281 days for FY2017 to 358 days for FY2018 was primarily due to (a) the purchase of additional forged rings during FY2018 when the market price is relatively low; and (b) the increase in finished goods as at 31 December 2018 under the increased purchase orders we received from our customers in which the finished goods are not yet delivered to customers.

The increase in our inventory turnover days from 358 days for FY2018 to 369 days for 4M2019 was primarily due to the Chinese New Year holiday in February 2019 when no finished goods were delivered by our factory in the PRC.

Our slewing rings are normally used as mechanical parts for heavy duty machineries which have a long life cycle of approximately 10 years. We may produce additional slewing rings during the mass production upon the receipt of purchase orders from customers so that our average production cost can be lowered under the economics of scale. As such, certain of our finished goods might have long turnover days. Nonetheless, certain portion of our finished goods was backed by purchase orders received from our customers during the Track Record Period. Our Director are of the view no provision for obsolete stock is necessary.

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Our Group monitors the inventory level of our finished goods regularly through our in-house database to ensure our inventory will be in line with our sales plan. We also review our inventory level by stocktaking on a quarterly basis to ensure that the information recorded in our in-house database is accurate.

Trade receivables

Our trade receivables represent the outstanding amounts receivable by us from our customers for the sales of our products. We generally grant our customers a credit period of 30 days to 90 days. The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Trade receivables	4,885	3,821	8,262

The decrease in our trade receivables by approximately HK\$1.1million, or 22.4%, from approximately HK\$4.9 million as at 31 December 2017 to approximately HK\$3.8 million as at 31 December 2018 since a majority of customer balances was not due as at 31 December 2017.

The increase in our trade receivables by approximately HK\$4.4 million, or 118.4%, from approximately HK\$3.8 million as at 31 December 2018 to approximately HK\$8.3 million as at 30 April 2019 was mainly due to sales to customers during 4M2019 where the balances were not yet due as at 30 April 2019.

The following table sets forth the carrying amounts of our trade receivables denominated in currencies as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
USD	4,196	2,891	7,256
RMB	479	930	836
HK\$	210	—	170
	4,885	3,821	8,262

Since most of our invoices were issued in USD, major of our trade receivables were denominated in USD.

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Trade receivable turnover days

The table below sets out our trade receivables turnover days for the years indicated:

	FY2017	FY2018	4M2019
Average trade receivables (HK\$'000) ⁽¹⁾	4,534	4,353	6,042
Trade receivable turnover days (day) ⁽²⁾	<u>38</u>	<u>34</u>	<u>42</u>

Notes:

- (1) Average trade receivable balance is the sum of beginning and ending trade receivable balances for the respective year/period divided by two.
- (2) The trade receivable turnover days are calculated by dividing the average trade receivable balance by the revenue of the respective year/period and multiplied by 365 days/120 days.

The trade receivables turnover days remained stable at approximately 38 days, 34 days and 42 days for FY2017, FY2018 and 4M2019, respectively.

Ageing analysis on trade receivables

The following table sets forth an aging analysis of our trade receivables based on the invoice date as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 30 days	3,668	1,967	5,715
31 to 60 days	656	784	1,024
61 to 90 days	6	1,070	759
90 to 120 days	<u>555</u>	<u>—</u>	<u>764</u>
	<u>4,885</u>	<u>3,821</u>	<u>8,262</u>

As at the Latest Practicable Date, all of our trade receivables as at 30 April 2019 was subsequently settled.

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Amount due from/(to) a shareholder

The following table sets forth the carrying amount of our amount due from/(to) a shareholder denominated in currencies as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Denominated in HK\$			
Due from a shareholder	12,460	—	—
Due to a shareholder	(5,348)	—	—
	<u>7,112</u>	<u>—</u>	<u>—</u>
Denominated in RMB			
Due to a shareholder	<u>(5,755)</u>	<u>—</u>	<u>—</u>

The balances of amount due from/(to) a shareholder mainly comprised of non-trade advances from/to a shareholder which were unsecured, interest free and repayable on demand.

During FY2018, dividend of HK\$19.5 million was declared of which HK\$12.5 million was offset against the amount due from a shareholder denominated in HK\$ which did not result in any cash flow. The amount due to a shareholder totalling approximately HK\$11.1 million was settled by cash during FY2018.

Cash and bank balances

Our cash and bank balances decreased by approximately HK\$10.5 million, or 61.4%, from approximately HK\$17.1 million as at 31 December 2017 to approximately HK\$6.6 million as at 31 December 2018 was mainly due to the payments of dividends during FY2018.

Our cash and bank balances decreased by approximately HK\$2.3 million, or 34.8%, from approximately HK\$6.6 million as at 31 December 2018 to approximately HK\$4.3 million as at 30 April 2019 mainly due to the payment of listing expense during 4M2019.

Trade payables

Our trade payables represent the outstanding amounts payable by us to our suppliers for the procurement of our raw materials. In addition, we may be required to make a deposit to our suppliers. The following table sets forth our trade payables as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Trade payables	<u>1,450</u>	<u>3,386</u>	<u>4,760</u>

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Our trade payables increased by approximately HK\$1.9 million, or 126.7%, from approximately HK\$1.5 million as at 31 December 2017 to approximately HK\$3.4 million as at 31 December 2018, mainly due to the additional purchase of forged rings when the market price is low during FY2018.

The following table sets forth the carrying amounts of our trade payables denominated in currencies as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
RMB	1,420	2,325	3,442
HK\$	30	1,061	1,023
USD	—	—	295
	<u>1,450</u>	<u>3,386</u>	<u>4,760</u>

Since most of our suppliers were located in the PRC, our purchase of raw materials were denominated in RMB. Our purchase invoices were billed in RMB and major of our trade payables were denominated in RMB.

Analysis of procurement costs by settlement currencies

The following table sets forth the carrying amounts of our procurement costs denominated in settlement currencies for the years/periods indicated:

	FY2017		FY2018		4M2019	
	HK\$	%	HK\$	%	HK\$	%
RMB	11,383,818	58.9%	15,661,219	64.7%	3,912,382	67.4%
HKD	4,762,500	24.6%	6,187,484	25.5%	1,525,200	26.2%
USD	2,904,444	15.0%	2,039,639	8.4%	295,397	5.1%
JPY	<u>292,438</u>	<u>1.5%</u>	<u>331,306</u>	<u>1.4%</u>	<u>75,653</u>	<u>1.3%</u>
	<u>19,343,200</u>	<u>100.0%</u>	<u>24,219,648</u>	<u>100.0%</u>	<u>5,808,631</u>	<u>100.0%</u>

During FY2017, FY2018 and 4M2019, most of our purchases was denominated and settled in RMB which accounted for approximately 58.9%, 64.7% and 67.4%, of our total purchases for FY2017, FY2018 and 4M2019, respectively.

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Trade payable turnover days

The table below sets out our trade payables turnover days for the years indicated:

	FY2017	FY2018	4M2019
Average trade payables (HK\$'000) ⁽¹⁾	1,252	2,418	4,073
Trade payables turnover days (day) ⁽²⁾	<u>27</u>	<u>45</u>	<u>80</u>

Notes:

- (1) Average trade payable balance is the sum of beginning and ending trade payable balances for the respective year/period divided by two.
- (2) The trade payable turnover days are calculated by dividing the average trade payable balance by the purchase of the respective year/period and multiplied by 365 days/120 days.

Our Group's credit period granted by suppliers was generally 30 to 90 days.

The increase in trade payables turnover days from approximately 27 days for FY2017 to approximately 45 days for FY2018 was mainly due to the increase in balance of trade payables under more forged rings purchased.

Trade turnover days increased from 45 days for FY2018 to 80 days for 4M2019 was mainly due to the increase in trade payable at 30 April 2019 in which was the granted credit terms were not yet due. We strengthened our cash management by fully utilised the credit terms up to 90 days granted by our suppliers.

Ageing analysis of trade payables

The following table sets forth an aging analysis of our trade payables based on invoice date as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Up to 30 days	1,002	708	1,597
31 to 60 days	448	612	2,137
61 to 90 days	—	1,279	702
Over 3 months	<u>—</u>	<u>787</u>	<u>324</u>
	<u>1,450</u>	<u>3,386</u>	<u>4,760</u>

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We used to settle payments to the suppliers before the expiry of credit terms in the past. Since we acquired more forged rings for the production slewing rings during FY2018, we endeavoured to strengthen our cash management by fully utilising the credit terms granted by our suppliers. As at 31 December 2018, our Group had aggregate trade payables of approximately HK\$2.1 million, representing 61.0% of our trade payables, aged over 60 days (2017: Nil).

As at 30 April 2019, we had aggregate trade payables of approximately HK\$1.0 million, representing approximately 21.6% of our trade payables, aged over 60 days. As at the Latest Practicable Date, all of our trade payables as at 30 April 2019 was subsequently settled.

Accruals and other payables and contract liabilities

Accruals and other payables primarily consist of accruals for listing expenses, staff salaries and other benefits and other payables for acquisition of property, plant and equipment. Contract liabilities mainly comprised of receipt in advance from customers on purchase of our products.

The following table sets out accruals and other payables and contract liabilities as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals for listing expenses	—	1,869	4,666
Accruals	358	1,283	647
Other payables	833	52	9
Payables for purchase of property, plant and equipment	<u>197</u>	<u>109</u>	<u>112</u>
	1,388	3,313	5,434
Contract liabilities	<u>482</u>	<u>—</u>	<u>—</u>
Total	<u><u>1,870</u></u>	<u><u>3,313</u></u>	<u><u>5,434</u></u>

Accruals for listing expenses

Listing expenses represents the professional and consultancy fees incurred by us as a result of the preparation for the Listing. As at 31 December 2017 and 2018 and 30 April 2019, the accruals for our listing expenses amounted to nil, approximately HK\$1.9 million and HK\$4.7 million, respectively.

Accruals

Our accruals mainly comprised of accrued audit fee, accrued salaries and reimbursed expenses repayable to staff. The amount was increased by approximately HK\$0.9 million, or 225.0%, from approximately HK\$0.4 million as at 31 December 2017 to approximately HK\$1.3 million as at 31 December 2018, mainly due to (a) the increment in staff salaries during FY2018, (b) the increase in

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number of staff employed in the PRC and Hong Kong; and (c) the delayed payment of staff salaries in the PRC due to the delay of the bank transfer system where accruals for staff salaries were increased. The additional accrued staff salaries was subsequently settled in early January 2019.

The balance of accruals decreased by approximately HK\$0.7 million, or 53.8%, from approximately HK\$1.3 million as at 31 December 2018 to approximately HK\$0.6 million as at 30 April 2019 mainly due to the settlement of accrued staff salaries under the aforesaid delay of the bank transfer system in the PRC in December 2018.

As at the Latest Practicable Date, all of our accruals as at 30 April 2019 was subsequently settled.

Other payables

Our other payables mainly comprised of amounts payable to contractors on repair and maintenance of our factory in the PRC and reimbursed expenses repayable to staff. The amount decreased by approximately HK\$0.8 million, or 93.8%, from approximately HK\$0.8 million as at 31 December 2017 to HK\$52,000 as at 31 December 2018 was mainly due to settlements to contractors upon expiry of warranty period. The balance as at 30 April 2019 primarily comprised of reimbursed expenses repayable to staff.

As at the Latest Practicable Date, all of our other payables as at 30 April 2019 was subsequently settled.

Contract liabilities

Our contract liabilities decreased by approximately HK\$0.5 million, or 100.0%, from approximately HK\$0.5 million as at 31 December 2017 to nil as at 31 December 2018 was mainly due to the utilisation of receipt in advance from customers on purchase of our products.

The following table sets forth the carrying amounts of our accruals and other payables denominated in currencies as at the dates indicated:

	As at 31 December		As at
	2017	2018	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	1,346	1,328	628
USD	427	38	—
HK\$	<u>97</u>	<u>1,947</u>	<u>4,806</u>
	<u>1,870</u>	<u>3,313</u>	<u>5,434</u>

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NET CURRENT ASSETS

The following table sets forth the details of our Group's current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December		As at 30 April	As at 31 August
	2017	2018	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)
Current assets				
Inventories	20,461	27,573	27,158	22,714
Trade receivables	4,885	3,821	8,262	14,921
Deposits, prepayments and other receivables	1,738	2,210	4,854	5,907
Amount due from a shareholder	7,112	—	—	—
Cash and cash equivalents	<u>17,104</u>	<u>6,562</u>	<u>4,312</u>	<u>3,531</u>
	<u>51,300</u>	<u>40,166</u>	<u>44,586</u>	<u>47,073</u>
Current liabilities				
Trade payables	1,450	3,386	4,760	2,573
Accruals and other payables	1,388	3,313	5,434	1,166
Amount due to a shareholder	5,755	—	—	—
Contract liabilities	482	—	—	—
Current income tax liabilities	762	477	843	2,043
Lease liabilities	<u>—</u>	<u>157</u>	<u>92</u>	<u>201</u>
	<u>9,837</u>	<u>7,333</u>	<u>11,129</u>	<u>5,983</u>
Net current assets	<u>41,463</u>	<u>32,833</u>	<u>33,457</u>	<u>41,090</u>

We recorded net current assets of approximately HK\$41.5 million and HK\$32.8 million as at 31 December 2017 and 2018, respectively. The decrease of approximately HK\$8.6 million in net current assets of our Group is mainly due to (a) an increase of approximately HK\$7.1 million in inventories; (b) an increase of approximately HK\$0.5 million in deposits, prepayments and other receivables; (c) a decrease of approximately HK\$5.8 million in amount due to a shareholder, offset by a decrease of approximately HK\$7.1 million in amount due from a shareholder.

Our cash and cash equivalents decreased by approximately HK\$10.5 million, or 61.4%, from approximately HK\$17.1 million as at 31 December 2017 to approximately HK\$6.6 million as at 31 December 2018 was mainly due to the payments of dividends during FY2018.

We recorded net current assets of approximately HK\$33.5 million as at 30 April 2019. The increase of approximately HK\$0.7 million in net current assets of our Group from HK\$32.8 million as at 31 December 2018 is mainly due to (a) an increase of approximately HK\$4.4 million in trade

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receivables; (b) an increase of approximately HK\$2.7 million in deposits, prepayments and other receivables; (c) a decrease of approximately HK\$2.3 million in cash and cash equivalents; (d) an increase of approximately HK\$1.3 million in trade payables; (e) an increase of approximately HK\$2.1 million in accruals and other payables.

Our cash and cash equivalents decreased by approximately HK\$2.3 million, or 34.8%, from approximately HK\$6.6 million as at 31 December 2018 to approximately HK\$4.3 million as at 30 April 2019 mainly due to (a) an increase of approximately HK\$4.4 million in trade receivables; and (b) an increase of approximately HK\$1.3 million in trade payables.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at the dates and for the years/periods indicated:

	As at 31 December 2017/ FY2017	As at 31 December 2018/ FY2018	As at 30 April 2019/ 4M2019
Key financial ratios			
Gross profit margin (<i>Note 1</i>)	42.1%	46.9%	48.7%
Net profit margin (<i>Note 2</i>)	28.3%	21.0%	(3.8)%
Return on total asset ratio (<i>Note 3</i>)	19.7%	19.7%	N/A ^(Note 8)
Return on equity ratio (<i>Note 4</i>)	24.4%	24.6%	N/A ^(Note 8)
Current ratio (<i>Note 5</i>)	5.2 times	5.5 times	4.0 times
Quick ratio (<i>Note 6</i>)	3.1 times	1.7 times	1.6 times
Gearing ratio (<i>Note 7</i>)	—	—	—

Notes:

1. The gross profit margin is calculated by dividing the gross profit by the revenue for the respective year multiplied by 100%.
2. The net profit margin is calculated by dividing the net profit by the revenue for the respective year multiplied by 100%.
3. The return on total assets is calculated by the net profit for the year divided by the total assets as at the end of the respective year multiplied by 100%.
4. The return on equity is calculated by the net profit for the year divided by the total equity as at the end of the respective year multiplied by 100%.
5. The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective year.
6. The quick ratio is calculated by dividing current assets (excluding inventory) with current liabilities as at the end of the respective year.
7. Gearing ratio is calculated by dividing net debts (being the total interest-bearing loans including banks and other borrowings less cash and cash equivalents) by total equity as at the respective end of the year.
8. Such ratios for 4M2019 do not reflect a full year of results of operation.

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Gross profit margin

Our gross profit margin were approximately 42.1%, 46.9% and 48.7% for FY2017, FY2018 and 4M2019, respectively. For further information in relation to our gross profit margin, please refer to the paragraph headed “Review of historical operating results” in this section.

Net profit margin

Our net profit margin was approximately 28.3%, 21.0% and (3.8)% for FY2017, FY2018 and 4M2019, respectively. The decrease was primarily attributable to increase in revenue, improved gross profit margin and the recognition of listing expenses for FY2018 and 4M2019. For further information in relation to our net profit margin, please refer to the paragraph headed “Review of historical operating result” in this section.

Return on total assets ratio

Our return on total assets ratio remained stable at approximately 19.7% for FY2017 and FY2018 was mainly due to the decrease in net profit for the year after the recognition of non-recurring listing expenses, offset by the decrease in amount due from a shareholder and the decrease in cash and cash equivalents after the payment of listing expenses and dividends during FY2018.

Return on equity ratio

Our return on equity ratio remained stable at approximately 24.4% and 24.6% for FY2017 and FY2018, respectively was mainly due to the decrease in net profit for the year after the recognition of non-recurring listing expenses, offset by the decrease in total equity after the declaration of dividends during FY2018.

Current ratio

Our current ratio remained stable at 5.2 times and 5.5 times as at 31 December 2017 and 2018, respectively was mainly due to the decrease in amount due from a shareholder, decrease in cash and cash equivalents after the payment of listing expenses and dividend, offset by decrease in amount due to a shareholder.

Current ratio decreased from 5.5 times as at 31 December 2018 to 4.0 times as at 30 April 2019 mainly due to (a) an decrease in cash and cash equivalents after the payment of listing expenses; (b) an increase in trade payables where the credit period was not yet due; and (c) an increase in accrued listing expenses, offset by an increase in trade receivables which were not yet due as at 30 April 2019.

Quick ratio

Our quick ratio decreased from 3.1 times as at 31 December 2017 to 1.7 times as at 31 December 2018 was mainly due to the smaller decrease in current liabilities than current assets under (a) the increase in inventories held as at 31 December 2018; and (b) the payment of listing expenses and dividends during FY2018.

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Quick ratio decreased from 1.7 times as at 31 December 2018 to 1.6 times as at 30 April 2019 mainly due to (a) a decrease in cash and cash equivalents after the payment of listing expenses; and (b) an increase in trade payables which were not yet due as at 30 April 2019, offset by an increase in trade receivables which were not yet due as at 30 April 2019.

Gearing ratio

Our Directors confirmed that as at each of 31 December 2017, 31 December 2018 and 30 April 2019, we maintained a net cash position. On this basis, we did not record a gearing ratio.

INDEBTEDNESS

As at the Latest Practicable Date, for the purpose of this statement of indebtedness, save as described below, our Group had no outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments or any guarantees or other material contingent liabilities.

At the close of business on 31 August 2019, being the latest practicable date on which such information was available to us, our Group had outstanding indebtedness comprising lease liabilities of HK\$2.6 million.

As at 31 December 2017 and 2018, 30 April 2019 and 31 August 2019, we had indebtedness of HK\$8.2 million, HK\$2.7 million, HK\$2.8 million and HK\$2.6 million, respectively. The following table sets forth breakdown of our indebtedness for the years/period indicated:

	As at 31 December		As at	As at
	2017	2018	30 April	31 August
	HK\$'000	HK\$'000	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current				
Lease liabilities	2,493	2,575	2,685	2,425
Current				
Lease liabilities	—	157	92	201
Amount due to a shareholder	<u>5,755</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>5,755</u>	<u>157</u>	<u>92</u>	<u>201</u>
	<u>8,248</u>	<u>2,732</u>	<u>2,777</u>	<u>2,626</u>

As at the Latest Practicable Date, our Group did not have any banking or credit facilities.

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Contingent liabilities

As the end of each reporting period during the Track Record Period, we did not have any significant contingent liabilities.

Our Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of our Group since 30 April 2019 and up to the Latest Practicable Date.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary liquidity requirements relate to the funding of required working capital to support our daily operations. During the Track Record Period, we have funded our operations principally with a combination of net cash flow from operating activities and Shareholders equity. As at 30 April 2019, we had approximately HK\$4.3 million cash and bank balances. Our Group's liquidity policy is set out under the paragraph headed "Our measures to improve negative cash flow position" below.

Cash flows

The following table sets forth selected cash flow data from our consolidated cash flow statement for the years indicated:

	FY2017	FY2018	4M2018	4M2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Operating cash flows before changes in working capital	17,688	15,453	4,153	1,044
Net cash generated from/(used in) operating activities	13,020	9,014	6,483	(1,041)
Net cash used in investing activities	(450)	(485)	(238)	(21)
Net cash used in financing activities	<u>(13,499)</u>	<u>(19,179)</u>	<u>(5,765)</u>	<u>(1,162)</u>
Decrease in cash and cash equivalents	(929)	(10,650)	480	(2,224)
Cash and cash equivalents at beginning of the year/period	18,198	17,104	17,104	6,562
Currency translation differences	<u>(165)</u>	<u>108</u>	<u>(94)</u>	<u>(26)</u>
Cash and cash equivalents at end of the year/period	<u><u>17,104</u></u>	<u><u>6,562</u></u>	<u><u>17,490</u></u>	<u><u>4,312</u></u>

Net cash generated from operating activities

Net cash generated from operating activities primarily consisted of profit before income tax adjusted for non-cash items, such as amortisation and depreciation. We primarily derive our cash inflows from the receipt of payments from customers. Our cash used in operations principally comprises purchases of materials and labour costs.

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For FY2017, our net cash generated from operating activities was approximately HK\$13.0 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$17.7 million; (ii) the increase in trade receivables of approximately HK\$0.5 million; (iii) the increase in deposits, prepayments and other receivables of HK\$0.3 million; (iv) the increase in inventories of approximately HK\$0.2 million; (v) the increase in lease liabilities of approximately HK\$0.5 million; (vi) the increase in trade payables of approximately HK\$0.3 million; (vii) the decrease in contract liabilities, accruals and other payables of approximately HK\$1.7 million; and (viii) the payment of income tax of approximately HK\$2.4 million.

For FY2018, our net cash generated from operating activities was approximately HK\$9.0 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$15.5 million; (ii) the decrease in trade receivables of approximately HK\$1.0 million; (iii) the increase in deposits, prepayments and other receivables of HK\$0.5 million; (iv) the increase in inventories of approximately HK\$8.5 million; (v) the increase in lease liabilities of approximately HK\$0.1 million; (vi) the increase in trade payables of approximately HK\$1.9 million; (vii) the increase in contract liabilities, accruals and other payables of approximately HK\$1.5 million; and (viii) the payment of income tax of approximately HK\$3.0 million.

For 4M2018, our net cash generated from operating activities was approximately HK\$6.5 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$4.2 million; (ii) the increase in trade receivables of approximately HK\$1.4 million; (iii) the decrease in deposits, prepayments and other receivables of HK\$0.2 million; (iv) the increase in inventories of approximately HK\$3.4 million; (v) the increase in lease liabilities of approximately HK\$0.1 million; (vi) the increase in trade payables of approximately HK\$2.4 million; (vii) the increase in contract liabilities, accruals and other payables of approximately HK\$4.7 million; and (viii) the payment of income tax of approximately HK\$0.2 million.

For 4M2019, our net cash used in operating activities was approximately HK\$1.0 million, primarily as a result of the combined effects of (i) an operating profit before movements in working capital of approximately HK\$1.0 million, which was mainly attributable to the listing expenses of approximately HK\$5.9 million incurred during 4M2019; (ii) the increase in trade receivables of approximately HK\$4.4 million as we recorded higher sales in the last month of 4M2019 when compared to that of FY2018 and there were more balances which were not yet due as at 30 April 2019; (iii) the increase in deposits, prepayments and other receivables of HK\$1.5 million under the prepaid listing expenses during 4M2019; (iv) the decrease in inventories of approximately HK\$1.0 million under the sales to customers during 4M2019; (v) the increase in trade payables of approximately HK\$1.3 million as we recorded higher purchases in the last month of 4M2019 when compared to that of FY2018 and there were more trade payable balances which were not yet due as at 30 April 2019; (vi) the increase in contract liabilities, accruals and other payables of approximately HK\$2.1 million under the accrued listing expenses during 4M2019; and (vii) the payment of income tax of approximately HK\$0.6 million.

Net cash used in investing activities

For FY2017, our net cash used in investing activities was approximately HK\$0.5 million. The net cash used was mainly attributable to (i) the purchase of property, plant and equipment of approximately HK\$0.2 million; and (ii) the prepayment for purchase of property, plant and equipment of approximately HK\$0.2 million.

For FY2018, our net cash used in investing activities was approximately HK\$0.5 million mainly attributable to the purchase of property, plant and equipment of approximately HK\$0.5 million.

For 4M2018, our net cash used in investing activities was approximately HK\$0.2 million mainly attributable to the purchase of property, plant and equipment of approximately HK\$0.2 million.

For 4M2019, our net cash used in investing activities was approximately HK\$21,000 which was mainly attributable to the purchase of property, plant and equipment of approximately HK\$21,000.

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Net cash used in financing activities

For FY2017, our net cash used in financing activities was approximately HK\$13.5 million. The net cash used was mainly attributable to (i) advances from a shareholder of approximately HK\$6.6 million; (ii) the repayments of advances to a shareholder of approximately HK\$20.0 million; and (iii) the payment of listing costs (equity portion) of approximately HK\$25,000.

For FY2018, our net cash used in financing activities was approximately HK\$19.2 million. The net cash used was mainly attributable to (i) the repayments of advances to a shareholder of approximately HK\$11.0 million; (ii) the payment of lease liabilities of approximately HK\$75,000; (iii) the payment of listing costs (equity portion) of approximately HK\$1.1 million; and (iv) the payment of dividend amounted to HK\$7.0 million.

For 4M2018, our net cash used in financing activities was approximately HK\$5.8 million. The net cash used was mainly attributable to the repayments of advances to a shareholder of approximately HK\$5.8 million and the payment of lease liabilities of approximately HK\$10,000.

For 4M2019, our net cash used in financing activities was approximately HK\$1.2 million. The net cash used was mainly attributable to the repayment of lease liabilities of approximately HK\$55,000 and the payment of listing expenses amounted to approximately HK\$1.1 million which will be capitalised into equity.

Our measures to improve negative cash flow position

To improve our negative cash flow position during low season, we monitor our cash flow position on a regular basis. We have adopted the following liquidity policy to improve our cash flow position:

(i) Regularly monitor current and expected liquidity requirements

We shall prepare annual budget to ensure the cash flow of our Group remains healthy, which are to be reviewed and approved by our Directors. At the operational level, our finance department shall monitor the financial status of our Group from time to time. Monthly management accounts shall be prepared for our Directors' review so that necessary steps can be taken to maintain our healthy cash flow and liquidity position of our Group. In order to have a better control of our cash flow position, our Directors shall also convene regular internal meetings with our finance department to discuss our Group's financial performance.

(ii) Tighten cost controls over administrative expenses

Our management shall at all times control our administrative expenses according to the annual budget. The corresponding budget shall be based on our historical results with a reasonable improvement. Our finance department shall calculate the variance between actual results and the annual budget on a monthly basis and investigate and provide solutions when an unfavourable variance is detected. Relevant findings shall be reported to our Directors for further actions in this regard.

(iii) Actively following up with trade receivables

Our management shall closely monitor the settlement status of our trade receivables and regularly review our credit terms. In particular, our sales department and finance department shall work closely together to keep track of our customers' purchase order status and the corresponding settlement when necessary. Further, our Directors shall assess the collectability and ageing analysis

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of our trade receivables on a case-by-case basis to determine if any provision for trade receivables is necessary. Our Directors shall reassess the provision for trade receivables at each reporting date.

During the Track Record Period, our principal sources of fund have been cash flows generated from operations and Shareholders equity. In the future, we expect to continue relying on cash flows from operations and the net proceeds from the Share Offer. We may also consider to use other debt financing to fund our working capital needs and finance part of our business expansion if necessary. We will keep on monitoring our liquidity position to ensure sufficient working capital is maintained.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

Our capital expenditures amounted to approximately HK\$2.5 million, HK\$0.9 million and HK\$21,000 for FY2017, FY2018 and 4M2019, respectively. The following table sets forth our historical capital expenditures during the Track Record Period:

	FY2017 HK\$'000	FY2018 HK\$'000	4M2019 HK\$'000
Additions to plant and machinery	2,362	546	11
Additions to office equipment	88	79	10
Additions to right of use assets	<u>—</u>	<u>315</u>	<u>—</u>
	<u>2,450</u>	<u>940</u>	<u>21</u>

Details of our planned capital expenditure to be incurred for each of our financial years ending 31 December 2019 and 31 December 2020 are set out in the section headed “Future plan and use of proceeds — Use of proceeds” of this prospectus.

Capital commitments

As at 31 December 2017 and 2018 and 30 April 2019, our Group had no capital commitments.

WORKING CAPITAL

We adopt the following approaches to manage our Group’s working capital requirements:

- (i) we monitor our cash flow situation closely and adopt a conservative approach on further working capital requirements, capital commitment, and investment, if any;
- (ii) maintain positive net current position; for details of our positive net current position during the Track Record Period, please refer to paragraph headed “Net current assets” in this section;
- (iii) maintain positive cash and cash equivalent positions; for details of our positive cash and cash equivalent during the Track Record Period, please refer to paragraph headed “Cash flows” in this section; and

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- (iv) net proceeds that we expect to receive from the Share Offer are estimated to be approximately HK\$31.0 million, based on the Offer Price of HK\$0.55 (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share). We will review our implementation plan in relation to the expansion and capital requirements from time to time and reschedule our implementation plan if necessary. Our Directors are committed to keep monitoring our working capital requirements as well as financial position and are satisfied.

Working Capital Sufficiency

Our Directors are of the opinion that, taking into consideration the internal resources presently available to our Group, including the cash generated from our operation, and the estimated net proceeds to be received from the Share Offer, our Group has sufficient funds to meet the working capital and financial requirements for at least the next 12 months commencing from the date of this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any off-balance sheet commitments and arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to the following financial and market risks: credit risk, liquidity risk and currency risk.

Credit Risk

Credit risk of our Group mainly arises from trade receivables, deposits and other receivables, amount due from a shareholder and cash and cash equivalents. Majority of bank deposits are placed with reputable banks and financial institutions. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

Our Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and our Group performs periodic credit evaluations of its customers. Our Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the shareholder are of the opinion that adequate provision for uncollectible receivables has been made.

The carrying amounts of trade receivables, deposits and other receivables, amount due from a shareholder and cash and cash equivalents represent our Group's maximum exposure to credit risk in relation to financial assets.

Trade receivables

Our Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

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As at 31 December 2017 and 2018 and 30 April 2019, management considered the credit risk characteristics and the days past due of the trade receivables to measure the expected credit loss. For the past due trade receivables as at 31 December 2017 and 2018 and 30 April 2019, our Group has assessed that the expected credit loss rate for these trade receivables are immaterial by closely monitoring the credit qualities, collectability of these receivables considering historical default rates, existing market conditions and forward-looking information. Management does not expect any significant losses to be incurred from non-performance by these counterparties because of their good repayment history. Thus, the loss allowance provision recognised during the Track Record Period for these balances are close to zero.

Significant changes in the expected performance and behavior of the company, including changes in the payment status of the third party. For further details of ageing analysis our trade receivable, please refer to paragraph headed “Analysis of major components of the consolidated balance sheets — Trade receivables” in this section.

Deposits, prepayments and other receivables

Deposits, prepayments and other receivables mainly represented the rental deposits and prepayment received from suppliers for acquisition of property, plant and equipment. They are assessed by reference to the historical information about counterparty default rates. Our Group has reviewed the credit quality of these counterparties. Our Group believes that the credit risk in relation to the deposits, prepayments and other receivables are minimal.

Amount due from a shareholder

The credit risk on amount due from a shareholder are limited because management does not expect any loss from non-performance by the shareholder. The amount due from a shareholder was fully settled as at 31 December 2018.

Cash and cash equivalents

As at 31 December 2017 and 2018 and 30 April 2019, substantially all of our Group’s bank deposits were deposited with major financial institution, which management believes are of high-credit-quality without significant credit risk.

During Track Record Period, we have no significant exposure to credit risk of other financial assets.

As at the end of each reporting period during the Track Record Period, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position.

Liquidity Risk

Liquidity risk is the risk that our Group will not be able to meet its financial obligations as they fall due. Our Group’s liquidity risk is further mitigated through the availability of financing through its own cash resources to meet its financial commitments. In the opinion of our Directors, our Group does not have any significant liquidity risk.

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Our Group's approach to managing liquidity is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its financial commitments in the short and longer term.

During the Track Record Period, we finance our operations with our own capital and earnings and did not have any significant borrowings or credit facilities utilised.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to changes in foreign exchange rates.

Our Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in these currencies. Since Hong Kong dollar is pegged to USD, our Group believes the exposure of transactions denominated in USD which are entered into the by Group to be insignificant.

During the Track Record Period, our Group has not entered into any derivative instruments to hedge its foreign exchange exposures.

As at 31 December 2017 and 2018 and 30 April 2019, if USD has strengthened/weakened by 5% against RMB, with all other variables held constant, the post-tax profit for the year would have changed mainly as a result of foreign exchange gain/losses on translation of USD denominated on cash and cash equivalent, trade and other receivable and trade and other payables.

	FY2017	FY2018	4M2019
	HK\$'000	HK\$'000	HK\$'000
Post-tax profit (decrease)/increase			
— Strengthened 5%	105	33	283
— Weakened 5%	(105)	(33)	(283)

DIVIDEND

Pursuant to the Companies Law and our Articles, we, through a general meeting, may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

During the Track Record Period, dividend of approximately HK\$19.5 million were declared for FY2018. HK\$7.0 million of such dividend was settled during FY2018 and approximately HK\$12.5 million was offset against the amount due from a shareholder which did not result in any cash outflow. Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by our Company following the Listing. Future dividend payments will also depend upon the availability of dividends we will receive from our subsidiaries. PRC laws require that dividends be paid

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only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

Our Board has absolute discretion in determining whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future. We currently do not have a fixed dividend payout ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 31 October 2018. As at 30 April 2019, our Company had no distributable reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

Save for the compensation of key management personnel, there was no material related party transactions during the Track Record Period and as at the Latest Practicable Date.

LISTING EXPENSES

Our listing expenses mainly consist of the aggregate underwriting commissions and fees paid to the Sole Sponsor and other professional fees, and printing and other expenses relating to the Listing and the Share Offer. Assuming a Share Offer of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share), listing expenses which are payable by us are estimated to be approximately HK\$24.0 million in aggregate. We incurred approximately HK\$14.2 million of listing expenses during the Track Record Period, of which HK\$3.6 million was recorded as prepayments and HK\$10.6 million was charged as expenses to our consolidated statements of comprehensive income. Prior to the Listing, we expect to further charge HK\$5.1 million of estimated listing expenses to our consolidated statements of comprehensive income and to record HK\$4.7 million of the estimated listing expenses as prepayment. We expect that HK\$8.3 million will be accounted for as a deduction from equity following the Listing under the relevant accounting standards. The listing expenses are subject to adjustment based on the actual amount incurred or to be incurred.

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UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to Appendix II to this prospectus for further details.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

Save for the listing expenses to be recognised for FY2018 and 4M2019, our Directors confirm that (i) there has been no material adverse change in the general economic and market condition, legal, industry and operating environment in which our Group operates that materially and adversely affected our Group's financial or operating position or prospects of our Group since 30 April 2019, being the date to which the latest financial information of our Group was made up and recorded in the Accountant's Report set out in Appendix I to this prospectus, and up to the date of this prospectus, and (ii) no event has occurred since 30 April 2019 that would materially and adversely affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS STRATEGIES

Please refer to the section headed “Business — Business strategies and future plans” of this prospectus for a detailed description of our business strategies.

BASES AND KEY ASSUMPTIONS

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

- there will be no material change in the existing political, legal, fiscal or economic conditions in China, Hong Kong or other countries or areas in which any member of our Group operates;
- our Group’s business will not be materially affected by the risk factors as set out in the section headed “Risk Factors” of this prospectus;
- there will be no material change in the bases or rates of taxation in China, Hong Kong or other countries or areas in which any member of our Group operates;
- there will be no material change in the interest rates or exchange rates from those currently prevailing;
- our Directors and key senior management will continue their involvement in the business and future developments of our Group and we will be able to retain our key management personnel;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objective relates;
- we will be able to recruit new staff when required; and
- the Share Offer will be completed in accordance with and as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

Our Directors consider that our future plan requires substantial capital injection. While our business generates profit and a positive cash flow, as explained in paragraph (7) of the section headed “Business — Business strategies and future plans — To acquire and replace machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC” of this prospectus, it is not feasible to merely utilise internal resources to finance the implementation of all our future plans, in particular, the acquisition of new machineries and equipment, which is capital intensive. This may strain our liquidity position and may affect our business growth for a considerable period of time, particularly our inventory turnover days are relatively long.

FUTURE PLANS AND USE OF PROCEEDS

(i) Funding our future plans

Based on our current estimates, our future plans will require a total investment of approximately HK\$31.0 million. Such future plans as detailed in the section headed “Future Plans and Use of Proceeds — Use of proceeds” will enable our Group (i) to improve our efficiency and productivity, (ii) to raise the quality of our products, and (iii) to lower our costs of production and our reliance on manpower. Our Directors consider that these future plans are imperative to our Group’s future success, in particular the acquisition and replacement of outdated machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC, which is expected to require approximately 60.6% of the net proceeds from the Share Offer based on the Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share) to implement. As mentioned in paragraphs (1) to (7) under the sub-section headed “To acquire and replace machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC” in the section headed “Business” of this prospectus, our Directors consider that our production line has reached full capacity and requires room for expansion. The insufficient production capacity caused loss of customers orders during the Track Record Period. Please refer to aforesaid paragraph in the business section for further details. Further, by increasing our production capacity, our Group will be able to take up more regular as well as sizable orders on short notice. This will enable us to benefit from the expected growth in the export sales of slewing rings from the PRC, and to outreach to other overseas markets such as North America and South Africa. In addition, our Directors expect that in line with the growth of our Group and the increase in demand for our products, we would require a higher reserve for working capital. Our Directors considered that it is in the best interest of our Group to seek further injection of working capital from a broad Shareholder base instead of from the Controlling Shareholder solely. Accordingly, our Directors consider the Share Offer provides a platform for our Group to raise capital to fund our continuous growth, and enable us to grow faster than we could if we were to remain private by relying solely on our limited internal resources and Controlling Shareholder.

(ii) Enhance corporate image among our customers and suppliers

Our Directors consider that the Listing will enhance our Group’s corporate profile and our market position in the manufacture of slewing rings industry. The Listing will also reinforce our Group’s image to our existing and potential customers and suppliers, and generate reassurance among our staff, the public and our business partners. In particular, our Directors believe that international customers (in particular, our OEM customers, who are leading Japanese manufacturers or their affiliates) tend to favour contracting with public companies as they are perceived to have stringent corporate governance and internal control measures in place. Our financial strength, credibility, and transparency in operations and financial reporting will also be enhanced following the Listing. All of these will strengthen our competitiveness, expand our market share and result in an increase in our revenue and financial return to Shareholders.

FUTURE PLANS AND USE OF PROCEEDS

(iii) Direct access to capital markets

Following the Listing, we will have access to capital markets providing us with additional avenues for future fundraising through the issuance of equity and debt. Equity financing does not involve recurring interest expense and the fund raising process is usually simpler and quicker than negotiating bank borrowings (which generally involves the lenders conducting detailed and lengthy due diligence and analysis on our Group's financial position and lengthy approval process prior to providing such loans and the lenders will normally demand for security (whether in the form of personal guarantee, charge over real property etc.) to secure such loans and request for restrictive financial covenants). Therefore, it would allow our Group to react promptly to market conditions and business opportunities. Further, our Directors believe that a listing status will allow us to gain leverage in obtaining bank financing with relatively more favourable terms, thus offering us more flexibility to finance our operations.

(iv) Strengthen our staff morale and improve our ability to retain personnel

We have adopted the Share Option Scheme and it will become effective upon Listing. Such scheme will assist in motivating and retaining our key employees, as the employees, once granted with such options, will feel that they have an interest over our Company, which is not applicable for employees in a private company. Further, our Group will have the flexibility in adopting other equity-based reward scheme as and when the Board thinks fit (subject to the approval from the regulators). As such, we believe that the Listing status will motivate our employees to create further value for our Shareholders, thus enable us to align the interests of our employees and that of our Shareholders. In addition, our Directors consider that the Listing status will attract more talents to join our Group.

(v) Broader Shareholder base

Our Company will be able to diversify the risk of ownership among a larger group of Shareholders after the Listing, which can potentially lead to a more liquid market in the trading of the Shares and is important as we continue to expand our business. Furthermore, as a matter of good corporate governance, by having a large Shareholder base means we will be more accountable to our investors and, for corporate decisions, a broad and diverse Shareholder base allows for greater democracy and flexibility. Our Directors believe that a broad Shareholder base also appeals to prospective employees as our Company's reputation for having a large range of investors will enhance our brand awareness. We also believe that our internal control and corporate governance practices can be further enhanced following the Listing.

FUTURE PLANS AND USE OF PROCEEDS

Based on the Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60 per Offer Share, we will receive gross proceeds of HK\$55.0 million. The net proceeds from the Share Offer are estimated to be approximately HK\$31.0 million, after deducting the underwriting commission and other estimated expenses in the amount of approximately HK\$24.0 million, payable by our Company in relation to the Public Offer. We intend to apply such net proceeds as follows:

- (i) approximately HK\$18.8 million (equivalent to approximately RMB16.2 million) or approximately 60.6% of the net proceeds will be used to enhance and expand our production capacity;

Use of net proceeds from the Share Offer	Amount of net proceeds of the Share Offer HK\$'million RMB'million (approx.) (approx.)	Purpose	Expected benefits and/or cost savings	Timeframe
To enhance and expand production capacity				
Replacing two units of existing quenching machines by acquiring two units of quenching machines and adaptors which can achieve more uniform contour hardening and better mechanical properties of products	7.2	6.2 To increase the production capacity of our heat treatment unit, which is highly utilised and is considered one of the bottlenecks of our production process To further enhance the durability and stability of the raceway and gears of our slewing rings	<ul style="list-style-type: none"> Increasing the production capacity by approximately 65.5% for the whole heat treatment unit Reducing production lead time by shortening the time required for quenching of gears by at least 80% Less manual work and less labour and require less training and experience for workers due to its automatic tracing of material position, temperature and other parameters and more accurate sensors Can quench small-to-medium-sized slewing rings with higher stability and efficiency More uniform contour hardening and better mechanical properties of products Enable pre-heat treatment and can achieve more uniform contour hardening, thereby enhance the durability and stability of the raceway and gears Enhance our product technology by introducing through hardening of gears and replacing aged machineries and equipment with outdated technology of tooth-by-tooth hardening 	<ul style="list-style-type: none"> Q4 of FY2019 Q1 of FY2020

FUTURE PLANS AND USE OF PROCEEDS

Use of net proceeds from the Share Offer	Amount of net proceeds of the Share Offer		Purpose	Expected benefits and/or cost savings	Timeframe
	HK\$'million (approx.)	RMB'million (approx.)			
Acquiring two additional units of high-speed precision CNC finish milling machine (精銑床機) in addition to the existing ones	6.4	5.5	To speed up the gear cutting process, which is considered one of the bottleneck of our production process	<ul style="list-style-type: none"> ● Increase the production capacity by approximately 620.0% when comparing to one unit of the existing machine to one unit of new machine ● Increasing the production capacity by approximately 132.0% for the whole gear cutting unit ● Shorten the production cycle for each order due to reduction in machining preparation time and gear cutting process ● Reduce required labour ● Increase speed up to six times compared to traditional model ● More technologically advanced, for instance can satisfy different pressure angles and more stable 	<ul style="list-style-type: none"> ● Q4 of FY2019 ● Q1 of FY2020
Acquiring four units of CNC lathe machines in addition to the existing ones	5.2	4.5	To increase the production capacity of our turning unit, which is highly utilised and is considered one of the bottlenecks of our production process	<ul style="list-style-type: none"> ● Increasing the production capacity by approximately 95.2% for the whole turning unit 	<ul style="list-style-type: none"> ● Q4 of FY2019 ● Q1 of FY2020
Total	<u>18.8</u>	<u>16.2</u>			

FUTURE PLANS AND USE OF PROCEEDS

- (ii) approximately HK\$4.5 million (equivalent to approximately RMB3.9 million) or approximately 14.6% of the net proceeds will be used to enlarge our market share and strengthen our marketing efforts;

Use of net proceeds from the Share Offer	Purpose	Expected benefits and/or cost savings	Timeframe
By participating in local and overseas well-known trade exhibitions	To showcase our product portfolio and production capability	<ul style="list-style-type: none"> ● To market our products to potential customers in the PRC and from overseas, in particular to broaden our clientele in the U.S. and South Africa ● To enhance brand awareness ● To keep abreast of the market development 	<ul style="list-style-type: none"> ● Q1 and Q4 in 2020 ● Q1 in 2021

By hiring additional marketing staff in our sales department to step up our sales effort in particular, in the overseas market, for details please refer to the below table:

Position	Amount of net proceeds of the Share Offer		Duration for which the salary of the sales department is covered by the net proceeds of the Share Offer	Expected experience and qualifications
	HK\$'000 (approx.)	RMB'000 (approx.)		
Sales manager	1,080	931	24 Months	<ul style="list-style-type: none"> ● Bachelor's degree in business administration or related disciplines ● At least five years of sales experience in electronic manufacturing industry ● Fluent in English, Mandarin and Cantonese

As to the remaining sum of approximately HK\$0.6 million, we intend to engage a marketing company to advertise our Group and products through smartphone application and internet search engine optimisation, and for designing our product catalogue and marketing materials, for approximately one year.

FUTURE PLANS AND USE OF PROCEEDS

(iii) approximately HK\$2.4 million (equivalent to approximately RMB2.1 million) or approximately 7.6% of the net proceeds will be used to increase our level of automation;

Use of net proceeds from the Share Offer	Amount of net proceeds of the Share Offer		Purpose	Expected benefits and/or cost savings	Timeframe
	HK\$'million (approx.)	RMB'million (approx.)			
Acquiring one unit of robotic arm for loading and unloading raw materials and semi-finished products to the related machines for further production	2.0	1.7	To partially automate the production process and to speed up the production process	<ul style="list-style-type: none"> ● Shorten delivery time of products within the heat treatment unit and reduce the manual work and time needed ● shortening the time for first piece testing by replacing manual calibration with computer controlled process ● More accurate estimation and control over delivery schedule ● Equipped with smart sensors and provide instantaneous tracking of incoming and outgoing of the heat treatment unit and real-time data input to the ERP system to record level of inventory and semi-finished goods ● Facilitate system integration for efficient real-time data exchange, production control and quality assurance 	<ul style="list-style-type: none"> ● FY2019 ● Q1 and Q2 of FY2020

As to the remaining sum of approximately HK\$0.4 million (equivalent to approximately RMB0.3 million), we intend to pay for the consultancy fee of a consultant company for approximately two years to further increase our factory's level of automation and computerisation, and maintain and upgrade our ERP system, so that eventually we can achieve 4.0 Industry accreditations. We expect that such consultant would have at least five years of relevant experience, in particular with the experience in automation and Industry 4.0;

FUTURE PLANS AND USE OF PROCEEDS

(iv) approximately HK\$1.9 million (equivalent to approximately RMB1.6 million) or approximately 6.0% of the net proceeds will be used to establish our ERP system;

Use of net proceeds from the Share Offer	Amount of net proceeds of the Share Offer		Purpose	Expected benefits and/or cost savings	Timeframe
	HK\$'million (approx.)	RMB'million (approx.)			
Establishing our ERP system	1.9	1.6	To facilitate real-time data extraction and analysis of various aspects of our business operation for better production and resources planning	<ul style="list-style-type: none"> ● To enable us to track and monitor our production process ● To achieve automation of payroll processing ● To increase our efficiency in managing our operations ● To assist us in building up a database for our management to oversee various aspects of our business operations, including journal entries for accounting, management of purchase flow, inventory, material requirements planning, recording of potential sales and purchase, cash inflow and outflow, human resources data, management of services contracts, logistics, financial condition. ● To enhance collaboration across our Group's supply chain which facilitates efficient communication of manufacturing schedules and forecast orders, raw materials procurements and production planning between our customers, suppliers, subcontractors and our Group. 	<ul style="list-style-type: none"> ● FY2019 ● Q3 and Q4 of FY2020 ● Q3 and Q4 of FY2021

FUTURE PLANS AND USE OF PROCEEDS

- (v) approximately HK\$1.5 million (equivalent to approximately RMB1.3 million) or approximately 5.0% of the net proceeds will be used to expand our finance department;

We intend to expand our finance department. The table below sets out (a) a breakdown of the net proceeds of the Share Offer allocated for the recruitment of two finance staff; (b) the duration which their salaries are covered by such net proceeds; and (c) their expected experience and qualifications:

Position	Amount of net proceeds of the Share Offer		Duration for which the salary of the finance staff is covered by the net proceeds of the Share Offer <i>Months</i>	Expected experience and qualifications
	<i>HK\$'000 (approx.)</i>	<i>RMB'000 (approx.)</i>		
Finance manager	912	786	24	<ul style="list-style-type: none"> • Degree in accounting, finance, economics, or related discipline • Qualified accountant • Six years of experience or above, with work experience with first tier or second tier audit firm or multinational corporation • Excellent analytical finance skills, including but not limiting to Financial/Management reporting processes • Excellent English
Account staff	648	559	24	<ul style="list-style-type: none"> • At least 3 years of relevant experience in manufacturing or trading firm • Diploma in accounting, finance or related disciplines • Proficiency in ERP system • Good command of English and Mandarin
	1,560	1,345		

FUTURE PLANS AND USE OF PROCEEDS

(vi) approximately HK\$0.3 million (equivalent to approximately RMB0.2 million) or approximately 0.8% of the net proceeds will be used to enhance staff training; and

We expect to provide full subsidy for our key management and certain selected employees and workers to attend tailored training programs or courses in 2020 as set forth in the table below:

Position	Subject matter of the training programs/courses	Duration	Timeframe
Key management and middle-level management	Executive development programs, finance and management related courses at university	● One year	Q3 or Q4 of 2020 to Q3 or Q4 of 2021
Department heads of the finance department, sales department and procurement department and heads of units and sectors	Finance, sales, procurement and management related courses	● A few days to a few months	Q3 and Q4 of 2020
Quality assurance department head and personnel	Quality assurance related courses and qualification training	● A few days	Q3 and Q4 of 2020
Quality management auditor	Internal auditing training on ISO 9001:2015 quality management systems	● A few days	Q3 and Q4 of 2020
Technical personnel	Magnetic particle inspection training	● A few days	Q3 and Q4 of 2020

(vii) approximately HK\$1.6 million (equivalent to approximately RMB1.4 million) or approximately 5.4% of the net proceeds will be used as general working capital of our Group.

FUTURE PLANS AND USE OF PROCEEDS

For the period from the Latest Practicable Date to 31 December 2021, our net proceeds from the Share Offer will be used as follows:

	From the Latest Practicable Date to 31 December Reference 2019 HK\$'000	Six months ending 30 June 2020 HK\$'000	Six months ending 31 December 2020 HK\$'000	Six months ending 30 June 2021 HK\$'000	Total HK\$'000	Approx. % of the net proceeds
To acquire and replace machineries and equipment with an aim to enhance and expand our production capacity at our production facilities in Dongguan, the PRC	11,280	7,520	—	—	18,800	60.6%
To enlarge our market share and strengthen our marketing efforts	1,115	1,705	270	1,420	4,510	14.6%
To increase our level of automation	209	1,169	987	—	2,365	7.6%
To establish our ERP system	830	830	190	—	1,850	6.0%
To expand our finance department	390	390	390	390	1,560	5.0%
To enhance staff training	—	—	250	—	250	0.8%
Working capital	500	400	400	365	1,665	5.4%
	<u>14,324</u>	<u>12,014</u>	<u>2,487</u>	<u>2,175</u>	<u>31,000</u>	<u>100%</u>

Based on the above future plans, it is anticipated that approximately HK\$2.9 million (equivalent to approximately RMB2.5 million) of the net proceeds will be applied to enhance staff training and staff recruitment, namely a sales manager, a finance manager and an account staff.

Our Directors consider that the net proceeds from the Share Offer together with our internal resources and/or further equity and/or debt financing will be sufficient to finance our business plans as scheduled up to the period ending 30 June 2021.

FUTURE PLANS AND USE OF PROCEEDS

If the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Share Offer will increase or decrease by approximately HK\$4.7 million or HK\$4.7 million, respectively. The net proceeds are intended to be used in approximately the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range. As at 31 August 2019, our Group had cash and cash equivalents of approximately HK\$3.5 million in hand. If it is not feasible to adjust the allocation of the net proceeds on a pro rata basis, and the Offer Price is set at a price below the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.60, we may not have sufficient funds to implement our future plans mentioned above. In such circumstances, we intend to obtain additional funding by debt or equity financing. Nevertheless, as set forth in paragraph (7) of the section headed “Business — Business strategies and future plans — To acquire and replace machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC” of this prospectus, without holding sufficient collateral in hand acceptable to the banks, it is unlikely that we can obtain bank loans on favourable terms. We believe that the Listing will place us in a much better position in obtaining bank financing on favourable terms. For instance, we believe that we are able to obtain bank loans by providing a corporate guarantee of a listed company as opposed to the provision of a personal guarantee by our Controlling Shareholder or the pledge of their properties. Further, since we need to disclose our financial information from time to time in accordance with the GEM Listing Rules, the banks will be in a better position to ascertain our financial position and monitor any material development easily. The transparency of a listed company will more likely give the comfort and the peace of mind to banking institutions to grant loans and on more favourable terms, as opposed to a private company.

Accordingly we believe that the listing status will enable us to raise funds much easier than before, to do so through the issuance of shares, debt securities and/or making borrowings from banking or other financial institutions in future. Since the Listing will enable our Shares to trade freely on the Stock Exchange, it will increase the liquidity of our Shares and facilitate future issuance of equity and debt securities, such as convertible debt instruments and bonds, and provide us with more flexibility in our liquidity management.

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

The use of proceeds outlined above may change in light of our evolving business development. In the event of any material modification to the use of proceeds as described above, our Company will issue an announcement and make disclosure in its annual report for the relevant year as required by the GEM Listing Rules.

COST AND BENEFIT ANALYSIS ON THE ACQUISITION AND REPLACEMENT OF OUR MACHINERIES AND EQUIPMENT AND INCREASING LEVEL OF AUTOMATION

We intend to enhance our production capacity by acquiring and replacing some of our machineries and equipment and strive to integrate smart automation solutions to our manufacturing process in a bid to increase our level of automation and achieve the Industry 4.0 accreditations eventually.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth the cost and benefit analysis on the acquisition and replacement of our machineries and equipment and increasing level of automation:

Costs	Benefits
<ul style="list-style-type: none"> ● We will incur depreciation expense of approximately HK\$2.2 million per year from FY2020 to FY2030 	<ul style="list-style-type: none"> ● Our productivity will be doubled if we acquire the desired machineries and equipment to replace the existing ones and as such we will be in a better position to capture the growing demand from the market and increase our Group's revenue. This goes hand-in-hand with our marketing strategies to expand both our local sales and international sales. ● During the Track Record Period, our product failure rate was 1.36%, 0.93% and 2.4%, respectively. With the new machineries and equipment, we can lower it to below 0.1%. ● It is anticipated that we can save one worker from operating the heat treatment unit. Further, we can reduce costs for training our workers to operate the new quenching machines, as they are more technologically advanced and require less manual work. For further details please refer to paragraph (7) of the section headed "Business — Business strategies and future plans — To acquire and replace machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC" and the column headed "Expected benefits and/or cost savings" of the table in this section. ● By upgrading our machineries and equipment, we will be able to improve our product quality and shorten our production time through introducing more technologically advanced machineries and equipment. For further details please refer to paragraph (7) of the section headed "Business — Business strategies and future plans — To acquire and replace machineries and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC" and the column headed "Expected benefits and/or cost savings" of the table in this section. ● In respect of our plan to increase the level of automation, other than the saving of one worker from our heat treatment unit, we can also shorten the time for first piece testing. Please refer to the column headed "Expected benefits and/or cost savings" of the table in this section.

THE CORNERSTONE PLACING

We and the Sole Bookrunner (for itself and on behalf of the Underwriters) have entered into the cornerstone investment agreement with the cornerstone investor (the “**Cornerstone Investor**”) who has agreed to subscribe for such number of our Offer Shares under the Placing (rounded down to the nearest whole board lot of 5,000 Shares) which may be subscribed with approximately HK\$9.0 million (the “**Cornerstone Placing**”).

Assuming the Offer Price of HK\$0.50 (being at the low end of the indicative Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investor (rounded down to the nearest whole board lot of 5,000 Shares) would be approximately 18,000,000 Shares, representing approximately (i) 18.0% of the Offer Shares under the Share Offer, and (ii) 4.5% of the Shares in issue upon completion of the Capitalisation Issue and the Share Offer.

Assuming an Offer Price of HK\$0.55 (being at the mid-point of the indicative Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investor (rounded down to the nearest whole board lot of 5,000 Shares) would be approximately 16,360,000 Shares, representing approximately (i) 16.4% of the Offer Shares under the Share Offer, and (ii) 4.1% of the Shares in issue upon completion of the Capitalisation Issue and the Share Offer.

Assuming an Offer Price of HK\$0.60 (being at the high end of the indicative Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investor (rounded down to the nearest whole board lot of 5,000 Shares) would be approximately 15,000,000 Shares, representing approximately (i) 15.0% of the Offer Shares under the Share Offer, assuming that the Over-allotment Option is not exercised, and (ii) 3.8% of the Shares in issue upon completion of the Capitalisation Issue and the Share Offer and assuming that the Over-allotment Option is not exercised.

To the best knowledge of our Company, the Cornerstone Investor is an Independent Third Party and is independent of our Company, our connected persons and their respective associates (as defined in the GEM Listing Rules). The Cornerstone Investor will acquire the Offer Shares pursuant to, and as part of, the Placing and will not acquire any further Offer Shares under the Share Offer other than the Cornerstone Placing. There will be no deferred settlement in respect of any Offer Shares to be acquired by the Cornerstone Investor or payment of Offer Shares under the Cornerstone Placing. Save for the Cornerstone Placing, there is no side agreement or arrangement between our Company and the Cornerstone Investor nor is there any benefit, directly or indirectly, conferred on the Cornerstone Investor by virtue of or in relation to the Cornerstone Placing. The Offer Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company under Rule 11.23(7) of the GEM Listing Rules. The Cornerstone Investor did not and will not have any representation on the Board or become a Substantial Shareholder of our Company upon completion of the Capitalisation Issue and the Share Offer.

The Offer Shares to be subscribed by the Cornerstone Investor pursuant to the Cornerstone Placing will not be affected by reallocation of the Offer Shares between the Placing and the Public Offer in the event of over-subscription under the Public Offer as described in the section headed “Structure and Conditions of the Share Offer — The Public Offer — Reallocation” of this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement to be issued by us on or around Thursday, 14 November 2019.

OUR CORNERSTONE INVESTOR

The following information on the Cornerstone Investor was provided to our Company by the Cornerstone Investor. The Cornerstone Investor confirmed that the source of funding for the Cornerstone Placing was from its internal resources and was not directly or indirectly financed by any connected person of our Company nor their close associates (as defined in the GEM Listing Rules). The Cornerstone Investor was not and will not take instructions from any connected persons or their close associate in relation to the acquisition, disposal, voting or other disposition of securities of our Company registered in their names or otherwise held by the Cornerstone Investor.

Differ Group Holding Company Limited (“Differ Group”)

Differ Group has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 5,000 Shares) which may be purchased with an aggregate amount of HK\$9.0 million at the Offer Price.

Differ Group is a company whose shares are listed on the Stock Exchange (stock code: 6878). According to its latest annual report, Differ Group and its subsidiaries are principally engaged in the provision of (i) assets management services (including investments in lands and properties, distress assets and equities), (ii) finance lease services and (iii) financial services (including express loan services, guarantee services, financial consultancy services, supply chain services and securities dealing and brokerage services).

One of the executive directors and substantial shareholders of Differ Group was acquainted with Mr. YP Chan, the chairman of our Board, for over 10 years through introduction by a mutual friend. As the business of Differ Group includes asset management services (including investment in equities) and is confident in the business prospect of our Group, Differ Group decided to invest in our Company as a cornerstone investor. The Cornerstone Placing did not require prior approval from the shareholders of the Differ Group and the Differ Group will comply with the necessary rules under the GEM Listing Rules for the Cornerstone Placing.

Save as disclosed above, the Cornerstone Investor did not have any past or present relationship (including but not limited to family, business or employment relationship) nor did it enter into any other agreement or arrangement with our Group, our Directors, senior management or Substantial Shareholders or any of their respective associates.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Underwriting Agreements being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) on or before the time and date as specified in Underwriting Agreements;
- (b) neither of the Underwriting Agreements having been terminated;
- (c) the Offer Price having been agreed upon between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters);
- (d) the Listing Division of the Stock Exchange having granted the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and that such approval and permission not having been revoked prior to the commencement of dealings in the Shares on GEM of the Stock Exchange;
- (e) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investor and our Company under the cornerstone investment agreement are accurate and true in all material respects and that there is no material breach of the cornerstone investment agreement on the part of the Cornerstone Investor; and
- (f) no relevant laws shall have been enacted or promulgated which prohibits the consummation of the transactions contemplated in the Public Offer, the Placing or in the cornerstone investment agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that, without the prior written consent of our Company and the Sole Bookrunner, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Shares it has subscribed pursuant to the cornerstone investment agreement or any interest in any wholly-owned company or entity (directly or indirectly) holding any of the relevant Shares, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries provided that such transferee agrees to be subject to the terms and restrictions imposed on the Cornerstone Investor, including the Lock-up Period restriction specified in the cornerstone investment agreements.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

President Securities (Hong Kong) Limited
Lego Securities Limited
LY Capital Limited
Merdeka Capital Limited
Upmax Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to initially offer 10,000,000 new Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the Stock Exchange granting the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally, but not jointly, agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) shall have the absolute right, in its sole and absolute discretion, to terminate the Public Offer Underwriting Agreement by notice in writing to our Company with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Bookrunner:
 - (i) any statement contained in this prospectus, the Application Forms, the post hearing information pack, the formal notice, any submission, document or information provided to the Sole Sponsor and/or the Sole Bookrunner and any announcement or document issued by our Company in connection with the Share Offer (including any supplement or amendment thereto) (the “**Offer Documents**”) which, considered by the Sole Bookrunner in its sole and absolute opinion was, when it was issued, or has become, or been discovered to be untrue, incorrect, inaccurate or misleading or deceptive or any expression of opinion, intention or expectation contained in any such document is not, in the sole and absolute opinion of the Sole Bookrunner fair and honest, when taken as a whole; or

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- (ii) any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus, would have constituted, in the sole and absolute opinion of the Sole Bookrunner, an omission from the Offer Documents in the context of the Share Offer; or
 - (iii) either (1) there has been a breach of any of the warranties or any other provisions of the Public Offer Underwriting Agreement by any party thereto (other than the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Public Offer Underwriters); or (2) any matter or event showing or rendering any of the warranties, in the sole and absolute opinion of the Sole Bookrunner, to be untrue, incorrect, inaccurate or misleading or deceptive in any respect when given or repeated; or
 - (iv) any event, act or omission which gives or is likely to give rise to any material liability of our Company or any of our executive Directors or Controlling Shareholders pursuant to the indemnity provisions under the Public Offer Underwriting Agreement or the Public Offer to be performed or implemented as envisaged; or
 - (v) any event, series of events, matter or circumstance occurs or arises on or after the date of the Public Offer Underwriting Agreement and prior to 8:00 a.m. on the Listing Date, being an event, a series of events, matter or circumstance which, if it had occurred before the date of the Public Offer Underwriting Agreement, would have rendered any of the warranties, in the sole and absolute opinion of the Sole Bookrunner, untrue, incorrect, inaccurate or misleading or deceptive; or
 - (vi) approval by the Stock Exchange of the listing of, and permission to deal in, our Shares (including any additional Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) is refused or not granted before the Listing Date, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Share Offer; or
 - (viii) any person (other than the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to the issue of any of the Offer Documents with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (b) there shall develop, occur, exist, or come into effect:
- (i) any event, or series of events, in the nature of force majeure, including, without limitation, acts of government or orders of any courts, labour disputes, riots, strikes, calamity, crisis, public disorder, lock-outs (whether or not covered by insurance), fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of God, acts of

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terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, economic sanctions, outbreaks of diseases or epidemics (including but not limited to swine influenza (H1N1 flu), severe acute respiratory syndrome and avian influenza A (H5N1) and other related or mutated form), accidents, interruption or delay in transportation, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in Hong Kong, the PRC, the BVI, the Cayman Islands, or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business and/or operation of our Group (the “**Relevant Jurisdictions**”); or

- (ii) any change or development involving a prospective change, or any event or series of events, matters or circumstances resulting or likely to result in or represent any change or development involving a prospective change, in the local, national, regional, international financial, economic, political, military, industrial, fiscal, regulatory, currency, equity securities, credit, market, exchange control, stock market, financial market or other market conditions or any monetary or trading settlement system or matters and/or disaster (including without limitation any change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar, or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency, or any interruption in securities settlement or clearance service or procedures) in or affecting the Relevant Jurisdictions; or
- (iii) any change in the general fund raising environment in the Relevant Jurisdictions; or
- (iv) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in the Relevant Jurisdictions; or
- (v) the imposition of economic sanctions or changes in existing economic sanctions, or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, the Relevant Jurisdictions; or
- (vi) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control, currency exchange rates or foreign investment laws or regulations) in any of the Relevant Jurisdictions; or
- (vii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” of this prospectus; or
- (viii) any litigation or claim of importance being instigated or threatened against any member of our Group or any Director; or

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- (ix) an executive Director being charged with an indictable offence involving dishonesty, fraud or which goes towards his integrity or prohibited by operation of law or regulation or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman or chief executive officer of our Company vacating his office; or
- (xi) the commencement by any governmental, judicial, regulatory or political body or organisation of any investigation or other action against a Director or any member of our Group or an announcement by any governmental, judicial, regulatory or political body or organisation that it intends to take any such action; or
- (xii) any contravention by any member of our Group or any Director or any Controlling Shareholder of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law, the GEM Listing Rules, the SFO or any applicable laws, rules, regulations, guidelines, opinions (rules and regulations whether formally published or not), notices, circulars, orders, judgments, decrees or rulings of any court, government, governmental or regulatory authority (including, without limitation, the Stock Exchange and the SFC); or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting and issuing any of the Offer Shares pursuant to the terms of the Public Offer and/or the Share Offer; or
- (xiv) any material non-compliance by any member of our Group or any Director or any Controlling Shareholder of this prospectus (and/or any other documents used in connection with the subscription of the Offer Shares) or any aspect of the Public Offer and/or the Share Offer with the GEM Listing Rules or any applicable laws and regulations; or
- (xv) the issue or requirement to issue by our Company of a supplement or amendment to any of the Offer Documents (and/or any other documents used in connection with the issue of the Offer Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the GEM Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Sole Bookrunner, adverse to the marketing for or implementation of the Share Offer; or
- (xvi) a demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xvii) any material loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

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- (xviii) any change or prospective change in the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of our Company or any member of our Group (including any litigation or claim of material importance being threatened or instigated against our Company or any member of our Group); or
- (xix) a petition or order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xx) a disruption in or a general moratorium on commercial banking activities or foreign exchange trading or securities settlement, or payment or clearance services or procedures in or affecting any of the Relevant Jurisdictions; or
- (xxi) the imposition of any moratorium, suspension or restriction on trading in shares or securities generally on or by the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or minimum or maximum prices for trading having been fixed, or minimum or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority,

which, in each case or in aggregate, in the sole and absolute opinion of the Sole Bookrunner:

- (i) is or may or will be or is likely to be adverse to or may prejudicially affect the general affairs, management, business, financial, trading or other conditions or prospects of our Group taken as a whole or any member of our Group or to any present or prospective shareholder in his/her/its capacity; or
- (ii) has or may or will have or is likely to have an adverse effect on the success or marketability or pricing of the Share Offer or the level of the Offer Shares being applied for or accepted, the distribution of the Offer Shares or the demand or market price of the Shares following the Listing; or
- (iii) makes or may or will make it inadvisable, inexpedient or impracticable to proceed with or to market the Public Offer and/or the Placing on the terms and in the manner contemplated in the Underwriting Agreements, this prospectus and the Application Forms; or
- (iv) has or may or will, or is likely to have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of implementation or performance in accordance with its terms and in the manner contemplated by any of the

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Offer Documents and the Public Offer Underwriting Agreement or which prevents or delays the processing of applications and/or payments pursuant to the Public Offer and/or the Share Offer or pursuant to the underwriting thereof.

Indemnity

Our Company, our Controlling Shareholders and our executive Directors, have agreed to indemnify the Public Offer Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company, our Controlling Shareholders and our executive Directors of the Public Offer Underwriting Agreement.

LOCK-UP UNDERTAKINGS

Lock-up undertakings to the Public Offer Underwriters

Undertakings by our Company

Our Company undertakes irrevocably and unconditionally with the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Public Offer Underwriters that, and each of our Controlling Shareholders and our executive Directors jointly and severally undertakes irrevocably and unconditionally with the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Public Offer Underwriters to procure that:

- (a) except for the issue of our Shares pursuant to the Share Offer, the Capitalisation Issue, the exercise of any options which may be granted under the Share Option Scheme or as otherwise with the prior written consent of the Sole Sponsor and the Sole Bookrunner and unless in compliance with the GEM Listing Rules, our Company will not, and will procure none of our subsidiaries will, at any time during the First Twelve-Month Period:
 - (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, 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, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or, as applicable to the Subsidiaries only, repurchase, any of its share capital, debt capital or any securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); or
 - (ii) 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 capital, debt capital or securities or interest therein as described in paragraph (i) above; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in paragraph (i) or (ii) above; or

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- (iv) offer to or agree or contract to or publicly announce any intention to enter into any transaction described in paragraph (i), (ii) or (iii) above,

in each case, whether any of the foregoing transactions described in paragraphs (i), (ii) or (iii) above is to be settled by delivery of the Shares or such other securities of our Company or shares or such other securities of such other member of our Group, as applicable, in cash or otherwise (whether or not the issue of the Shares or such other securities will be completed within the aforesaid period);

- (b) at any time during the Second Twelve-Month Period do any of the acts set out in paragraph (a) above, so as to result in our Controlling Shareholders (together with any of his/its close associates) either individually or taken together with the others of them cease to be a controlling shareholder of our Company (within the meaning of the GEM Listing Rules); and
- (c) in the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any interest therein by virtue of the aforesaid exceptions or during the Second Twelve-Month Period, our Company will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders jointly and severally undertakes to the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Public Offer Underwriters that:

- (a) save as pursuant to the Share Option Scheme, he/it will not, and will procure that the relevant registered holder(s) and his/its close associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it will not, without the prior written consent of the Sole Sponsor and the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) and unless in compliance with the GEM Listing Rules at any time during the Three-Year Period:
 - (i) offer, accept subscription for, sell, pledge, mortgage, charge, contract to 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, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital of our Company or any securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital, debt capital or other securities of our Company or any interest therein; or
 - (iii) enter or agree to enter into, conditionally or unconditionally, or effect any transaction with the same economic effect as any of the transactions referred to in paragraph (a) or (b) above; or

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- (iv) offer to or agree or contract to or publicly announce any intention to enter into or effect any of the transactions referred to in paragraph (i), (ii) or (iii) above,

whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of our Shares or such other securities of our Company, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so;

- (b) during the Three-Year Period:

- (i) when he/it pledges or charges any securities or interests in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company, the Sole Sponsor and the Stock Exchange in writing of any such pledges or charges together with the number of Shares or other securities of our Company and nature of interest so pledged or charged; and
 - (ii) when he/it receives any indication, whether verbal or written, from any such pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor and the Stock Exchange in writing of any such indication;
- (c) in the event that he/it does any of the acts set out in paragraphs (a) and (b) above during the Three-Year Period, as the case may be, will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company; and
- (d) comply with the requirements of Rules 13.16A and 13.19 of the GEM Listing Rules, and to procure that our Company will comply with the requirements under Rule 17.29 of the GEM Listing Rules, and comply with all the restrictions and requirements under the GEM Listing Rules on the sale, transfer or disposal by him/it or by the registered holder controlled by him/it and his/its close associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/it of any Shares or other securities of our Company.

Lock-up undertakings to the Stock Exchange

Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, our Company has undertaken to the Stock Exchange that no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Share Offer and the Capitalisation Issue or for the circumstances prescribed by Rule 17.29 of the GEM Listing Rules, which include the issue of the Shares on exercise of options to be granted under the Share Option Scheme.

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Undertakings by our Controlling Shareholders

With reference to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company and to the Stock Exchange that except pursuant to the Share Offer, he/it shall not in the period commencing on the date by reference to which disclosure of his/its shareholdings in our Company is made in this prospectus and ending on the date which is 36 months from the Listing Date dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities in respect of which he/it is shown to be the beneficial owner in this prospectus.

Each of our Controlling Shareholder has also jointly and severally undertaken to our Company and the Stock Exchange that, at any time during the period commencing on the date by reference to which disclosure of his/its shareholding of our Company is made in this prospectus and ending on the date which is 36 months from the Listing Date:

- (a) in the event that he/it pledges or charges any of his/its direct or indirect interest in our Shares or other securities of our Company under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/it must inform our Company immediately in writing of such pledge or charge, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in our Shares or other securities of our Company under sub-paragraph (a) above, he/it must inform our Company immediately in writing, in the event that he/it becomes aware or receives indications, either verbal or written, that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

Our Company will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Placing

In connection with the Placing, it is expected that our Company, our Controlling Shareholders and our executive Directors will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Placing Underwriters and other parties (if any) on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly, agree to act as agents of our Company to procure subscribers for the Placing Shares initially offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated. It is expected that pursuant to the

UNDERWRITING

Placing Underwriting Agreement, our Company and our Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Lock-up undertakings to the Public Offer Underwriters” above.

COMMISSION AND EXPENSES

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive a commission of 2.5% of the aggregate Offer Price payable for the Public Offer Shares underwritten by them. Our Company shall pay the Placing Underwriters, instead of the Public Offer Underwriters, underwriting commission regarding any Offer Shares which are reallocated from the Placing to the Public Offer at the rate applicable to the Placing. The Placing Underwriters are expected to receive similar underwriting commission on the aggregate Offer Price payable for the Placing Shares subject to the terms and conditions of the Placing Underwriting Agreement.

The underwriting commission, documentation and advisory fee, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Share Offer, assuming an Offer Price of HK\$0.55 (being the mid-point of the indicative Offer Price range), are estimated to amount to approximately HK\$24.0 million in total, and are payable by our Company.

SOLE SPONSOR AND UNDERWRITERS’ INTERESTS IN OUR COMPANY

The Sole Sponsor has been engaged by our Company as a compliance adviser and is a Underwriter. The Underwriters will receive an underwriting commission. Particulars of these underwriting commission, fees and expenses are set forth under the paragraph headed “Commission and expenses” above.

Save as disclosed above, none of the Sole Sponsor and the Underwriters is interested legally or beneficially in any Shares or other securities of our Company or any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase any Shares or other securities of our Company or any members of our Group or has any interest in the Share Offer.

Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Public Offer Underwriting Agreement and/or the Placing Underwriting Agreement.

The Sole Sponsor satisfies the independence criteria applicable to a sponsor set out in Rule 6A.07 of the GEM Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23(7) of the GEM Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer comprises:

- (a) the Public Offer of 10,000,000 new Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the paragraph headed “The Public Offer” below; and
- (b) the Placing of an aggregate of 90,000,000 new Shares (subject to reallocation as mentioned below) to professional, institutional and/or other investors as described in the paragraph headed “The Placing” below.

Investors may apply for Offer Shares under the Public Offer or apply for or indicate an interest for Offer Shares under the Placing, but may not do both. References in this prospectus to applications, Application Forms, application monies or the procedures for application relate solely to the Public Offer.

The Offer Shares will represent 25% of the total issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme).

THE PUBLIC OFFER

Number of Shares initially offered

We are initially offering 10,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Share Offer. Subject to the reallocation of Shares between the Public Offer and the Placing, the Public Offer Shares will represent approximately 2.5% of the total issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and/or other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Public Offer” below.

Allocation

Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation 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 Public Offer Shares, and those applicants who are not

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

successful in the ballot may not receive any Public Offer Shares. In addition, multiple or suspected multiple applications under the Public Offer and any application for more than 10,000,000 Public Offer Shares are liable to be rejected (being 100% of the initial number of Public Offer Shares).

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation at the discretion of the Sole Bookrunner in the following manner:

- (a) in the event that the Placing Shares are fully subscribed or oversubscribed under the Placing:
 - (i) if the Public Offer Shares are undersubscribed, the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters), at its sole and absolute discretion, may reallocate all or any of the unsubscribed Public Offer Shares from the Public Offer to the Placing;
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of Offer Shares initially available for subscription under the Public Offer, then up to 10,000,000 Offer Shares may be reallocated to the Public Offer from the Placing at the sole and absolute discretion of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters), so that the total number of Offer Shares available for subscription under the Public Offer will be increased to 20,000,000 Shares, representing 20% of the total number of Offer Shares initially available for subscription under the Share Offer;
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be 30,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer;
 - (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be 40,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer; and
 - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be 50,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (b) In the event that the Placing Shares are undersubscribed under the Placing:
- (i) if the Public Offer Shares are undersubscribed, the Share Offer shall not proceed unless fully underwritten by the Underwriters pursuant to the Public Offer Underwriting Agreement and the Placing Underwriting Agreement; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times, then up to 10,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer will be increased to 20,000,000 Shares, representing 20% of the total number of Offer Shares initially available for subscription under the Share Offer.

In addition, the Offer Shares to be offered in the Public Offer and the Placing may in certain circumstances be reallocated as between these offerings at the discretion of the Sole Bookrunner. In accordance with Guidance Letter HKEXGL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 6 of the GEM Listing Rules, the maximum total number of Offer Shares that may be allocated to the Public Offer shall be not more than 20,000,000 Offer Shares, representing double of the initial allocation to the Public Offer and the final Offer Price shall be fixed at HK\$0.50 per Offer Share, the low-end of the indicative Offer Price range.

Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making 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 of the Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected.

Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$0.60 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee, amounting to a total of HK\$3,030.23 per board lot of 5,000 Offer Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed "Price determination of the Share Offer" below, is less than the maximum price of HK\$0.60 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for Public Offer Shares" of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Conditions of the Public Offer

The Public Offer will be conditional upon, among other conditions:

- (a) the Stock Exchange granting the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus on or before the Listing Date (or such other date as the Sole Bookrunner (for itself and on behalf of the Underwriters) may agree) and such approval and permission not having been subsequently revoked prior to 8:00 a.m. on the Listing Date;
- (b) the Offer Price having been agreed between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date;
- (c) the execution of the Placing Underwriting Agreement on or before the Price Determination Date; and
- (d) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of a waiver of any condition(s) by the Sole Bookrunner (for itself and on behalf of the Underwriters), and not being terminated in accordance with the terms and conditions 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 the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) by Thursday, 7 November 2019, the Share Offer will not become unconditional and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will not become unconditional and will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published on our Company's website (www.blg.hk) and the Stock Exchange's website (www.hkexnews.hk) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Public Offer Shares" of this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Shares are expected to be issued on Thursday, 14 November 2019 but will only become valid certificates of title at 8:00 a.m. on Friday, 15 November 2019 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" of this prospectus has not been exercised.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PLACING

Number of Offer Shares offered

The Placing will consist of an initial offering of 90,000,000 Shares (subject to reallocation), representing 90% of the total number of Offer Shares initially available under the Share Offer and approximately 22.5% of the total issued share capital immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme). The Placing Shares will be offered by us to professional, institutional and/or other investors.

Allocation

Allocation of the Offer Shares pursuant to the Placing will be determined by the Sole Bookrunner 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 section 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 Listing. Such allocation may be made to professional, institutional and/or other investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a stable shareholder based to the benefit of our Company and our Shareholders as a whole.

Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described in the paragraph headed "The Public Offer — Reallocation" above. In addition, the Sole Bookrunner may reallocate Placing Shares from the Placing to the Public Offer to satisfy the valid applications under the Public Offer that exceeds the number of Public Offer Shares initially offered.

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price is to be determined on the Price Determination Date, which is expected to be on or about Wednesday, 6 November 2019 and in any event no later than Thursday, 7 November 2019 by agreement between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$0.60 per Share and is expected to be not less than HK\$0.50 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

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.

The Sole Bookrunner (for itself and on behalf of the Underwriters) may, based on the level of interest expressed by prospective investors during the book building process and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time not later than the morning of the last day for lodging applications under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the number of Offer Shares and/or the Offer Price range is reduced, our Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published on the website of our Company (www.blg.hk) and the website of the Stock Exchange (www.hkexnews.hk) in accordance with the GEM Listing Rules a notice of reduction in the number of Offer Shares and/or of the Offer Price range or to be announced in such manner as permitted under the GEM Listing Rules and agreed between our Company, the Sole Bookrunner and the Sole Sponsor. Upon issue of such notice, our revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) will be fixed within such revised Offer Price range. Such notice shall also include confirmation or revision, as appropriate, of the working capital statement, offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction.

As soon as practicable after such reduction in the number of Offer Shares and/or of the Offer Price range, we will (a) issue a supplemental prospectus informing potential investors of, among other things, the changes to the Share Offer, including the change in the Offer Price and period of the Public Offer and the impact of such change on the sufficiency of working capital and use of proceeds; and (b) extend the offer period to allow potential investors to have sufficient time to consider and to confirm their applications under an opt-in approach, that is, to positively confirm their applications for the Offer Shares in light of the change in the Offer Price.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), will under no circumstances be set outside the indicative Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Share Offer, the Sole Bookrunner may, at its discretion, reallocate the number of Offer Shares to be offered under the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer. The Offer Shares to be offered under the Public Offer and the Placing Shares to be offered under the Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Bookrunner.

Before submitting applications for the Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Public Offer.

The final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allotment of the Public Offer Shares, are expected to be announced on Thursday, 14 November 2019 in the manner set out in the section headed “How to Apply for Public Offer Shares — 11. Publication of Results” of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

UNDERWRITING AGREEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is conditional upon the Placing Underwriting Agreement being executed and becoming unconditional.

Our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Placing Underwriters expect to enter into the Placing Underwriting Agreement relating to the Placing on or about the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” of this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

DEALINGS

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 15 November 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 15 November 2019.

The Shares will be traded in board lots of 5,000 Shares each. The stock code for the Shares is 8617.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk or in the Tricor IPO App; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Bookrunner, 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 Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Bookrunner may accept it at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of shares in our Company and/or any of its subsidiaries;
- are a director or chief executive officer of our Company and/or any of its subsidiaries;
- are a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- are an associate (as defined in the GEM Listing Rules) of any of the above; or
- have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, either (i) use a **WHITE** Application Form; or (ii) apply online through the designated website of the **HK eIPO White Form** Service Provider at www.hkeipo.hk or in the Tricor IPO App under the **HK eIPO White Form** service.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, either (i) use a **YELLOW** Application Form; or (ii) electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 31 October 2019 until 12:00 noon on Tuesday, 5 November 2019 from:

- (i) any of the following addresses of the Public Offer Underwriters:

President Securities (Hong Kong) Limited	Units 2603–6, 26/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong
Lego Securities Limited	Room 301, 3/F, China Building, No.29 Queen's Road Central, Hong Kong
LY Capital Limited	Rooms 1901–02, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong
Merdeka Capital Limited	Room 1108, 11th Floor, Wing On Centre, 111 Connaught Road Central, Central, Hong Kong
Upmax Securities Limited	Room 1717, China Merchants Tower, Shun Tak Centre, 168 Connaught Road Central, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (ii) any of the following branches of the receiving bank for the Public Offer, DBS Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Head Office	G/F, The Center 99 Queen's Road Central Central
Kowloon	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building 574–576 Nathan Road Mongkok
New Territories	Tuen Mun Town Plaza — SME Banking Centre	Shop 23, G/F Tuen Mun Town Plaza (II) 3 Tuen Lung Street Tuen Mun

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 31 October 2019 until 12:00 noon on Tuesday, 5 November 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to “**Ting Hong Nominees Limited — Best Linking 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:

Thursday, 31 October 2019 — 9:00 a.m. to 5:00 p.m.
Friday, 1 November 2019 — 9:00 a.m. to 5:00 p.m.
Saturday, 2 November 2019 — 9:00 a.m. to 1:00 p.m.
Monday, 4 November 2019 — 9:00 a.m. to 5:00 p.m.
Tuesday, 5 November 2019 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 5 November 2019, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully, otherwise, your application may be rejected.

HOW TO APPLY FOR PUBLIC OFFER SHARES

By completing and submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Bookrunner (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 Public 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 Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and the Articles of Association;
- (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 Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer 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 of the Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters and/or their respective directors, officers, employees, partners, agents or advisers any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public 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 Public Offer Shares are outside the U.S. (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public 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 HKSCC Nominees on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to deposit any Share certificate(s) into CCASS and/or 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 are eligible to collect 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 and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public 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 or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR PUBLIC OFFER SHARES

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk or the Tricor IPO App.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or in the Tricor IPO App. 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 or the Tricor IPO App, 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

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk or the Tricor IPO App (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 31 October 2019 until 11:30 a.m. on Tuesday, 5 November 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 5 November 2019 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” below.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service 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 Public 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 Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS participant;
- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (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 Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public 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 Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters and/or their respective advisers and agents;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer 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 Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and the 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public 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 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 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 Public Offer Shares. Instructions for more than 5,000 Public 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 Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates ^(Note):

Thursday, 31 October 2019 — 9:00 a.m. to 8:30 p.m.
Friday, 1 November 2019 — 8:00 a.m. to 8:30 p.m.
Saturday, 2 November 2019 — 8:00 a.m. to 1:00 p.m.
Monday, 4 November 2019 — 8:00 a.m. to 8:30 p.m.
Tuesday, 5 November 2019 — 8:00 a.m. to 12:00 noon

Note: These 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.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 31 October 2019 until 12:00 noon on Tuesday, 5 November 2019 (24 hours daily, except on Tuesday, 5 November 2019, the last application day).

HOW TO APPLY FOR PUBLIC OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 5 November 2019, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” below.

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 Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public 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, our Hong Kong Branch Share Registrar, the receiving banker, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Co-lead Managers, the Underwriters and any of their respective directors, officers, employees, partners, agents and advisers 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 Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public 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 Sole Bookrunner, the Sole Lead Manager, the Co-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 Public 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

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Tuesday, 5 November 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through 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 the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Public 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 or in the Tricor IPO App.

If your application is successful, brokerage will be paid to the Stock Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure and Conditions of the Share Offer” of this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above; or
- a “black”rainstorm warning; or
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 5 November 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 5 November 2019 or if there is/are a tropical cyclone warning signal number 8 or above, a “black”rainstorm warning signal or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 14 November 2019 on our Company’s website at www.blg.hk and the Stock Exchange’s website at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers (where appropriate) of successful applicants under the Public Offer 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.blg.hk and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, 14 November 2019;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- from the designated results of allocations websites at www.tricor.com.hk/ipo/result and www.hkeipo.hk/IPOResult or the “Allotment Result” function in the Tricor IPO App with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 14 November 2019 to 12:00 midnight on Wednesday, 20 November 2019;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 14 November 2019 to Tuesday, 19 November 2019 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 14 November 2019 to Monday, 18 November 2019 at all the receiving bank’s designated branches on a business day.

If our Company accepts your offer to purchase (in whole or in part), which it may do so 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 Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Share Offer” of 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 PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). Such 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Bookrunner, 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 Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Stock Exchange does not grant permission to list the 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 Stock Exchange 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) Public Offer Shares and 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 at www.hkeipo.hk or in the Tricor IPO App;
- 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 Sole Bookrunner believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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\$0.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed “Structure and Conditions of the Share Offer — The Public Offer — Conditions of the Public Offer” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, 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, 14 November 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (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 Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public 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 Public 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).

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 Thursday, 14 November 2019. 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).

HOW TO APPLY FOR PUBLIC OFFER SHARES

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Friday, 15 November 2019 provided that the Share Offer has become unconditional and the right of termination described in “Underwriting” 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 Public 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 our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 November 2019 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 our 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 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address specified in your Application Form on Thursday, 14 November 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 14 November 2019, by ordinary post 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 CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as stated in your Application Form on Thursday, 14 November 2019 or, in the event of contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "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, 14 November 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 or more Public Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 November 2019, or such other date as notified by us 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 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 14 November 2019 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 on Thursday, 14 November 2019. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your **electronic application instructions** in the form of refund cheque(s) on Thursday, 14 November 2019 by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(iv) *If you apply via electronic application instructions to HKSCC*

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant on Thursday, 14 November 2019, 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 Public Offer in the manner specified in the paragraph headed “11. Publication of results” above on Thursday, 14 November 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 November 2019 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 Public 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 Public 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, 14 November 2019. Immediately following the credit of the Public 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 Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC

HOW TO APPLY FOR PUBLIC OFFER SHARES

transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 14 November 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM 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 the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEST LINKING GROUP HOLDINGS LIMITED AND LY CAPITAL LIMITED

Introduction

We report on the historical financial information of Best Linking Group Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-50, which comprises the consolidated balance sheets as at 31 December 2017 and 2018 and 30 April 2019, the balance sheets of the Company as at 31 December 2018 and 30 April 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (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-4 to I-50 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 October 2019 (the “**Prospectus**”) in connection with the proposed listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited.

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 presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the 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 accountant's 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 accountant considers 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 presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2018 and 30 April 2019 and the consolidated financial position of the Group as at 31 December 2017 and 2018 and 30 April 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statements of comprehensive income, changes in equity and cash flows for the four months ended 30 April 2018 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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-4 have been made.

Dividends

We refer to note 26 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 31 October 2019

I 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 accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in HK dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		Period ended 30 April	
		2017	2018	2018	2019
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue	5	43,972	46,267	13,422	17,331
Cost of sales	6	<u>(25,452)</u>	<u>(24,559)</u>	<u>(8,376)</u>	<u>(8,886)</u>
Gross profit		18,520	21,708	5,046	8,445
Other income	8	71	942	107	85
Other gains/(losses), net	9	807	(151)	18	3
Selling and distribution expenses	6	(476)	(675)	(164)	(172)
Administrative expenses	6	<u>(4,159)</u>	<u>(9,268)</u>	<u>(1,577)</u>	<u>(8,064)</u>
Operating profit		<u>14,763</u>	<u>12,556</u>	<u>3,430</u>	<u>297</u>
Finance income	11	47	41	13	1
Finance cost	11	<u>(115)</u>	<u>(130)</u>	<u>(44)</u>	<u>(46)</u>
Finance cost, net		<u>(68)</u>	<u>(89)</u>	<u>(31)</u>	<u>(45)</u>
Profit before income tax		14,695	12,467	3,399	252
Income tax expense	12	<u>(2,232)</u>	<u>(2,732)</u>	<u>(598)</u>	<u>(916)</u>
Profit/(loss) for the year/period					
attributable to owners of the Company		<u>12,463</u>	<u>9,735</u>	<u>2,801</u>	<u>(664)</u>

	<i>Note</i>	Year ended 31 December		Period ended 30 April	
		2017	2018	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Other comprehensive income					
Items that may be reclassified to profit or loss					
Currency translation differences	22	<u>1,906</u>	<u>(1,655)</u>	<u>1,027</u>	<u>649</u>
Total comprehensive income/(loss) for the year/period		<u><u>14,369</u></u>	<u><u>8,080</u></u>	<u><u>3,828</u></u>	<u><u>(15)</u></u>
Earnings/(losses) per share for profit/(loss) attributable to equity holders of the Company for the year/period					
Basic and diluted earnings/(losses) per share (expressed in HK\$'000 per share)	13	<u><u>125</u></u>	<u><u>97</u></u>	<u><u>28</u></u>	<u><u>(7)</u></u>

Note: The earnings per share presented above has not been taken into account the proposed capitalisation issue pursuant to the resolutions in writing of the sole shareholder passed on 21 October 2019 because the proposed capitalisation issue has not become effective as at the date of this report.

CONSOLIDATED BALANCE SHEETS

		As at 31 December		As at
		2017	2018	30 April
	Note	HK\$'000	HK\$'000	2019
				HK\$'000
ASSETS				
Non-current assets				
Property, plant and equipment	14	11,763	9,328	8,797
Intangible asset	15	26	—	—
Prepayments and deposits	18	230	18	18
Deferred tax assets	27	6	11	13
		<u>12,025</u>	<u>9,357</u>	<u>8,828</u>
Current assets				
Inventories	19	20,461	27,573	27,158
Trade receivables	17	4,885	3,821	8,262
Prepayments, deposits and other receivables	18	1,738	2,210	4,854
Amount due from a shareholder	28	7,112	—	—
Cash and cash equivalents	20	<u>17,104</u>	<u>6,562</u>	<u>4,312</u>
		<u>51,300</u>	<u>40,166</u>	<u>44,586</u>
Total assets		<u><u>63,325</u></u>	<u><u>49,523</u></u>	<u><u>53,414</u></u>
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	21	—	—	—
Reserves	22	<u>50,995</u>	<u>39,615</u>	<u>39,600</u>
Total equity		<u><u>50,995</u></u>	<u><u>39,615</u></u>	<u><u>39,600</u></u>
LIABILITIES				
Non-current liabilities				
Lease liabilities	23	<u>2,493</u>	<u>2,575</u>	<u>2,685</u>
		<u><u>2,493</u></u>	<u><u>2,575</u></u>	<u><u>2,685</u></u>
Current liabilities				
Trade payables	24	1,450	3,386	4,760
Accruals and other payables	25	1,388	3,313	5,434
Amount due to a shareholder	28	5,755	—	—
Contract liabilities	25	482	—	—
Current income tax liabilities		762	477	843
Lease liabilities	23	<u>—</u>	<u>157</u>	<u>92</u>
		<u><u>9,837</u></u>	<u><u>7,333</u></u>	<u><u>11,129</u></u>
Total liabilities		<u><u>12,330</u></u>	<u><u>9,908</u></u>	<u><u>13,814</u></u>
Total equity and liabilities		<u><u>63,325</u></u>	<u><u>49,523</u></u>	<u><u>53,414</u></u>

BALANCE SHEETS OF THE COMPANY

		As at 31 December 2018 <i>Note</i> <i>HK\$'000</i>	As at 30 April 2019 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Investment in subsidiaries	31	41,888	41,888
Current assets			
Prepayments	18	1,545	3,570
Total assets		<u>43,433</u>	<u>45,458</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	21	—	—
Reserves	22	37,220	31,223
Total equity		<u>37,220</u>	<u>31,223</u>
LIABILITIES			
Current liabilities			
Accruals	25	1,869	4,666
Amount due to subsidiaries	32	4,344	9,569
Total liabilities		<u>6,213</u>	<u>14,235</u>
Total equity and liabilities		<u>43,433</u>	<u>45,458</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000 (Note 21)	Other reserve HK\$'000 (Note 22)	Statutory reserve HK\$'000 (Note 22)	Exchange reserve HK\$'000 (Note 22)	Retained earnings HK\$'000 (Note 22)	
Balance at 1 January 2017	—	13,000	252	(196)	23,570	36,626
Profit for the year	—	—	—	—	12,463	12,463
Other comprehensive income						
Currency translation differences	—	—	—	1,906	—	1,906
Total comprehensive income for the year	—	—	—	1,906	12,463	14,369
Transactions with owners:						
Transfer to statutory reserve	—	—	378	—	(378)	—
	—	—	378	—	(378)	—
Balance at 31 December 2017	<u>—</u>	<u>13,000</u>	<u>630</u>	<u>1,710</u>	<u>35,655</u>	<u>50,995</u>
Balance at 1 January 2018	—	13,000	630	1,710	35,655	50,995
Profit for the year	—	—	—	—	9,735	9,735
Other comprehensive income						
Currency translation differences	—	—	—	(1,655)	—	(1,655)
Total comprehensive income for the year	—	—	—	(1,655)	9,735	8,080
Transactions with owners:						
Transfer to statutory reserve	—	—	592	—	(592)	—
Dividends paid (Note 26)	—	—	—	—	(19,460)	(19,460)
Issuance of ordinary shares pursuant to the Reorganisation (Note 21)	—	—	—	—	—	—
	—	—	592	—	(20,052)	(19,460)
Balance at 31 December 2018	<u>—</u>	<u>13,000</u>	<u>1,222</u>	<u>55</u>	<u>25,338</u>	<u>39,615</u>

	Attributable to owners of the Company					
	Share capital	Other reserve	Statutory reserve	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 21)	(Note 22)	(Note 22)	(Note 22)	(Note 22)	
Balance at 1 January 2019	—	13,000	1,222	55	25,338	39,615
Loss for the period	—	—	—	—	(664)	(664)
Other comprehensive income						
Currency translation differences	—	—	—	649	—	649
Total comprehensive income/(loss) for the period	—	—	—	649	(664)	(15)
Transactions with owners:						
Transfer to statutory reserve	—	—	378	—	(378)	—
	—	—	378	—	(378)	—
Balance at 30 April 2019	<u>—</u>	<u>13,000</u>	<u>1,600</u>	<u>704</u>	<u>24,296</u>	<u>39,600</u>
(Unaudited)						
Balance at 1 January 2018	—	13,000	630	1,710	35,655	50,995
Profit for the period	—	—	—	—	2,801	2,801
Other comprehensive income						
Currency translation differences	—	—	—	1,027	—	1,027
Total comprehensive income for the period	—	—	—	1,027	2,801	3,828
Transactions with owners:						
Transfer to statutory reserve	—	—	29	—	(29)	—
	—	—	29	—	(29)	—
(Unaudited)						
Balance at 30 April 2018	<u>—</u>	<u>13,000</u>	<u>659</u>	<u>2,737</u>	<u>38,427</u>	<u>54,823</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		Period ended 30 April	
		2017	2018	2018	2019
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Cash flows from operating activities					
Cash generated from/(used in) operations	30(a)	15,335	11,995	6,654	(488)
Income tax paid		(2,362)	(3,022)	(184)	(554)
Interest received		47	41	13	1
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from/(used in) operating activities		13,020	9,014	6,483	(1,041)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities					
Purchases of property, plant and equipment		(220)	(485)	(238)	(21)
Prepayment of purchase of property, plant and equipment		(230)	—	—	—
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities		(450)	(485)	(238)	(21)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities					
Advances from a shareholder		6,564	—	—	—
Repayments of advance to a shareholder		(20,038)	(11,044)	(5,755)	—
Payment of lease liabilities		—	(75)	(10)	(55)
Payment of listing expenses to be capitalised into equity		(25)	(1,060)	—	(1,107)
Dividends paid		—	(7,000)	—	—
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in financing activities		(13,499)	(19,179)	(5,765)	(1,162)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
(Decrease)/increase in cash and cash equivalents		(929)	(10,650)	480	(2,224)
Cash and cash equivalents at beginning of the year/period		18,198	17,104	17,104	6,562
Currency translation differences		(165)	108	(94)	(26)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of the year/period		17,104	6,562	17,490	4,312
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

The Company was incorporated in the Cayman Islands on 26 October 2018 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and trading of machinery product (the "**Listing Business**"). The ultimate shareholder of the Group is Mr. Chan Yuk Pan ("**Mr. YP Chan**").

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "**Reorganisation**") as described below, the Listing Business was carried out by Best Linking Limited ("**Best Linking**"), Wing Fung Machinery Company Limited ("**Wing Fung**") and its subsidiary (collectively the "**Operating Companies**").

In preparing for the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation which principally involved the following steps:

- (i) On 14 September 2018, C Centrum Holdings Limited ("**C Centrum**") was incorporated in the British Virgin Islands (the "**BVI**") and one share in C Centrum was allotted and issued to Mr. YP Chan on the same day.
- (ii) On 26 October 2018, the Company was incorporated in the Cayman Islands, and one subscriber share was transferred to C Centrum on the same day at nil consideration.
- (iii) On 14 September 2018, Kyoei Seiki Holdings Limited ("**Kyoei Seiki Holdings**") and Best Linking Holdings Limited ("**Best Linking Holdings**") were incorporated in the BVI. On 1 November 2018, one share in Kyoei Seiki Holdings and Best Linking Holdings were allotted and issued to the Company, respectively.
- (iv) On 21 December 2018, the entire issued shares of Wing Fung were transferred from Mr. YP Chan to Kyoei Seiki Holdings, in consideration of (i) the Company allotting and issuing 49 shares to C Centrum, credited as fully-paid; and (ii) crediting the subscriber share held by C Centrum as fully paid.
- (v) Best Linking was incorporated in Hong Kong and wholly owned by Mr. Chen Hsu Ting ("**Mr. HT Chen**") since 11 October 2010, who is the elder brother of Mr. YP Chan. As part of the family arrangement and for the ease of administration, Mr. HT Chen held the entire issued share of Best Linking for and on behalf of Mr. YP Chan on trust and acted as the nominee director since 11 October 2012. On 21 December 2018, the entire issued share of Best Linking was transferred from Mr. HT Chen (being the legal owner of Best Linking) and Mr. YP Chan (being the beneficial owner of Best Linking) to Best Linking Holdings, at the direction of Mr. YP Chan (being the beneficial owner of Best Linking), in consideration of the Company allotting and issuing 50 shares to C Centrum, credited as fully paid.

After the completion of the Reorganisation steps as described above, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation	Principal activities and place of operation	Issued and paid up capital	Effective equity interest held by the Group			As at the date of this report	Name of statutory auditors	
				31 December 2017	31 December 2018	30 April 2019		2017	2018
Directly held:									
Kyoei Seiki Holdings Limited	The BVI, 14 September 2018	Investment holding in the BVI	US\$1	N/A	100%	100%	100%	N/A	(a)
Best Linking Holdings Limited	The BVI, 14 September 2018	Investment holding in the BVI	US\$1	N/A	100%	100%	100%	N/A	(a)
Indirectly held:									
Wing Fung Machinery Company Limited	Hong Kong, 10 November 2005	Investment holding in Hong Kong	HK\$13,000,000	100%	100%	100%	100%	(b)	(b)
Best Linking Limited	Hong Kong, 15 September 2010	Trading of machinery products in Hong Kong	HK\$1	100%	100%	100%	100%	(b)	(b)
Kyoei Seiki Co., Limited	The PRC, 5 September 2007	Manufacturing of machinery products in the PRC	HK\$20,000,000	100%	100%	100%	100%	(c)	(c)

- (a) No audited statutory financial statements have been issued for the subsidiary as it is not required to issue audited financial statements under the statutory requirement of its place of incorporation.
- (b) The statutory auditor for the years ended 31 December 2017 and 2018 was Messrs. Paul W.C. Ho & Company. The statutory financial statements for the year ended 31 December 2018 have not yet been issued.
- (c) The statutory auditor for the years ended 31 December 2017 and 2018 was Dongguan Huarui Certified Public Accountants Co., Ltd (東莞市華瑞會計師事務所). The statutory financial statements for the year ended 31 December 2018 have not yet been issued.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is held by and conducted through the Operating Companies. Pursuant to the Reorganisation, the Listing Business are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owner of the Listing Business remains the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under the Operating Companies and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of the Operating Companies, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business under the consolidated financial statements of the Operating Companies for all periods presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

HKFRS 9, ‘Financial instruments’ (“**HKFRS 9**”) and HKFRS 15, ‘Revenue from contracts with customers’ (“**HKFRS 15**”) are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. HKFRS 16 ‘Leases’ (“**HKFRS 16**”) is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Group has applied HKFRS 9, HKFRS 15 and HKFRS 16 consistently throughout the Track Record Period.

The following new standards and amendments to existing standards have been issued but are not yet effective and have not been early adopted by the Group.

		Effective for accounting period beginning on or after
HKFRS 3 (Amendment)	Definition of a Business	1 January 2020
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 17	Insurance contracts	1 January 2021
HKAS 1 and HKAS 8 (Amendment)	Definition of Material	1 January 2020
Conceptual Framework for Financial Reporting 2018		1 January 2020

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has the control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interests recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in statements of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for by the Company at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Historical Financial Information of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors who make strategic decisions.

2.4 Foreign currency translation*(i) Functional and presentation currency*

Items included in the Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in Hong Kong dollars ("HK\$"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the consolidated statements of comprehensive income.

All foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'other gains/(losses), net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

The results and financial positions of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation of property and equipment is calculated using the straight line method to allocate their cost to their residual values over its estimated useful lives, as follows:

Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses), net' in the consolidated statements of comprehensive income.

Right-of-use assets included the rights to use certain properties under leases which are measured at cost. The initial costs of right-of-use assets include the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2.6 Intangible assets

Intangible assets comprise system software, acquired computer software are capitalised on the basis of the cost incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful life of 3 years. Cost associated with maintaining computer software programs are recognised as an expense as incurred.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(i) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represented solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other gains/(losses), net' together with foreign exchange gains and losses.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'other gains/(losses), net.' Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'other gains/(losses), net' and impairment expenses are presented as separate line item in the statement of profit or loss.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss ("FVTPL"). A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within 'other gains/(losses), net' in the period in which it arises.

2.9 Impairment of financial assets

The Group assess on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3 details how the Group determines whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimation of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

2.10 Financial liabilities*(a) Classification and measurement*

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(b) Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include deposits held at call with banks and cash on hand.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.18 Employee benefits*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

The Group contributed to a mandatory provident fund scheme (the "MPF Scheme") which is a defined contribution plan and is available to all employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The MPF Scheme cost charged to profit or loss represents contributions payable by the Group to the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Full time employees of the Group's PRC entity participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other these benefits based on certain percentage of the employees' salaries. Full time employees who have passed the probation period are entitled to such benefits.

The Group has no further payment obligations once the contributions have been paid. The contribution are recognised as employee benefit expenses when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) *Bonus plans*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to anyone item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods in the ordinary course of the Group's activities.

Revenue is recognised when or as the control of the good is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good may be transferred over time or at a point in time.

Control of the good is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer,
- creates or enhances an asset that the customer controls as the Group performs; or
- 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 goods 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 goods. Specific criteria where revenue is recognised are described below.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

The Group manufactures and sells a range of machinery products to customers. Sales of goods transferred at a point in time are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the usage of the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. No element of financing is deemed present as the sales are made with a credit term of 30–90 days, which is consistent with market practice.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers the promised goods to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer the promised goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

2.24 Leases

The Group leases production factory in PRC and office in Hong Kong. Property leases are typically made for fixed periods of two to ten years. Lease terms are negotiated on an individual basis and contain various terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Property leases are recognised as right-of-use assets (included in property, plant and equipment) and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payment are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise IT-equipment and small items of office furniture.

Extension options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. All extension options held are exercisable only by the Group and not by the respective Lessor. The Group considers all facts and circumstances that create an economic incentive to exercise an extension option in determining the lease term. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects the assessment.

2.25 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Historical Financial Information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.26 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods.

3 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, cash flow and fair value interest rate risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollars ("USD") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in these currencies. Since Hong Kong dollar ("HKD") is pegged to USD, the Group believes the exposure of transactions denominated in USD which are entered into the by Group to be insignificant.

During the Track Record Period, the Group has not entered into any derivative instruments to hedge its foreign exchange exposures.

As at 31 December 2017 and 2018 and 30 April 2019, if USD has strengthened/weakened by 5% against RMB, with all other variables held constant, the post-tax profit for the year/period would have change mainly as a result of foreign exchange gains/losses on translation of USD denominated on cash and cash equivalents, trade and other receivables and trade and other payables.

	Year ended 31 December		Period ended
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Post-tax profit (decrease)/increase			
— Strengthened 5%	105	33	283
— Weakened 5%	(105)	(33)	(283)

(ii) Credit risk

Credit risk of the Group mainly arises from trade receivables, deposits and other receivables, amount due from a shareholder and cash and cash equivalents. Majority of bank deposits are placed with reputable banks and financial institutions. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

The Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the shareholder are of the opinion that adequate provision for uncollectible receivables has been made.

The carrying amounts of trade receivables, deposits and other receivables, amount due from a shareholder and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets.

For the years ended 31 December 2017 and 2018 and the period ended 30 April 2019, 52%, 66% and 78%, respectively, of the Group's revenue was derived from its top five customers. As at 31 December 2017 and 2018 and 30 April 2019, 48%, 48% and 27% of the total trade receivables were due from the Group's top five customers, respectively.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly represented the rental deposits and prepayment paid to suppliers for acquisition of property, plant and equipment. They are assessed by reference to the historical information about counterparty default rates. The Group has reviewed the credit quality of these counterparties. The Group believes that the credit risk in relation to the prepayments, deposits and other receivables are minimal.

The credit risk on amount due from a shareholder are limited because management does not expect any loss from non-performance by the shareholder. The amount due from a shareholder was fully settled as at 31 December 2018.

Cash and cash equivalents

As at 31 December 2017 and 2018 and 30 April 2019, substantially all of the Group's bank deposits were deposited with major financial institutions, which management believes are of high-credit-quality without significant credit risk.

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

As at 31 December 2017 and 2018 and 30 April 2019, management considered the credit risk characteristics and the days past due of the trade receivables to measure the expected credit loss. For the past due trade receivables as at 31 December 2017 and 2018 and 30 April 2019, the Group has assessed that the expected credit loss rate for these trade receivables are immaterial by closely monitoring the credit qualities, collectability of these receivables considering historical default rates, existing market conditions and forward-looking information. The Group recognised lifetime expected credit loss for trade receivables carried at amortised cost based on either individually customers who are long overdue with significant amounts or known insolvencies or non-response to collection activities, or collectively assessing them for likelihood of recovery based on ageing of the balances with similar risk characteristics taking into account the forward looking information. Management does not expect any significant losses to be incurred from non-performance by these counterparties because of their good repayment history. Thus, the loss allowance provision recognised during the Track Record Period for these balances are close to zero.

(iii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets or liabilities except for cash and cash equivalents. Therefore, the interest rate risk are minimal.

Therefore, our Group's income and operating cash flows are less dependent on changes in market interest rates. Accordingly, our directors are of the opinion that our Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Our Group's liquidity risk is further mitigated through the availability of financing through its own cash resources to meet its financial commitments. In the opinion of our directors, our Group does not have any significant liquidity risk.

The following tables show the remaining contractual maturities at the end of each reporting period of our Group's financial liabilities based on contractual undiscounted cash flows and the earliest date our Group can be required to pay. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	Repayable on demand HK\$'000	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
As at 31 December 2017						
— Trade payables	—	1,450	—	—	—	1,450
— Accruals and other payables	—	1,096	—	—	—	1,096
— Lease liabilities	—	—	—	1,424	1,813	3,237
— Amount due to a shareholder	5,755	—	—	—	—	5,755
	<u>5,755</u>	<u>2,546</u>	<u>—</u>	<u>1,424</u>	<u>1,813</u>	<u>11,538</u>
As at 31 December 2018						
— Trade payables	—	3,386	—	—	—	3,386
— Accruals and other payables	—	2,125	—	—	—	2,125
— Lease liabilities	—	166	459	1,476	1,229	3,330
	<u>—</u>	<u>5,677</u>	<u>459</u>	<u>1,476</u>	<u>1,229</u>	<u>8,841</u>
As at 30 April 2019						
— Trade payables	—	4,760	—	—	—	4,760
— Accruals and other payables	—	4,857	—	—	—	4,857
— Lease liabilities	—	198	548	1,508	1,088	3,342
	<u>—</u>	<u>9,815</u>	<u>548</u>	<u>1,508</u>	<u>1,088</u>	<u>12,959</u>

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

As at 31 December 2017 and 2018 and 30 April 2019, the Group did not have any debt owed to other party.

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets, including trade receivables, amount due from a shareholder, deposits and other receivables, cash and cash equivalents, and current financial liabilities, including trade payables and accruals and other payables, lease liabilities and amount due to a shareholder approximate their fair values as at the reporting date due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of inventories

The Group makes provision for inventories based on an assessment of the realisability of inventories. Provisions are recognised where events or changes in circumstances indicate that the carrying value of inventories may not be realised. The identification of provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and provision for inventories in the period in which such estimate has been changed.

(b) Impairment of right of use assets

The Group leased land and buildings in the PRC for the purposes of its office premises and manufacturing plant under an operating lease of 10 years where the Group's right of use assets were without land and property ownership certificates and the construction planning permit. Without the certificates and permit, the existing land and buildings might be ordered for demolition or confiscated and the lease may be deemed as invalid. Our directors are of the opinion, based on the advice from the Group's external legal adviser, that the title defect of the leased land and buildings does not affect the operation of production facility of the Group. It is unlikely to be terminated or interrupted or to have a material effect on the carrying amount of the right of use assets which was included in right of use assets totalling HK\$3,638,000, HK\$3,048,000 and HK\$2,975,000 as at 31 December 2017 and 2018 and 30 April 2019 respectively.

(c) Income taxes

The Group is subject to income taxes mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

(d) Loss allowance of receivables

The Group makes provision for impairment of receivables based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical default rates, existing market conditions as well as forward looking estimates at the end of each reporting period. The Group recognised lifetime expected credit loss for trade receivables carried at amortised cost based on either individually customers who are long overdue with significant amounts or known insolvencies or non-response to collection activities, or collectively assessing them for likelihood of recovery based on ageing of the balances with similar risk characteristics taking into account the forward looking information. The identification of impairment of

receivables requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivables recognised in the periods in which such estimates have been changed.

5 REVENUE AND SEGMENT INFORMATION

The CODM have been identified as the executive directors of our Company. Management has determined the operating segments based on the information reviewed by our executive director for the purpose of allocating resources and assessing performance. The only component in internal reporting to the executive directors is our Group's manufacturing of machinery products for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019. In this regard, management considers there is only one operating segment under the requirements of HKFRS 8 operating segment.

Our directors assess the performance of the operating segment based on a measure of revenue and gross profit.

During the Track Record Period, all of our Group's revenues are from contracts with customers and are recognised at a point in time. Please refer to note 2.21 for details of accounting policies on revenue recognition.

(a) Revenue from major customers who have individually contributed to 10% or more of the total revenue of the Group

For the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019, there were 1, 3, 3 and 3 customers, respectively, which individually contributed over 10% of our Group's total revenue. During the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019, the revenue contributed from our major customers were as follows:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Customer A	10,937	9,431	1,578	5,722
Customer B	3,632	8,779	2,622	1,168
Customer C	1,522	5,762	2,382	3,062
Customer D	1,366	3,508	—	2,002

(b) Segment revenue by customers' geographical location

Our Group is domiciled in the PRC and Hong Kong. Our Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Singapore	17,575	24,082	6,691	9,953
Hong Kong	7,232	6,445	2,553	789
Malaysia	1,536	5,603	1,902	3,567
The PRC	4,850	3,153	739	958
Northern Ireland	772	2,350	686	—
The United States of America ("USA")	3,846	1,312	—	744
Japan	2,976	961	178	409
Thailand	2,533	734	23	—
Others	2,652	1,627	650	911
	43,972	46,267	13,422	17,331

Others include Taiwan, Canada, Turkey, the Philippines and New Zealand.

(c) Details of contract liabilities (Note 25)

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Contract liabilities	482	—	—

Note:

As at 31 December 2017 and 2018 and 30 April 2019, contract liabilities represent advanced payments received from the customers for goods that have not yet been transferred to the customers, the contract liabilities mainly included the advance payments received from sale of machinery products. The contract liabilities fluctuate during the Track Record Period due to fluctuation in sales with advanced payments.

During the years ended 31 December 2017 and 2018 and the period ended 30 April 2019, all brought-forward contract liabilities at the beginning of the financial year were fully recognised as revenue.

	Year ended 31 December		Period ended
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year/period			
Sales contracts	398	482	—

As at 31 December 2017 and 2018 and 30 April 2019, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations were not disclosed.

(d) Non-current assets by geographical location

The total amounts of non-current assets by location are as follows:

	Year ended 31 December		Period ended
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
The PRC	12,025	9,096	8,618
Hong Kong	—	261	210
	12,025	9,357	8,828

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Year ended 31 December		Period ended 30 April	
	2017 HK\$'000	2018 HK\$'000	2018 HK\$'000 (Unaudited)	2019 HK\$'000
Cost of inventories and consumable (<i>Note 19</i>)	18,888	15,886	6,011	6,186
Employee benefit expenses, including directors' emoluments (<i>Note 7</i>)	4,887	6,987	1,973	2,611
Amortisation (<i>Note 15</i>)	26	26	9	—
Depreciation (<i>Note 14</i>)	2,899	2,871	950	747
Listing expenses	75	4,681	—	5,875
Legal and professional fees	181	7	—	123
Auditors' remuneration				
— Audit services	47	127	42	42
— Non-audit services	—	—	—	—
Utilities	639	896	224	271
Transportation expenses	581	1,158	304	147
Other expenses	1,864	1,863	604	1,120
	<u>30,087</u>	<u>34,502</u>	<u>10,117</u>	<u>17,122</u>
Total cost of sales, selling and distribution expenses and administrative expenses				

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		Period ended 30 April	
	2017 HK\$'000	2018 HK\$'000	2018 HK\$'000 (Unaudited)	2019 HK\$'000
Wages, salaries, bonuses and other benefits	4,531	6,539	1,833	2,405
Pension costs — defined contribution plans	329	423	134	187
Mandatory provident fund scheme	27	25	6	19
	<u>4,887</u>	<u>6,987</u>	<u>1,973</u>	<u>2,611</u>

Five highest paid individuals

The five individuals whose remuneration were the highest in the Group include 1, 1, 1 and 1 director for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019 respectively, whose remuneration are reflected in the analysis presented in Note 10(a) below.

The remuneration paid to the remaining 4, 4, 4 and 4 individuals for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019 respectively, are as follows:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Wages, salaries, bonuses and other benefits	510	545	188	301
Pension costs — defined contribution plans (Note)	8	9	3	4
Mandatory provident fund scheme	8	7	2	8
	<u>526</u>	<u>561</u>	<u>193</u>	<u>313</u>

The emolument of the highest paid individuals fell within the following bands:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
			(Unaudited)	
Emolument band				
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the Track Record Period.

8 OTHER INCOME

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Sales of scrapped materials	71	481	107	85
Government grants	—	415	—	—
Sundry income	—	46	—	—
	<u>71</u>	<u>942</u>	<u>107</u>	<u>85</u>

9 OTHER GAINS/(LOSSES), NET

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Exchange differences, net	<u>807</u>	<u>(151)</u>	<u>(18)</u>	<u>3</u>

10 BENEFITS AND INTERESTS OF DIRECTOR

(a) Directors' emoluments

The remuneration of the directors of our Company paid and payable by our Group for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019 are set out below:

For the year ended 31 December 2017:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Executive directors:						
Mr. YP Chan (<i>Chairman and Chief Executive Officer</i>)	—	781	—	—	18	799
Mr. Chan Lung Pan	—	—	—	—	—	—

For the year ended 31 December 2018:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Executive directors:						
Mr. YP Chan (<i>Chairman and Chief Executive Officer</i>)	—	760	—	—	18	778
Mr. Chan Lung Pan	—	—	—	—	—	—

For the period ended 30 April 2018:

Name	Fees HK\$'000 (Unaudited)	Salary HK\$'000 (Unaudited)	Discretionary bonuses HK\$'000 (Unaudited)	Allowances and benefits in kind HK\$'000 (Unaudited)	Employer's contribution to pension scheme HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Executive directors:						
Mr. YP Chan (<i>Chairman and Chief Executive Officer</i>)	—	249	—	—	6	255
Mr. Chan Lung Pan	—	—	—	—	—	—

For the period ended 30 April 2019:

Name	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Allowances and benefits in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Executive directors:						
Mr. YP Chan (<i>Chairman and Chief Executive Officer</i>)	—	306	—	—	8	314
Mr. Chan Lung Pan	—	62	—	—	3	65

The remuneration shown above represents remuneration received from our Group by these directors in their capacity as employee to the subsidiaries of our Group and no directors waived any emolument during the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019.

Mr. YP Chan was appointed as the Company's director on 26 October 2018 and re-designated as an executive director on 12 March 2019.

Mr. Chan Lung Pan was appointed as the Company's executive director on 12 March 2019.

Mr. Chan Wan Tsun Adrian Alan, Ms. Tsang Hau Lam and Ms. Tam Ho Ting were appointed as independent non-executive directors of the Company on 21 October 2019. During the Track Record Period, the independent non-executive directors had not yet been appointed and received nil directors' remuneration in the capacity of directors.

(b) Directors' retirement benefits

None of our directors received or will receive any retirement benefits during the Track Record Period.

(c) Directors' termination benefits

None of our directors received or will receive any termination benefits during Track Record Period.

(d) Consideration provided to third parties for making available directors services

During the Track Record Period, our Group did not pay consideration to any third parties for making available directors' services.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the Track Record Period, save as disclosed in Note 29, there is no loans, quasi-loans and other dealing arrangements in favour of directors, or controlled bodies corporate by and connected entities with such directors.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to our Group's business to which our Group was a party and in which a director of our Company had a material interest, whether directly to indirectly; subsisted at the end of the year or at any time during the Track Record Period.

11 FINANCE COST, NET

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Finance income				
Interest income on cash and cash equivalents	47	41	13	1
Finance cost				
Interest expenses on lease liabilities	(115)	(130)	(44)	(46)
Finance cost, net	<u>(68)</u>	<u>(89)</u>	<u>(31)</u>	<u>(45)</u>

12 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statements of comprehensive income represents:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Current income tax				
— PRC enterprise income tax	474	904	89	565
— Hong Kong profits tax	<u>1,762</u>	<u>1,833</u>	<u>511</u>	<u>353</u>
Total current income tax	<u>2,236</u>	<u>2,737</u>	<u>600</u>	<u>918</u>
Deferred income tax (Note 27)	<u>(4)</u>	<u>(5)</u>	<u>(2)</u>	<u>(2)</u>
Income tax expense	<u><u>2,232</u></u>	<u><u>2,732</u></u>	<u><u>598</u></u>	<u><u>916</u></u>

(i) Hong Kong profits tax

Income tax on profits arising from Hong Kong has been calculated on the estimated assessable profits at the rate of approximately 16.5% for the year ended 31 December 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying group entity in Hong Kong will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

The profits of group entity in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Accordingly, effective from the year ended 31 December 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits for the Group's qualifying entity and at 16.5% on the estimated assessable profits above HK\$2 million.

(ii) The PRC enterprise income tax (“EIT”)

Under the Enterprise Income Tax Law of the PRC (the “**EIT Law**”), the applicable income tax rate for Kyoei Seiki in the PRC is 25%.

Pursuant to the New EIT Law, with respect to a new and high technology enterprise, the tax levied on its income will be charged at a preferential rate of 15% after obtaining the High New Technology Enterprise Certificate (the “**Certificate**”) and completing the tax reduction and exemption filing with the tax authorities. Kyoei Seiki obtained the Certificate on 9 November 2017 and the Certificate will expire on 8 November 2020.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the Group entities as follows:

	Year ended 31 December		Period ended 30 April	
	2017 HK\$'000	2018 HK\$'000	2018 HK\$'000 (Unaudited)	2019 HK\$'000
Profit before income tax	14,695	12,467	3,399	252
Tax calculated at tax rates applicable to profits of the respective subsidiaries	2,363	1,951	559	(23)
Expenses not deductible for tax purposes	190	954	45	1,039
Research and development tax credit (Note a)	(160)	(172)	(5)	(100)
Income not subject to tax	(161)	(1)	(1)	—
Income tax expense	2,232	2,732	598	916

The weighted average applicable tax rate were 15.2%, 21.9%, 17.4% and 363.5% for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019 respectively.

- (a) According to relevant laws and regulations promulgated by the State Tax Bureaus of the PRC, enterprises engaging in research and development activities are entitled to claim 75% of the research and development expenses from 1 January 2017 to 31 December 2019.
- (b) During the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019, as a result of the Group's subsidiary in the PRC qualifying for High New Technology Enterprise status the applicable tax rate of the Group's subsidiary in the PRC is 15% for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019.
- (c) As at 31 December 2017 and 2018 and 30 April 2019, deferred income tax liabilities of approximately HK\$562,000, HK\$1,120,000 and HK\$1,265,000, respectively have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries in the PRC of approximately HK\$5,620,000, HK\$11,201,000 and HK\$12,650,000 respectively, as our directors considered that the timing of the reversal of the related temporary differences can be controlled and the related temporary difference will not be reversed and will not be taxable in the foreseeable future.

13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of our Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019.

In determining the weighted average number of shares in issue during the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019, 100 shares were deemed to have been in issued on 1 January 2017 as if our Company has been incorporated by then.

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018 (Unaudited)	2019
Profit/(loss) attributable to equity holders of our Company (HK\$'000)	12,463	9,735	2,801	(664)
Weighted average number of shares in issue	100	100	100	100
Basic earnings/(losses) per share (HK\$'000) (Note)	125	97	28	(7)

Note:

Diluted earnings per share for the years ended 31 December 2017 and 2018 and the periods ended 30 April 2018 and 2019 were the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years/periods.

The earnings per share presented above has not been taken into account the proposed capitalisation issue pursuant to the resolutions in writing of the sole shareholder passed on 21 October 2019 because the proposed capitalisation issue has not become effective as at the date of this report.

14 PROPERTY PLANT AND EQUIPMENT

	Office equipment <i>HK\$'000</i>	Right of use assets <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017					
Cost	946	3,966	21,532	789	27,233
Accumulated depreciation	(585)	(198)	(14,477)	(631)	(15,891)
Net book amount	<u>361</u>	<u>3,768</u>	<u>7,055</u>	<u>158</u>	<u>11,342</u>
Year ended 31 December 2017					
Opening net book amount	361	3,768	7,055	158	11,342
Additions	88	—	2,362	—	2,450
Depreciation	(149)	(411)	(2,181)	(158)	(2,899)
Exchange difference	26	281	563	—	870
Closing net book amount	<u>326</u>	<u>3,638</u>	<u>7,799</u>	<u>—</u>	<u>11,763</u>
At 31 December 2017					
Cost	1,113	4,279	25,681	789	31,862
Accumulated depreciation	(787)	(641)	(17,882)	(789)	(20,099)
Net book amount	<u>326</u>	<u>3,638</u>	<u>7,799</u>	<u>—</u>	<u>11,763</u>
Year ended 31 December 2018					
Opening net book amount	326	3,638	7,799	—	11,763
Additions	79	315	546	—	940
Depreciation	(146)	(495)	(2,230)	—	(2,871)
Exchange difference	(13)	(167)	(324)	—	(504)
Closing net book amount	<u>246</u>	<u>3,291</u>	<u>5,791</u>	<u>—</u>	<u>9,328</u>
At 31 December 2018					
Cost	1,133	4,379	24,914	—	30,426
Accumulated depreciation	(887)	(1,088)	(19,123)	—	(21,098)
Net book amount	<u>246</u>	<u>3,291</u>	<u>5,791</u>	<u>—</u>	<u>9,328</u>

	Office equipment <i>HK\$'000</i>	Right of use assets <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Period ended 30 April 2019					
Opening net book amount	246	3,291	5,791	—	9,328
Additions	10	—	11	—	21
Depreciation	(39)	(191)	(517)	—	(747)
Exchange difference	5	66	124	—	195
	<u>222</u>	<u>3,166</u>	<u>5,409</u>	<u>—</u>	<u>8,797</u>
Closing net book amount	<u>222</u>	<u>3,166</u>	<u>5,409</u>	<u>—</u>	<u>8,797</u>
At 30 April 2019					
Cost	1,167	4,466	25,459	—	31,092
Accumulated depreciation	(945)	(1,300)	(20,050)	—	(22,295)
	<u>222</u>	<u>3,166</u>	<u>5,409</u>	<u>—</u>	<u>8,797</u>
Net book amount	<u>222</u>	<u>3,166</u>	<u>5,409</u>	<u>—</u>	<u>8,797</u>
(Unaudited) Period ended 30 April 2018					
Opening net book amount	326	3,638	7,799	—	11,763
Additions	34	110	507	—	651
Depreciation	(55)	(156)	(739)	—	(950)
Exchange difference	11	133	284	—	428
	<u>316</u>	<u>3,725</u>	<u>7,851</u>	<u>—</u>	<u>11,892</u>
Closing net book amount	<u>316</u>	<u>3,725</u>	<u>7,851</u>	<u>—</u>	<u>11,892</u>
(Unaudited) At 30 April 2018					
Cost	1,188	5,337	27,131	—	33,656
Accumulated depreciation	(872)	(1,612)	(19,280)	—	(21,764)
	<u>316</u>	<u>3,725</u>	<u>7,851</u>	<u>—</u>	<u>11,892</u>
Net book amount	<u>316</u>	<u>3,725</u>	<u>7,851</u>	<u>—</u>	<u>11,892</u>

The right of use assets represents the lease on production factory in the PRC and office and carpark in Hong Kong.

During the Track Record Period, the amounts of depreciation expense charged to cost of sales and administrative expenses are as follows:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Unaudited)</i>	
Cost of sales	2,507	2,496	823	658
Administrative expenses	392	375	127	89
	<u>2,899</u>	<u>2,871</u>	<u>950</u>	<u>747</u>

15 INTANGIBLE ASSET

	Computer software <i>HK\$'000</i>
At 1 January 2017	
Cost	75
Accumulated amortisation	<u>(26)</u>
Net book amount	<u><u>49</u></u>
Year ended 31 December 2017	
Opening net book amount	49
Amortisation (<i>Note 6</i>)	(26)
Exchange difference	<u>3</u>
Closing net book amount	<u><u>26</u></u>
At 31 December 2017	
Cost	78
Accumulated amortisation	<u>(52)</u>
Net book amount	<u><u>26</u></u>
Year ended 31 December 2018	
Opening net book amount	26
Amortisation (<i>Note 6</i>)	(26)
Exchange difference	<u>—</u>
Closing net book amount	<u><u>—</u></u>
At 31 December 2018	
Cost	78
Accumulated amortisation	<u>(78)</u>
Net book amount	<u><u>—</u></u>
Period ended 30 April 2019	
Opening net book amount	—
Amortisation (<i>Note 6</i>)	—
Exchange difference	<u>—</u>
Closing net book amount	<u><u>—</u></u>
At 30 April 2019	
Cost	78
Accumulated amortisation	<u>(78)</u>
Net book amount	<u><u>—</u></u>

Amortisation was included in administrative expenses in the consolidated statements of comprehensive income.

16 FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial instruments include the following:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Financial assets:			
Assets at amortised cost as per consolidated balance sheets			
Trade receivables	4,885	3,821	8,262
Deposits and other receivables	326	236	413
Amount due from a shareholder	7,112	—	—
Cash and cash equivalents	17,104	6,562	4,312
	<u>29,427</u>	<u>10,619</u>	<u>12,987</u>
Financial liabilities:			
Liabilities at amortised cost as per consolidated balance sheets			
Trade payables	1,450	3,386	4,760
Lease liabilities	2,493	2,732	2,777
Amount due to a shareholder	5,755	—	—
Accruals and other payables	1,096	2,125	4,857
	<u>10,794</u>	<u>8,243</u>	<u>12,394</u>

17 TRADE RECEIVABLES

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Trade receivables	<u>4,885</u>	<u>3,821</u>	<u>8,262</u>

As at 31 December 2017 and 2018 and 30 April 2019, the carrying amounts of trade receivables approximated their fair values.

The Group's sales are on credit terms primarily from 30 days to 90 days.

As at 31 December 2017 and 2018 and 30 April 2019, the ageing analysis of the trade receivables, based on invoice date, are as follows:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Up to 30 days	3,668	1,967	5,715
31–60 days	656	784	1,024
61–90 days	6	1,070	759
91–120 days	555	—	764
	<u>4,885</u>	<u>3,821</u>	<u>8,262</u>

The carrying amounts of the Group's trade receivables were denominated in the following currencies:

	As at 31 December		As at 30 April
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
USD	4,196	2,891	7,256
RMB	479	930	836
HK\$	210	—	170
	<u>4,885</u>	<u>3,821</u>	<u>8,262</u>

The maximum exposure to credit risk as at 31 December 2017 and 2018 and 30 April 2019 was the carrying value of the receivables mentioned above. The Group does not hold any collateral as security.

18 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current				
Prepayments for purchase of property, plant and equipment	230	—	—	—
Rental deposits	—	18	—	—
	<u>230</u>	<u>18</u>	<u>—</u>	<u>—</u>
Current				
Deposits and other receivables	326	241	—	—
Prepayments of inventories	1,187	424	—	—
Prepayments for listing expenses	225	1,545	1,545	3,570
	<u>1,738</u>	<u>2,210</u>	<u>1,545</u>	<u>3,570</u>
Total prepayments, deposits and other receivables	<u>1,968</u>	<u>2,228</u>	<u>1,545</u>	<u>3,570</u>

The listing expenses are incurred in connection with the listing of the Group and will be deducted from equity upon listing of the Group.

The carrying amounts of the Group's and Company prepayments, deposits and other receivables were denominated in the following currencies:

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RMB	1,736	404	45	114
HK\$	232	1,523	1,500	3,368
USD	—	295	—	88
JPY	—	6	—	—
	<u>1,968</u>	<u>2,228</u>	<u>1,545</u>	<u>3,570</u>

19 INVENTORIES

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Raw materials	8,686	9,680	8,707
Work in progress	2,223	4,602	4,269
Finished goods	9,552	13,291	14,182
	<u>20,461</u>	<u>27,573</u>	<u>27,158</u>

The cost of inventories and consumables recognised as expense and included in cost of sales during the years ended 31 December 2017 and 2018 and the period ended 30 April 2019 amounted to HK\$18,888,000, HK\$15,886,000 and HK\$6,186,000 respectively (*Note 6*).

20 CASH AND CASH EQUIVALENTS

	Group		
	As at		As at
	31 December		30 April
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
Cash at banks	16,612	6,512	4,270
Cash on hand	492	50	42
	<u>17,104</u>	<u>6,562</u>	<u>4,312</u>
Cash and cash equivalents			
	<u>17,104</u>	<u>6,562</u>	<u>4,312</u>
Maximum exposure to credit risk	16,612	6,512	4,270
	<u>16,612</u>	<u>6,512</u>	<u>4,270</u>

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		
	As at		As at
	31 December		30 April
	2017	2018	2019
	HK\$'000	HK\$'000	HK\$'000
HK\$	3,326	1,098	1,292
USD	6,925	5,151	2,179
RMB	1,222	313	841
Australian dollar	3,309	—	—
Japanese Yen	2,322	—	—
	<u>17,104</u>	<u>6,562</u>	<u>4,312</u>

Cash at banks earned interest at floating rates based on daily bank deposits rate. As at 31 December 2017 and 2018 and 30 April 2019, the carrying amounts of cash and cash equivalents approximated their fair values.

As 31 December 2017 and 2018 and 30 April 2019, approximately HK\$2,830,000, HK\$959,000 and HK\$1,404,000 of the Group's cash and cash equivalents were placed with banks in the PRC denominated in RMB or USD, which is subject to foreign exchange control regulations of the PRC.

The Company

Cash and cash equivalents represent cash at banks and denominated in HK\$.

21 SHARE CAPITAL

The Group and the Company	Note	Number of ordinary shares	Nominal value of ordinary share HK\$
Authorised:			
As at 26 October 2018 (date of incorporation) (note 1.2 (ii))	(a)	38,000,000	380,000
At 31 December 2018 and 30 April 2019		<u>38,000,000</u>	<u>380,000</u>
Issued and paid:			
Issuance of ordinary share at date of incorporation (note 1.2 (ii))	(a)	1	—*
Issue of ordinary shares pursuant to the Reorganisation (note 1.2 (iv))	(b)	<u>99</u>	<u>1</u>
As 31 December 2018 and 30 April 2019		<u>100</u>	<u>1</u>

* denoted value of HK\$0.01

- (a) The Company was incorporated on 26 October 2018 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each upon incorporation, 38,000,000 ordinary shares of HK\$0.01 were issued at par.
- (b) Pursuant to directors resolution passed on 21 December 2018, 99 ordinary shares of HK\$0.01 each, were issued and allotted at par value.

22 RESERVES

Group

	Attributable to owners of the Company					
	Combined capital HK\$'000 (Note a)	Capital reserve HK\$'000	Statutory reserve HK\$'000 (Note c)	Exchange reserve HK\$'000 (Note d)	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 January 2017	13,000	—	252	(196)	23,570	36,626
Profit for the year	—	—	—	—	12,463	12,463
Other comprehensive income						
Currency translation differences	—	—	—	1,906	—	1,906
Total comprehensive income for the year	—	—	—	1,906	12,463	14,369
Transactions with owners:						
Transfer to statutory reserve (Note c)	—	—	378	—	(378)	—
	—	—	378	—	(378)	—
Balance at 31 December 2017	<u>13,000</u>	<u>—</u>	<u>630</u>	<u>1,710</u>	<u>35,655</u>	<u>50,995</u>
Balance at 1 January 2018	13,000	—	630	1,710	35,655	50,995
Profit for the year	—	—	—	—	9,735	9,735
Other comprehensive income						
Currency translation differences	—	—	—	(1,655)	—	(1,655)
Total comprehensive income for the year	—	—	—	(1,655)	9,735	8,080
Transactions with owners:						
Transfer to statutory reserve (Note c)	—	—	592	—	(592)	—
Dividends paid (Note 26)	—	—	—	—	(19,460)	(19,460)
Issuance of ordinary shares pursuant to the Reorganisation	(13,000)	13,000	—	—	—	—
	(13,000)	13,000	592	—	(20,052)	(19,460)
Balance at 31 December 2018	<u>—</u>	<u>13,000</u>	<u>1,222</u>	<u>55</u>	<u>25,338</u>	<u>39,615</u>

	Attributable to owners of the Company					Total HK\$'000
	Combined capital HK\$'000 (Note a)	Capital reserve HK'000	Statutory reserve HK\$'000 (Note c)	Exchange reserve HK\$'000 (Note d)	Retained earnings HK\$'000	
Balance at 1 January 2019	—	13,000	1,222	55	25,338	39,615
Profit for the period	—	—	—	—	(664)	(664)
Other comprehensive income						
Currency translation differences	—	—	—	649	—	649
Total comprehensive income for the period	—	—	—	649	(664)	(15)
Transactions with owners:						
Transfer to statutory reserve (Note c)	—	—	378	—	(378)	—
	—	—	378	—	(378)	—
Balance at 30 April 2019	<u>—</u>	<u>13,000</u>	<u>1,600</u>	<u>704</u>	<u>24,296</u>	<u>39,600</u>
(Unaudited)						
Balance at 1 January 2018	13,000	—	630	1,710	35,655	50,995
Profit for the period	—	—	—	—	2,801	2,801
Other comprehensive income						
Currency translation differences	—	—	—	1,027	—	1,027
Total comprehensive income for the period	—	—	—	1,027	2,801	3,828
Transactions with owners:						
Transfer to statutory reserve (Note c)	—	—	29	—	(29)	—
	—	—	29	—	(29)	—
(Unaudited)						
Balance at 30 April 2018	<u>13,000</u>	<u>—</u>	<u>659</u>	<u>2,737</u>	<u>38,427</u>	<u>54,823</u>

Company

	Capital reserve HK\$'000 (Note b)	Accumulated losses HK\$'000	Total HK\$'000
Balance at 26 October 2018 (Date of incorporation)	—	—	—
Loss for the period	—	(4,668)	(4,668)
Total comprehensive income	—	(4,668)	(4,668)
Transactions with owners			
Issuance of ordinary shares pursuant to the Reorganisation	41,888	—	41,888
	41,888	—	41,888
Balance at 31 December 2018	41,888	(4,668)	37,220
Balance at 1 January 2019	41,888	(4,668)	37,220
Loss for the period	—	(5,997)	(5,997)
Total comprehensive income	41,888	(10,665)	31,223
Balance at 30 April 2019	41,888	(10,665)	31,223

Notes:

- (a) Combined capital as at 31 December 2017 represented the share capital of the entities comprising the Group before the completion of the Reorganisation. The combined capital was transferred to capital reserve upon completion of Reorganisation on 21 December 2018.
- (b) As at 21 December 2018, as instructed by Mr. YP Chan, the entire issued shares of Wing Fung and Best Linking were transferred to Kyoei Seiki Holdings and Best Linking Holdings in exchanges of the Company allotting and issuing 99 shares in total to C Centrun. The excess of net assets value of Wing Fung and Best Linking in aggregate as at 21 December 2018 over the par value of 99 ordinary shares at HK\$0.01 per share was credited to the capital reserve account with the amount of HK\$41,888,000.
- (c) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profit after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretionary surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.
- (d) Exchange reserve of the Group comprises all currency translation differences arising from translation differences of the financial statements of the Group's subsidiary in the PRC.

APPENDIX I

ACCOUNTANT'S REPORT

23 LEASE LIABILITIES

	As at 31 December 2017 HK\$'000	2018 HK\$'000	As at 30 April 2019 HK\$'000
Minimum lease payments due			
— Within 1 year	—	166	198
— Between 1 and 2 years	—	459	548
— Between 2 and 5 years	1,424	1,476	1,508
— Later than 5 years	1,813	1,229	1,088
	3,237	3,330	3,342
Less: future finance charges	(744)	(598)	(565)
Present value of lease liabilities	2,493	2,732	2,777
	As at 31 December 2017 HK\$'000	2018 HK\$'000	As at 30 April 2019 HK\$'000
Within 1 year	—	157	92
Between 1 and 2 years	—	88	165
Between 2 and 5 years	831	1,272	1,374
Later than 5 years	1,662	1,215	1,146
	2,493	2,732	2,777

The Group leases production factory in the PRC and office and carpark in Hong Kong. These lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. The right of use assets on leased production factory in the PRC included the prepayment of lease for HK\$1,185,000, HK\$634,000 and HK\$480,000 as at 31 December 2017, 2018 and 30 April 2019 respectively.

Extension options are included for Hong Kong office of the Group. Periods covered by extension options were included in the lease terms as the Group was reasonably certain to exercise the options.

24 TRADE PAYABLES

Trade payables at the end of each reporting period comprise amounts outstanding to contract creditors and suppliers. The average credit period taken for trade purchase is generally from 0–90 days.

	As at 31 December 2017 HK\$'000	2018 HK\$'000	As at 30 April 2019 HK\$'000
Trade payables	1,450	3,386	4,760

As at 31 December 2017 and 2018 and 30 April 2019, the ageing analysis of the trade payables, based on invoice date, are as follows:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Up to 30 days	1,002	708	1,597
31–60 days	448	612	2,137
61–90 days	—	1,279	702
Over 3 months	—	787	324
	<u>1,450</u>	<u>3,386</u>	<u>4,760</u>

As at 31 December 2017 and 2018 and 30 April 2019, the carrying amounts of trade payables are denominated in the following currencies:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
RMB	1,420	2,325	3,442
HK\$	30	1,061	1,023
USD	—	—	295
	<u>1,450</u>	<u>3,386</u>	<u>4,760</u>

As at 31 December 2017 and 2018 and 30 April 2019, the carrying amounts of trade payables approximate their fair values.

25 CONTRACT LIABILITIES, ACCRUALS AND OTHER PAYABLES

	Group		Company	
	As at	As at	As at	As at
	31 December	30 April	31 December	30 April
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals for listing expenses	—	1,869	4,666	4,666
Accruals	358	1,283	647	—
Other payables	833	52	9	—
Payable for purchase of property, plant and equipment	<u>197</u>	<u>109</u>	<u>112</u>	<u>—</u>
	1,388	3,313	5,434	4,666
Contract liabilities (Note 5c)	<u>482</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,870</u>	<u>3,313</u>	<u>5,434</u>	<u>4,666</u>

The carrying amounts of the Group's and the Company's contract liabilities, accruals and other payables were denominated in the following currencies:

	Group			Company	
	As at		As at	As at	As at
	31 December		30 April	31 December	30 April
	2017	2018	2019	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RMB	1,346	1,328	628	—	—
USD	427	38	—	38	—
HK\$	97	1,947	4,806	1,831	4,666
	<u>1,870</u>	<u>3,313</u>	<u>5,434</u>	<u>1,869</u>	<u>4,666</u>

26 DIVIDENDS

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Dividends	<u>—</u>	<u>19,460</u>	<u>—</u>	<u>—</u>

No dividend has been paid or declared by the Company since its incorporation.

Dividends during the year ended 31 December 2018 represented dividends declared by the companies now comprising the Group to the then equity holders of the companies for each of the year ended 31 December 2018, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

27 DEFERRED INCOME TAX

The movement in deferred income tax assets during the years ended 31 December 2017 and 2018 and the period ended 30 April 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follow:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Deferred tax assets				
<i>Leases:</i>				
At 1 January	2	6	6	11
Charged to consolidated statements of comprehensive income (Note 12)	<u>4</u>	<u>5</u>	<u>2</u>	<u>2</u>
As at 31 December	<u>6</u>	<u>11</u>	<u>8</u>	<u>13</u>

28 AMOUNTS DUE FROM/(TO) A SHAREHOLDER

The amounts are unsecured, interest-free and repayable on demand. Their carrying amounts as at 31 December 2017 and 2018 and 30 April 2019 approximately their fair values. Further information on amounts due from a shareholder is show as below:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
Amount due from:			
— Mr. YP Chan (<i>Note</i>)	7,112	—	—
Amount due to:			
— Mr. YP Chan (<i>Note</i>)	(5,755)	—	—

Note: The balance due from a shareholder was of non-trade nature.

The carrying amounts of the amounts due from/(to) a shareholder is denominated in the following currencies:

	As at 31 December		As at
	2017	2018	30 April
	HK\$'000	HK\$'000	2019
			HK\$'000
RMB	(5,755)	—	—
HK\$	7,112	—	—
	1,357	—	—

29 RELATED PARTIES TRANSACTIONS

- (a) For the purposes of these Historical Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The director is of the view that the following individual were related parties that had transactions or balances with the Group during the Track Record Period:

Name	Relationship with the Group
Mr. YP Chan	Shareholder and Executive Director

(b) Key management compensation

Key management include executive directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Salaries, allowances and benefits in kind	891	962	292	559
Retirement benefit costs — defined contribution plans	25	25	8	19
	916	987	300	578

30 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December		Period ended 30 April	
	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Cash flows from operating activities				
Profit before income tax	14,695	12,467	3,399	252
Adjustments for:				
Amortisation	26	26	8	—
Finance income	(47)	(41)	(13)	(1)
Finance cost	115	130	44	46
Depreciation of property and equipment	<u>2,899</u>	<u>2,871</u>	<u>715</u>	<u>747</u>
	17,688	15,453	4,153	1,044
Changes in working capital				
Trade receivables	(467)	1,018	(1,444)	(4,426)
Prepayments, deposits and other receivables	(315)	537	183	(1,529)
Inventories	(178)	(8,482)	(3,374)	1,008
Trade payables	301	1,936	2,409	1,324
Contract liabilities, accruals and other payables	<u>(1,694)</u>	<u>1,533</u>	<u>4,727</u>	<u>2,091</u>
Net cash generated from/(used in) operations	<u>15,335</u>	<u>11,995</u>	<u>6,654</u>	<u>(488)</u>

(b) Significant non-cash transactions

During the year ended 31 December 2018 and the period ended 30 April 2018, dividend of HK\$12,460,000 was declared and offset against the amount due from a shareholder (Note 28) which did not result in any cash flow.

(c) 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 flow will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Lease liabilities	Amount due from/ (to) a shareholder
	HK\$'000	HK\$'000
Net debt as at 1 January 2017	(2,201)	(11,517)
Cash flows, net	—	13,474
Other non-cash movements		
— Accrued interest	(114)	—
— Foreign exchange adjustments	<u>(178)</u>	<u>(600)</u>
Net debt as at 31 December 2017	<u>(2,493)</u>	<u>1,357</u>

	Lease liabilities HK\$'000	Amount due from/ (to) a shareholder HK\$'000
Net debt as at 1 January 2018	(2,493)	1,357
Cash flow, net	75	11,044
Other non-cash movements		
— Accrued interest	(128)	—
— Increase in right-of-use assets	(109)	—
— Non-cash dividends	—	(12,460)
— Foreign exchange adjustments	(77)	59
Net debt as at 31 December 2018	<u>(2,732)</u>	<u>—</u>
Net debt as at 1 January 2019	(2,732)	—
Cash flow, net	55	—
Other non-cash movements		
— Accrued interest	(43)	—
— Foreign exchange adjustments	(57)	—
Net debt as at 30 April 2019	<u>(2,777)</u>	<u>—</u>
Net debt as at 1 January 2018	(2,493)	1,357
Cash flow, net	10	5,755
Other non-cash movements		
— Accrued interest	(43)	—
— Increase in right-of-use assets	(109)	—
— Foreign exchange adjustments	(93)	—
Net debt as at 30 April 2018 (Unaudited)	<u>(2,728)</u>	<u>7,112</u>

31 INVESTMENT IN SUBSIDIARIES

	As at 31 December 2018 HK\$'000	As at 30 April 2019 HK\$'000
Investment in unlisted shares, at cost	<u>41,888</u>	<u>41,888</u>

32 AMOUNT DUE TO SUBSIDIARIES

Amount due to subsidiaries were unsecured, interest free and repayable on demand. Their carrying amounts approximated their fair values and were denominated in HK\$.

33 CONTINGENT LIABILITIES

As at 31 December 2017 and 2018 and 30 April 2019, the Group did not have any significant contingent liabilities.

34 SUBSEQUENT EVENT

Up to report date, there are no significant events took place subsequent to 30 April 2019.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2019 and up to the date of this report. Except as disclosed in Note 26 in Section II, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2019.

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 7.31 of GEM Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of the Group attributable to the equity holders of the Company as of 30 April 2019 as if the Share Offer had taken place on 30 April 2019.

The unaudited pro forma statement of adjusted 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 net tangible assets of the Group had the Share Offer been completed as at 30 April 2019 or at any future dates following the Share Offer.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 April 2019 (Note 1) HK\$'000	Estimated net proceeds from the Share Offer (Note 2) HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 April 2019 HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets per Share (Note 3) HK\$
Based on an Offer Price of HK\$0.50 per Share	<u>39,600</u>	<u>36,931</u>	<u>76,531</u>	<u>0.19</u>
Based on an Offer Price of HK\$0.60 per Share	<u>39,600</u>	<u>46,331</u>	<u>85,931</u>	<u>0.21</u>

Notes:

- (1) The audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as at 30 April 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company as at 30 April 2019 of approximately HK\$39,600,000 as our Group has no intangible assets as at 30 April 2019.
- (2) The estimated net proceeds from the Share Offer are based on 100,000,000 Offer Shares and the indicative Offer Price of HK\$0.50 per Offer Share and HK\$0.60 per Offer Share, being the low and high end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately HK\$10,631,000 which have been accounted for in the consolidated income statements of our Group prior to 30 April 2019) paid/payable by our Company, and takes no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates to repurchase Shares as described in the section headed "Share Capital" of this prospectus.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 400,000,000 Shares were in issue, assuming that the Share Offer and Capitalisation Issue have been completed on 30 April 2019 but takes no account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme and any Shares which may be granted and issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described in the section headed "Share Capital" of this prospectus.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 April 2019.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Best Linking Group Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Best Linking Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 April 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 31 October 2019, in connection with the proposed initial public offering of the shares of the Company. 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.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 April 2019 as if the proposed initial public offering had taken place at 30 April 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 30 April 2019, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 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 Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices of any professional body in any jurisdiction other than Hong Kong and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 31 October 2019

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 October 2018 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

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 21 October 2019 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.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars

required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

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.

The board may accept the surrender for no consideration of any fully paid share.

(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 or convertible securities or securities of similar nature 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 to their nominal value.

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.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(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 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 authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the 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; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(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 as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(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 2 November 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

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of our 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. The register of members shall contain such particulars as required by Section 40 of the Companies Law. 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 thirty (30) 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

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).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES**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 26 October 2018. Our Company has established a place of business in Hong Kong at Unit 1226B, 12/F, Star House, No. 3 Salisbury Road, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 11 January 2019. In connection with such registration, Mr. Chan Ho Chee Gilbert has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, its operations are subject to the Cayman Islands company law and its constitution, which comprises of a memorandum of association and the articles of association. A summary of certain provisions of its constitution and relevant aspects of the Cayman Islands Company Law is set out in Appendix III to this prospectus.

2. Changes in authorised and issued share capital of our Company

Our Company was incorporated in the Cayman Islands on 26 October 2018. The Subscriber Share was allotted and issued to the initial subscriber and then transferred to C Centrum on the same date for value. The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each.

On 21 December 2018, as part of the Reorganisation, in consideration of the transfer of the entire issued shares of Wing Fung from Mr. YP Chan to our nominee, Kyoei Seiki Holdings, our Company (i) allotted and issued 49 Shares to C Centrum (as the nominee of Mr. YP Chan), credited as fully paid; and (ii) credited the Subscriber Share as fully paid and registered in the name of C Centrum.

On 21 December 2018, as part of the Reorganisation, in consideration of the transfer of the entire issued share of Best Linking from Mr. HT Chen (being the legal owner), under the direction of Mr. YP Chan (being the beneficial owner), to our nominee, Best Linking Holdings, our Company allotted and issued 50 Shares to C Centrum (as nominee of Mr. YP Chan, the beneficial owner), credited as fully paid.

On 21 October 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each by the creation of an additional 9,962,000,000 Shares of HK\$0.01 each which rank *pari passu* in all respect with the existing Shares.

Save as disclosed in this appendix and the section “History, Reorganisation and Group Structure” of this prospectus, there has been no alteration in the share capital of our Company within two years immediately preceding the date of this prospectus and up to the Latest Practicable Date.

3. Resolutions in writing of the sole Shareholder passed on 21 October 2019

Pursuant to the resolutions in writing passed by the sole Shareholder on 21 October 2019:

- (a) our Company approved and adopted the Memorandum with immediate effect and conditionally approved and adopted the Articles with effect from the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of par value HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of par value HK\$0.01 each by the creation of additional 9,962,000,000 Shares of par value HK\$0.01 each, which rank *pari passu* in all respects with the Shares in issue as at the date of such resolutions;
- (c) conditional on (i) the Listing Division granting approval of the listing of, and permission to deal in, the Shares of par value of HK\$0.01 each in the share capital of our Company in issue and to be allotted and issued pursuant to the Share Offer and Capitalisation Issue, and the Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange; (ii) the Offer Price having been duly agreed on or around the Price Determination Date; (iii) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and (iv) the obligations of the Underwriters under the Underwriting Agreements to be entered into by, among others, our Company and the Underwriters in relation to the Share Offer becoming and remaining unconditional (including, if relevant, as a result of a waiver of any conditions in accordance with the Underwriting Agreements) and the Underwriting Agreements not having been terminated in accordance with the terms of the Underwriting Agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus:
 - (i) the Share Offer was approved and our Directors were authorised to (aa) approve the allotment and issue of the Offer Shares pursuant to the Share Offer on and subject to the terms and conditions as set out in this prospectus; (bb) implement the Share Offer and the Listing; and (cc) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary and/or appropriate;
 - (ii) the rules and proposed terms of the Share Option Scheme and the principal terms of which are set out in “— Share Option Scheme — 13. Share Option Scheme — (a) Summary of terms”, were approved and adopted and our Directors were authorised to approve any amendment(s) to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

- (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK\$2,999,999 standing to the credit of the share premium account of our Company by applying such sum to pay up in full at par 299,999,900 new Shares for allotment and issue to holder(s) of Shares (the “**Relevant Shareholder(s)**”) whose name(s) appear on the register of members of our Company at the close of business on the business day immediately preceding the Listing Date (or as they may direct) in proportion (as near as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to its/their then respective existing shareholdings in our Company or in accordance with the direction of such member(s) and our Directors were authorised to give effect to the Capitalisation Issue and to allot and issue Shares pursuant thereto and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and the name(s) of the Relevant Shareholder(s) be entered in the register of members of our Company as holder(s) of the relevant number of Shares allotted and issued to it/them;
- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which would or might require Shares to be allotted and issued or dealt with whether or not such securities, warrants or options involve the allotment or issue of Shares during or after the Relevant Period (as defined below), otherwise than by way of a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles, or pursuant to a specific authority granted by our Shareholders in general meeting, or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under the Share Offer or Capitalisation Issue, provided that such aggregate number of Shares which be allotted, issued or dealt with or agreed to be allotted, issued or dealt with should not exceed the sum of (aa) 20% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme); and (bb) the aggregate number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any other applicable laws of the Cayman Islands to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first (the “**Relevant Period**”);

- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules or equivalent rules or regulations of such other stock exchange, an aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying or renewing the authority given to our Directors as set out in this paragraph (v), whichever occurs first; and
- (vi) the general unconditional mandate mentioned in sub-paragraph (iv) above to be extended by the addition to the aggregate number of Shares which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate as referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the Listing. For information relating to the Reorganisation, please refer to the section headed “History, Reorganisation and Group Structure — Reorganisation” of this prospectus.

5. Changes in share capital of subsidiaries

Our Company’s subsidiaries are referred to in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section “History, Reorganisation and Group Structure” of this prospectus, there are no changes in the share capital or registered capital of our subsidiaries during the two years preceding the date of this prospectus.

6. Repurchase by our Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by the sole Shareholder on 21 October 2019, the Repurchase Mandate was granted to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or 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 subject to and in accordance with all the applicable laws and the requirements of the GEM Listing Rules or equivalent rules or regulations of such other stock exchange, an aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme). The Repurchase Mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of our Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying or renewing the authority given to our Directors, whichever occurs first.

(ii) *Source of funds*

Repurchase by our Company must be paid out of funds legally available for the purpose in accordance with our Company's Memorandum and Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under Cayman Islands law, any repurchase by our Company may only be made out of profits of our Company, or from sums standing to the credit of our share premium account, or out of the proceeds of a fresh issue of share made for the purpose of the repurchase, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of profits of our Company or from sums standing to the credit of our Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(iii) Connected parties

A company is prohibited from knowingly repurchasing securities from a “core connected person”, that is, a director, chief executive or Substantial Shareholder of our Company or any of their respective close associates and a core connected person shall not knowingly sell his securities to our Company, on the Stock Exchange.

(b) Reasons for Repurchase

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchase will benefit our Company and the Shareholders.

(c) Funding of repurchase

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue immediately after the Listing, would result in up to 40,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or its subsidiaries 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 GEM Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM 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.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the sale and purchase agreement dated 21 December 2018 entered into among Mr. YP Chan, Kyoei Seiki Holdings and our Company pursuant to which Mr. YP Chan transferred all the issued shares of Wing Fung to our nominee, Kyoei Seiki Holdings, in consideration of (i) our allotment and issue of 49 Shares to C Centrum (as the nominee of Mr. YP Chan), credited as fully paid; and (ii) crediting the Subscriber Share as fully paid at par;
- (b) the sale and purchase agreement dated 21 December 2018 entered into among Mr. YP Chan, Mr. HT Chen, Best Linking Holdings and our Company pursuant to which Mr. HT Chen (as legal owner) and Mr. YP Chan (as beneficial owner) transferred all the issued share of Best Linking to our nominee, Best Linking Holdings, in consideration of our allotment and issue of 50 Shares to C Centrum (as the nominee of Mr. YP Chan, the beneficial owner), credited as fully paid;
- (c) the Deed of Indemnity;
- (d) the cornerstone investment agreement dated 29 October 2019 entered into among our Company, the Sole Bookrunner (for itself and on behalf of the Underwriters) and Differ Group Holding Company Limited, pursuant to which Differ Group Holding Company Limited agreed to subscribe for such number of Shares under the Placing which may be subscribed with approximately HK\$9.0 million at the Offer Price, further details of which are set out in the section headed "Cornerstone Investor" of this prospectus; and
- (e) the Public Offer Underwriting Agreement.

8. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group has registered the following trademarks which are material to our business:

No.	Trademark	Registration number	Name of registered owner	Class	Place of registration	Expiry date/ Renewal due date
1	EUSC	9729454	Kyoei Seiki	7	PRC	6 September 2022
2	JSG	9729453	Kyoei Seiki	7	PRC	13 November 2022
3	JSG	304310171	Wing Fung	7	Hong Kong	22 October 2027
4	KWP	26963913	Wing Fung	6	PRC	6 October 2028
5	KWP	304310199	Wing Fung	6	Hong Kong	22 October 2027
6	KWP	26963937	Wing Fung	7	PRC	6 December 2028
7	KWP	304315923	Wing Fung	7	Hong Kong	26 October 2027
8	KYOEI	6398500	Kyoei Seiki	7	PRC	6 March 2020
9	KYOEI	304310153	Wing Fung	7	Hong Kong	22 October 2027
10	NISSHO SEIKO	7838370	Kyoei Seiki	7	PRC	13 April 2021
11	共榮	6398499	Kyoei Seiki	7	PRC	6 March 2020
12	共 榮 精 机	23476819	Kyoei Seiki	7	PRC	6 April 2028
13		6398501	Kyoei Seiki	7	PRC	6 March 2020
14		304758535	Best Linking	7, 12	Hong Kong	4 December 2028

(b) Patents

As at the Latest Practicable Date, our Group had registered the following patents which are material to our business:

No.	Patent	Patentee	Jurisdiction	Patent Number	Expiry Date
1.	Adjustable numerical control length measuring instrument (一種可調數控測長儀)	Kyoei Seiki	PRC	ZL 2016 2 1175518. X	27 October 2026
2.	Driving maintenance lifting mechanism (一種行車維修升降機構)	Kyoei Seiki	PRC	ZL 2016 2 1175510.3	27 October 2026
3.	High efficiency quenching sensor (高效淬火感應器)	Kyoei Seiki	PRC	ZL 2016 2 1181584.8	27 October 2026
4.	Numerical control length measuring instrument (一種數控測長儀)	Kyoei Seiki	PRC	ZL 2016 2 1175543.8	27 October 2026
5.	Ring shape quenching sensor (一種環狀淬火感應器)	Kyoei Seiki	PRC	ZL 2016 2 1175380.3	27 October 2026
6.	Ring spreader (一種環件吊具)	Kyoei Seiki	PRC	ZL 2016 2 1175541.9	27 October 2026
7.	Single gear quenching sensor (一種單齒淬火感應器)	Kyoei Seiki	PRC	ZL 2016 2 1175554.6	27 October 2026
8.	Slewing ring automatic clamping device (一種迴轉支承自動夾持設備)	Kyoei Seiki	PRC	ZL 2016 2 1178366.9	27 October 2026
9.	Slewing ring automatic oil filling device (一種迴轉支承自動注油裝置)	Kyoei Seiki	PRC	ZL 2016 2 1176918.2	27 October 2026
10.	Slewing ring measuring rod (迴轉支承測量杆)	Kyoei Seiki	PRC	ZL 2018 2 0103483.1	22 January 2028
11.	Slewing ring measuring rod (迴轉支承測量杆)	Kyoei Seiki	PRC	ZL 2018 2 0103484.6	22 January 2028
12.	Slewing ring for large heavy loader in the port (一種港口大型重載裝卸機的回轉支承)	Kyoei Seiki	PRC	ZL 2018 2 0104183.5	22 January 2028
13.	Slewing ring for large loader (大型裝載車的回轉支承)	Kyoei Seiki	PRC	ZL 2018 2 0103481.2	22 January 2028

(c) Domain name

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain name	Date of registration	Expiry date
www.kyoei.asia	1 February 2012	1 February 2024
www.blg.hk	5 January 2019	5 January 2024
www.wfm.com.hk	31 May 2017	31 May 2023
www.bestlinking.hk	6 April 2011	6 April 2021

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of our Group.

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

9. Directors

(a) Particulars of service contracts and letters of appointment

Each of Mr. YP Chan and Mr. LP Chan, being all our executive Directors, has entered into a service contract with our Company on 21 October 2019. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (i) each service contract is of three years commencing from the Listing Date and will continue thereafter until terminated in accordance with the terms of the service agreement;
- (ii) the initial annual salary for each of our executive Directors is set out below, such salary to be reviewed annually by the Board and the remuneration committee of our Company; and
- (iii) each of our executive Directors is entitled to such discretionary bonus by reference to the consolidated net profits of our Group after taxation and minority interests but before extraordinary items as the Board and the remuneration committee of our Company may approve, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board approving the amount of annual salary, management bonus and other benefits payable to him.

Under the service contracts, the basic annual salaries of our executive Directors (including director's fee) are as follows:

Name	Amount <i>HK\$'000</i>
Mr. YP Chan	840
Mr. LP Chan	420

Each of our independent non-executive Directors has entered into a letter of appointment with our Company on 21 October 2019. Each letter of appointment is for an initial term of one year commencing on the Listing Date and shall be automatically renewed for another year, until terminated by either party giving at least one month's notice in writing. Under the letters of appointment, the annual director's fees payable to our independent non-executive Directors are as follows:

Name	Amount <i>HK\$'000</i>
Mr. Adrian Chan	180
Ms. Tsang	144
Ms. Tam	144

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

(b) Directors' remuneration

During the Track Record Period, the aggregate of the remuneration (including salaries and allowance, if any) paid by our Group to our Directors was approximately HK\$0.8 million and HK\$0.8 million and HK\$0.4 million, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding any discretionary bonus, if any, payable to our Directors) payable by our Group to and benefits in kind receivable by our Directors for the year ending 31 December 2019 is estimated to be approximately HK\$1.3 million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of FY2017, FY2018 and 4M2019 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of FY2017, FY2018 and 4M2019.

(c) *Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and its associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the interests or short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, in each case once the Shares are listed on the Stock Exchange, will be as follows:

Name	Capacity/Nature of interest	Number of Shares held after the Share Offer	Percentage of shareholding after the Share Offer
Mr. YP Chan	Interest in controlled corporation ^(Note 2)	300,000,000 Shares (L) ^(Note 1)	75%

Notes:

- (1) The Letter “L” denotes the person’s long position in the relevant Shares.
- (2) Mr. YP Chan legally and beneficially owns the entire issued share of C Centrum and is its sole director. Accordingly, Mr. YP Chan is deemed to be interested in the Share held by C Centrum by virtue of the SFO.

10. Interests discloseable under the SFO and Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the following persons/entities not being a Director or chief executive of our Company will have an interest or a short position in the Shares or the 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 will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

Name	Capacity/Nature of interest	Number of Shares held after the Share Offer	Percentage of shareholding after the Share Offer
C Centrum	Beneficial owner ^(Note 2)	300,000,000 Shares (L) ^(Note 1)	75%
Ms. Leung Tak Yee	Interest of Spouse ^(Note 3)	300,000,000 Shares (L) ^(Note 1)	75%

Notes:

- (1) The Letter “L” denotes the person’s long position in the relevant Shares.
- (2) The entire issued shares of C Centrum is legally beneficially owned by Mr. YP Chan. Accordingly, Mr. YP Chan is deemed to be interested in the 300,000,000 Shares held by C Centrum by virtue of the SFO.
- (3) Ms. Leung Tak Yee is the spouse of Mr. YP Chan and is deemed to be interested in all the underlying Shares that that Mr. YP Chan is interested through C Centrum by virtue of the SFO.

11. Related party transactions

During the two years immediately preceding the date of this prospectus, our Group engaged in the related party transactions as mentioned in Note 29 of the Accountant’s Report set out in Appendix I to this prospectus.

12. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Share Offer and the Capitalisation Issue will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO

or who is, either 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 the general meetings of our Company or any other members of our Group;

- (b) none of our Directors or chief executive of our Company has any interests and short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once the Shares are listed on the Stock Exchange;
- (c) none of our Directors nor the experts named in the paragraph headed “20. Qualifications and consents of experts” in this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Offer Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors nor the experts named in the paragraph headed “20. Qualification and consents of the experts” in this appendix below 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 the experts named in “20. Qualifications and consents of experts” in this appendix below has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group; and
- (f) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

SHARE OPTION SCHEME**13. Share Option Scheme**

Our Company has conditionally adopted the Share Option Scheme, which was approved by written resolutions passed by the sole Shareholder on 21 October 2019. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

*(a) Summary of terms**(i) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and service providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The basis of eligibility of any participant to the grant of any option to subscribe for Shares pursuant to the Share Option Scheme and for the time being subsisting (the “**Option**”) shall be determined by our Board (or as the case may be, where required under the GEM Listing Rules, the independent non-executive Directors) from time to time on the basis of the contribution or potential contribution of (a) any full-time or part-time employee of any member of our Group; (b) any consultant or adviser of any member of our Group; (c) any Director (including executive, non-executive or independent non-executive Directors) of any member of our Group; (d) any Substantial Shareholder of our Group; (e) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of our Group, to be determined absolutely by our Board (the “**Participant**”) to the development and growth of our Group.

(iii) Subscription Price

The price per Share at which a Participant accepting the offer of the grant of an Option in accordance with the terms of the Share Option Scheme (the “**Grantee**”) shall be a price solely determined by our Board and notified to a Participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date on which an option is offered to a Participant (the “**Offer Date**”), which must be a business day; (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a Share on the Offer Date, provided that in the event of fractional prices, the subscription price per Share shall be rounded upwards to the nearest whole cent (the “**Subscription Price**”); and for the purpose of calculating the Subscription Price, where our Company has been listed on the Stock Exchange for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before Listing.

(iv) *Grant of Options and acceptance of offers*

An offer of the grant of an Option must be accepted in its entirety within seven days inclusive of the day on which such offer was made. The amount payable by the Grantee to our Company on acceptance of the offer of the grant of an Option is HK\$1.00.

(v) *Maximum number of Shares*

- (aa) Subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the period commencing on the date on which the Share Option Scheme was conditionally adopted by the sole Shareholder by way of written resolution and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 40,000,000 Shares, being 10% of the Shares in issue as at the Listing Date.
- (bb) The 10% limit as mentioned in sub-paragraph (aa) above may be refreshed at any time by approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the GEM Listing Rules in this regard.
- (cc) Our Company may seek separate approval by our Shareholders in general meeting for granting options beyond the 10% limit as mentioned in sub-paragraphs (aa) and (bb) above provided the options in excess of the 10% limit are granted only to Participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of the specified persons who may be granted such Options, the number and terms of such Options to be granted and the purpose of granting such Options to the specified persons with an explanation of how the terms of the Options will serve such purpose and all other information required under the GEM Listing Rules.
- (dd) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company 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 of our Company if this will result in the limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon the exercise of Options granted and to be granted to each Participant (including both exercised and outstanding Options) under the Share Option Scheme in any 12 month period up to the date of grant must not exceed 1% of the Shares in issue from time to time. Where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Participant (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 1% of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his close associates abstaining from voting, and the number and terms (including the Subscription Price) of Options to be granted to such Participant must be fixed before Shareholders' approval. In such event, our Company must send a circular to our Shareholders containing the identity of the Participant and his close associates, the number and terms of the Options to be granted (and options previously granted to such Participant), and all other information required under the GEM Listing Rules. The date of the meeting of our Board proposing such further grant should be taken as the date when an offer of the grant of an Option is made to a Participant for the purpose of calculating the Subscription Price under (iii) above.

(vii) Grant of options to certain connected persons

- (aa) Each grant of Options to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors of our Company (excluding any independent non-executive Director who is the Grantee).
- (bb) Where any grant of Options to a Substantial Shareholder or an independent non-executive Director of our Company or any of their respective associates would result in the total number of Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) under the Share Option Scheme and any other share option schemes of our Company to such person in any 12 month period up to and including the date of grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of Options must be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the GEM Listing Rules in this regard. The grantee, his associate and all core connected persons of our Company shall abstain from voting (except where

any of such person intends to vote against the proposed grant and his intention to do so has been stated in the aforesaid circular). Any change in the terms of an option granted to a Substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of Options

- (aa) No offer of the grant of an Option may be made after any inside information has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the GEM Listing Rules and the SFO. No Option may be granted during the period commencing one month immediately preceding the earlier of:
 - (i) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and
 - (ii) the deadline for our Company to publish an announcement of our results for any year, half-year, quarterly period or any other interim period (whether or not required under the GEM Listing Rules).
- (bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published and:
 - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period for the exercise of an Option to be notified by our Board to the Grantee, but in any event shall not exceed 10 years from the date on which an Option is offered to a Participant.

(x) Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and

accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any Option shall not carry any voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

(xi) Rights are personal to grantee

An Option shall be personal to the Grantee and shall not be transferable or assignable and shall be personal to the Grantee of the Option. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option (where the Grantee is a company, any change of its major Shareholder or any substantial change in its management as determined by our Board at its sole discretion will be deemed to be a sale or transfer of interest as aforesaid, if so determined by our Board at its sole discretion). Any breach of these restrictions will automatically render the Options lapsed.

(xii) Rights on cessation of employment by death

In the event that the Grantee (being an individual) dies before exercising the Option in full, his legal personal representative(s) may exercise the Option up to the Grantee's entitlement (to the extent which has become exercisable and not already exercised) within the period of 12 months following his death provided that where any of the events set out in (xvi), (xvii) and (xviii) below occurs prior to his death or within such period of 6 months following his death, then his personal representative(s) may so exercise the Option within such of the various periods respectively set out in such clauses and provided further that if within a period of 3 years prior to the Grantee's death, the Grantee had committed any of the acts as specified in (xiii) below which would have entitled our Company to terminate his employment prior to his death, our Board may at any time forthwith terminate the Option of the Grantee (to the extent not already exercised) by written notice to his legal personal representatives.

(xiii) Rights on cessation of employment by dismissal

In the event that the Grantee is an employee of our Group when an offer is made to him and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Group, his option will lapse automatically and not be exercisable (to the extent not already exercised) on the date of cessation of his employment with our Group. A resolution of our Board or our board of Directors of the relevant member of our Group to the effect that employment of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee.

(xiv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of our Group when an offer is made to him and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiii) above, the Option (to the extent not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xv) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding adjustments (if any) shall be made in: (a) the number of Shares subject to the Option so far as unexercised; and/or (b) the Subscription Prices for the Shares subject to the Option so far as unexercised, as the auditors shall certify in writing or the independent financial adviser of our Company shall certify or confirm in writing (as the case may be) to our Board to be in their opinion fair and reasonable and in compliance with the relevant provisions of the GEM Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a Grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvi) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the Grantee (or, where permitted under (xii) above, his legal personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xvii) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or, where permitted under (xii) above, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of our Company by giving

notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

(xviii) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the Grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors of our Company to consider such a compromise or arrangement and the Options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than two business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (the “**Suspension Date**”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the Grantee credited as fully paid. With effect from the Suspension Date, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that the Shares issued as a result of the exercise of Options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of Grantees to exercise their respective Options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any Grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of its officers.

(xix) Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Grantee commits a breach of paragraph (xi);

- (cc) the expiry of any of the periods or the occurrence of the relevant events referred to in paragraphs (xii), (xiv), (xvi), (xvii) or (xviii) above;
 - (dd) subject to paragraph (xvii) above, the date of the commencement of the winding-up of our Company;
 - (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the Grantee, or conviction of the Grantee of any criminal offence involving his integrity or honesty;
 - (ff) where the Grantee is only a Substantial Shareholder of any member of our Group, the date on which the Grantee ceases to be a substantial Shareholder of such member of our Group; or
 - (gg) the occurrence of the relevant events referred to in paragraph (xiii) above.
- (xx) *Cancellation of options granted but not yet exercised*

Any cancellation of Options granted but not exercised may be effected on such terms as may be agreed with the relevant Participant, as our Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxi) *Period of the Share Option Scheme*

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Share Option Scheme, and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof, after which period no further Options shall be granted. All options granted and accepted and remaining unexercised immediately prior to expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

(xxii) *Alteration to the Share Option Scheme*

- (aa) The Share Option Scheme may be altered in any respect by resolution of our Board except that alterations of the provisions of the Share Option Scheme as to:
 - (i) the definitions of “Participant”, “Grantee” and “Option Period”; and
 - (ii) the following provisions of the Share Option Scheme:
 - (aa) the purpose of the Share Option Scheme;
 - (bb) determination of eligibility;
 - (cc) duration and administration;
 - (dd) grant of Option;

- (ee) Subscription Price;
- (ff) exercise of Options;
- (gg) lapse of Option;
- (hh) maximum number of Shares available for subscription;
- (ii) reorganisation of capital structure;
- (jj) termination; and
- (kk) cancellation;

shall not be altered to the advantage of the Grantees or prospective Grantees except with the prior sanction of our Shareholders by a resolution in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of the Shareholders under the Articles of our Company for a variation of the rights attached to the Shares.

- (bb) Any alternations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, or any change to the authority of our Board in respect of alteration of the Share Option Scheme, must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the GEM Listing Rules.

(xxiii) Termination of the Share Option Scheme

If any of the below (xxiv) conditions are not satisfied on or before the expiry of three (3) months after the date on which the Share Option Scheme was conditionally adopted by the sole Shareholder by way of written resolution (or such later date as the sole Shareholder may agree), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

Our Company by resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but Options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxiv) Conditions of the Share Option Scheme

The Share Option Scheme shall take effect subject to the passing of the necessary resolution to adopt the Share Option Scheme by the sole Shareholder in general meeting and is conditional upon the Listing Division granting the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and the Shares which may fall to be issued pursuant to the exercise of any Options granted or which may be granted under the Share Option Scheme.

(b) Present status of the Share Option Scheme

Application has been made to the Listing Division for the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of the Options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

OTHER INFORMATION**14. Tax and other indemnities**

Each of C Centrum and Mr. YP Chan (collectively, the “**Indemnifiers**”) has entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries), being one of the material contracts referred to in the paragraph headed “7. Summary of material contracts” in this appendix, to give certain indemnities in favour of the subsidiaries, together with our Company, our “**Group Members**” (each or any of them is referred to as our “**Group Member**”), jointly and severally, in respect of, among other matters, following:

- (a) any and all expenses, payments, sums, outgoings, fees, demands, claims (including counter-claims), complaints, actions, proceedings, suits, litigations, judgments, damages, losses, costs (including but not limited to, legal and other professional costs), charges, contributions, liabilities, fines, penalties (collectively the “**Costs**”) which any Group Members may incur, suffer or accrue, directly or indirectly from or on the basis of or in connection with any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) or any other applicable laws, rules and regulations by our Group Members on or before the date on which the conditions precedent set out in the Deed of Indemnity becomes fulfilled (the “**Effective Date**”);
- (b) any alleged or actual violation or any breach or non-compliance incidents by any Group Member with any laws and regulations in the PRC, Hong Kong or other jurisdictions on or before the Effective Date in connection with any claim, counterclaim, assessment, notice, demand or other documents issued or action taken in any of Hong Kong, the PRC, the Cayman Islands, the British Virgin Islands or in any part of the world whereby it appears that our Company and any of our Group Members are liable or are sought to be made liable for the legal consequences and potential liabilities as disclosed in the section headed “Business” of this prospectus;
- (c) the restructuring and reorganisation undergone by our Group on or before the Effective Date;

- (d) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings whether of criminal, administrative, contractual, tortious nature or otherwise instituted by or against any of our Group Members arising from any act, non-performance, omission or otherwise of our Company or any of our Group Members on or before the Effective Date;
- (e) any irregularities in relation to any corporate documents of any of our Group Members on or before the Effective Date;
- (f) any alleged or actual violation or non-compliance by any of our Group Members with any laws and regulations in the PRC, Hong Kong or other jurisdictions on or before the Effective Date;
- (g) any failure to obtain or delay in obtaining the necessary licences, consents or permits under the laws of the Cayman Islands, the British Virgin Islands, Hong Kong and/or the PRC for any Group Member's valid and legal establishment and/or operation on or before the Effective Date; and/or
- (h) any and all Costs which any of our Group Members may incur, suffer or accrue, directly or indirectly, as a result of or in connection with any matters referred to in paragraphs (b) to (g) above on or before the Effective Date.

Further, pursuant to the Deed of Indemnity, the Indemnifiers have jointly and severally given indemnity in respect of, among other matters, any liability for Hong Kong estate duty, if any, which might be incurred by any of the Group Member by reason of transfer of any property to any of the members of our Group on or before the Listing Date. Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, the British Virgin Islands and Hong Kong, being the jurisdictions in which the companies comprising our Group are incorporated.

The Deed of Indemnity does not cover any tax claim and the indemnifiers shall be under no liability under the Deed of Indemnity in respect of any tax, tax claim or tax related liability:

- (a) to the extent that full provision or allowance has been made for such taxation in the audited consolidated accounts of our Group Members as set out in Appendix I to this prospectus for the two financial years ended 31 December 2018 and four months ended 30 April 2019 (the “**Accounts**”);
- (b) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any Group Member which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Effective Date;
- (c) to the extent that such taxation or liability would not have arisen but for any act or omission by any of our Group Members (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written

consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the Effective Date or carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date;

- (d) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in laws or regulations or practice by the Hong Kong Inland Revenue Department or any other tax or government authority in any part of the world coming into force after the Effective Date or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect; and
- (e) to the extent of any provision or reserve made for taxation as set out in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of taxation might be reduced by an amount not exceeding such over-provision or excessive reserve provided that the amount of any such provision or reserve applied pursuant to this sub-paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess reserve shall only be applied to reduce the liability of the Indemnifiers under the Deed of Indemnity as aforesaid.

15. Litigation

Neither our Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against our Company or any of its subsidiaries.

16. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, comprising the Offer Shares and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; and (b) the exercise of options which may be granted under the Share Option Scheme, representing 10% of the Shares in issue on the Listing Date.

The Sole Sponsor has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. The Sole Sponsor is entitled to a sponsor's fee in the amount of HK\$3.8 million.

17. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company has appointed LY Capital Limited as its compliance adviser to provide advisory services to our Company to ensure compliance with GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing or until the agreement is terminated, whichever is the earlier.

18. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$44,000 and are payable by our Company.

19. Promoters

Our Company does not have any promoter (as defined in the GEM Listing Rules).

20. Qualifications and consents of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

Name	Qualification
LY Capital Limited	A licensed corporation under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Allbright Law Offices (Shenzhen)	PRC legal advisers
Frost & Sullivan International Limited	Industry consultant

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interest in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

21. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

22. Taxation of holders of Shares**(a) Hong Kong****(i) Profits**

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

(ii) Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

(iii) Estate duty

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006.

(b) The Cayman Islands

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.

(c) Consultation with professional advisers

Intended holders of the 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 the Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercising any rights attaching to them.

23. Miscellaneous

- (a) Save as disclosed in this appendix and the sections headed “History, Reorganisation and Group Structure” of this prospectus, within two years preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages (other than under the Underwriting Agreements) or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (iii) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of its subsidiaries; and
 - (iv) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) Saved as disclosed in this prospectus, no founders, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (c) Our Directors confirm that, save for disclosed in the paragraph headed “Financial Information” of this prospectus, there has been no material adverse change in the financial or trading position or prospect of our Group since 30 April 2019 (being the date to which the latest audited combined financial statements of our Group were made up) and up to the date of this prospectus;
- (d) None of the equity and debt securities of our Company is listed or dealt with on any other stock exchange nor is any listing or submission to deal being or proposed to be sought;
- (e) None of our Directors nor any of the persons whose names are listed in the paragraph headed “20. Qualifications and consents of experts” in this appendix has received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any share or loan capital of any member of our Group;
- (f) There has not been any interruption in the business of our Company which may have or has had a significant effect on the financial position of our Company in the 24 months preceding the date of this prospectus;
- (g) Subject to the provisions of the Companies Law, the principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfers and other documents of title of the 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;

- (h) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement;
- (i) There is no arrangement under which future dividends have been waived;
- (j) No company within our Group is presently listed on any stock exchange or traded on any trading system; and
- (k) Our Company has no outstanding convertible debt securities.

24. Further information about our PRC establishment

We have interests in the registered capital of one PRC subsidiary. A summary of the corporate information of such PRC subsidiary as at the Latest Practicable Date is set out as follows:

- | | |
|--|--|
| (i) Name of the enterprise: | 東莞共榮精密機械有限公司 (Kyoei Seiki Co., Limited*) |
| (ii) Date of establishment: | 5 September 2007 |
| (iii) Nature: | Wholly foreign-owned enterprise |
| (iv) Registered owner: | Wing Fung Machinery Company Limited |
| (v) Total investment: | HK\$20,000,000 |
| (vi) Registered capital: | HK\$20,000,000 |
| (vii) Attributable interests to our Group: | 100% |
| (viii) Term of operation: | 5 September 2007 to 5 September 2024 |

25. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version of this prospectus, the English language version shall prevail.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — Other information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — Further information about the business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Robertsons, at 57/F, The Center, 99 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for FY2017, FY2018 and 4M2019;
- (d) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (e) the rules of our Share Option Scheme;
- (f) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands Company Law referred to in Appendix III to this prospectus;
- (g) the Industry Report;
- (h) the Cayman Islands Company Law;
- (i) the material contracts referred to in the section headed “Statutory and General Information — Further information about the business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus;
- (j) the written consents referred to in the section headed “Statutory and General Information — Other information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus;
- (k) the service contracts and letters of appointment with each of our Directors referred to in the section headed “Statutory and General Information — Further information about Directors, management and staff — 9. Directors — (a) Particulars of service contracts and letters of appointment” in Appendix IV to this prospectus; and
- (l) the legal opinion issued by the PRC Legal Advisers.



BEST LINKING GROUP HOLDINGS LIMITED
永聯豐集團控股有限公司