

## BUSINESS

### OVERVIEW

We are an established premium slewing ring manufacturer in the PRC serving our customers in the PRC, Hong Kong and overseas. We are also a “one-stop service” provider for other mechanical parts and components and machineries which are used mainly in construction and mining sites. With over 15 years of experience in manufacturing and providing slewing rings related products and services, as per the Industry Report, our Group ranked fifth among the slewing ring manufacturers in the PRC in 2021 in terms of sales revenue to overseas markets, accounting for approximately 1.5% of the market share in the PRC in 2021.

A slewing ring is a necessary transmission part for machineries and equipments, 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 wide application in many areas such as construction machineries and equipments, robotics, wind turbines, amusement park rides, military equipments and machineries 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 both local market as well as overseas markets including Singapore, the Philippines, Malaysia, Japan and other Asian countries/locations. According to the Industry Report, we are the largest slewing ring manufacturer in South China<sup>(1)</sup> in 2021 in terms of sales revenue to overseas markets. Since the commencement of our business in 2007, we have accumulated in-depth industry experience and know-how for the production of slewing rings catering different industries for both local and overseas markets. We are able to produce a broad spectrum of slewing rings of approximately 120 models, with inner diameter ranging from 125mm to 3.6m, for various applications. Our Directors believe that in addition to our long established industry experience and knowledge, our ability to produce slewing rings adopting both applicable national JB or JB/T standards and JIS, our stringent quality assurance control, our cost-effective production capability as well as our ability to produce multi-models simultaneously are the major factors that make us stand out from our competitors. For instance, the slewing rings we produce are of premium standard under JIS, which are in line with the standards required by certain customers which are leading Japanese manufacturers or their affiliates and we are able to offer a long warranty period of up to 3,000 hours of operation or two years (whichever occurs first) for slewing rings manufactured under our OEM basis, 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. 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.

*Note:*

<sup>(1)</sup> South China means Guangdong Province, the Guangxi Zhuang Autonomous Region, Hainan Province, Hong Kong and Macau

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With our increased production capability following our GEM Listing, since 2020, we have commenced manufacturing of mechanical parts and components for our customers. These mechanical parts and components are manufactured under ODM basis complementing our self-produced slewing rings.

Leveraging on our long established presence in the slewing ring manufacturing industry, we developed and established a network of suppliers in the PRC and Japan along the supply chain for heavy duty machinery and equipment. We are in a position to offer “one-stop” services to our customers by sourcing machineries and a wide range of related mechanical parts and components to satisfy their needs. Such machineries include excavators, pile drivers and trucks as well as the mechanical parts and components which includes undercarriage parts, long reach arms, buckets and telescopic boom.

During the Track Record Period, our revenue increased by approximately 90.3% from HK\$69.5 million in FY2020 to HK\$132.3 million in FY2021 and maintained at a steady level of HK\$127.7 million in FY2022. Our profit for the year attributable to owners of our Company was approximately HK\$13.6 million, HK\$35.1 million and HK\$34.9 million (after taking into account an one-off expense of approximately HK\$[REDACTED] in relation to the [REDACTED] in FY2022) during the Track Record Period. While sales of most products recorded a notable growth, the significant growth in revenue in FY2021 was mainly attributed to our increase in sales of slewing rings under ODM basis and our expansion in the sales of machineries and related mechanical parts and components. We have continued to expand our customer base and have developed a clientele from various countries/locations such as Singapore, Malaysia, the Philippines, Thailand, Taiwan, Japan, Northern Ireland and New Zealand. Our customers include wholesalers, traders, construction companies and manufacturers. In particular, we manufacture and supply slewing rings for a number of leading Japanese manufacturers or their affiliates, such as (i) Sumitomo Construction Machinery, a leading heavy duty machinery manufacturer in Japan and a subsidiary of Sumitomo Heavy Industries, Ltd., a listed company on the Tokyo Stock Exchange which is engaged in the manufacture of various machineries; (ii) Yutani Industrial Co., Ltd. (“**Yutani**”), a leading construction machinery parts supplier in Japan; and (iii) KATO SCE (Xiamen) Construction Machinery Co. Ltd. (formerly known as Ishikawajima SCE (Xiamen) Construction Machinery Co., Ltd) (“**KATO**”), whose shareholder is a leading heavy industry company in Japan.

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The revenue generated from our operations by geographical locations of our customers during the Track Record Period were as follows:

<b>Location</b>	<b>FY2020</b> <i>HK\$'000</i>	<b>As % of</b> <b>total sales</b>	<b>FY2021</b> <i>HK\$'000</i>	<b>As % of</b> <b>total sales</b>	<b>FY2022</b> <i>HK\$'000</i>	<b>As % of</b> <b>total sales</b>
Singapore	24,120	34.7	45,858	34.7	51,216	40.1
Hong Kong	18,134	26.1	40,961	31.0	35,799	28.0
Malaysia	8,555	12.3	10,412	7.9	18,676	14.6
The Philippines	1,215	1.7	20,007	15.1	12,806	10.0
Japan	3,421	4.9	7,171	5.4	3,030	2.4
Vietnam	498	0.7	1,379	1.0	2,482	1.9
The PRC	1,391	2.0	1,436	1.1	1,064	0.8
New Zealand	58	0.1	1,439	1.1	983	0.8
Taiwan	823	1.2	1,494	1.1	912	0.7
Northern Ireland	10,109	14.5	1,215	0.9	—	—
Thailand	1,009	1.5	—	—	—	—
Others <sup>(Note)</sup>	<u>166</u>	<u>0.3</u>	<u>878</u>	<u>0.7</u>	<u>762</u>	<u>0.7</u>
	<u><u>69,499</u></u>	<u><u>100.0</u></u>	<u><u>132,250</u></u>	<u><u>100.0</u></u>	<u><u>127,730</u></u>	<u><u>100.0</u></u>

*Note:* Others includes Canada, Iceland and Korea.

### COMPETITIVE STRENGTHS

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

#### **We adhere to high standards of production conforming to JIS**

We pride ourselves in our ability to manufacture slewing rings that conform to premium standard under JIS, which, according to the Industry Report, has higher product requirements and level of precision than JB and JB/T standards and are, in our Directors’ opinion, more stringent than JB or JB/T in some aspects, in particular on the requirements on the accuracy of gears on the slewing rings. The JIS sets out standards on gear with regards to product specification including but not limited to accuracy, shares, profile, dimensions, backlash and measuring method. For instance, the JIS 1702 standard specifies accuracy for the involute spur gears and helical gears in certain diameter which we could adhere to JIS is not just relevant to customers situated in Japan, it is also applicable for other overseas customers which use excavators produced in Japan or produced by Japanese manufactures in countries outside Japan. As of 2022, according to the Industry Report, Sumitomo Construction Machinery is one of the top ten excavator manufacturers in Japan, and there are approximately 20 industry players capable of producing JIS compliant products in the PRC, of which the majority are Japanese-based companies setting up manufacturing sites in the PRC. Our Group is one of the few slewing ring manufacturers in the PRC that can produce slewing rings under the premium JIS.

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Leveraging on our long business relationships with certain heavy duty machinery brands in Japan, we have gathered substantial first-hand knowledge and are able to keep abreast of the up-to-date information on the requirements under JIS in producing high quality slewing rings. To offer our customers top quality slewing rings, we strive to produce products which are JIS compliant. Based on our internal records, the revenue derived from the sales of slewing rings that conform with JIS amounted to approximately HK\$18.9 million, HK\$23.9 million and HK\$40.6 million, which accounted for approximately 63.2%, 65.5% and 69.8% of our total revenue of slewing rings we produce, for FY2020, FY2021 and FY2022, respectively.

### **We have an international customer base and are able to customise and produce slewing rings adopting both applicable national JB or JB/T standards and JIS**

Since the inception of our Group in 2007, we have developed business relationships with international customers from Singapore, the Philippines, Malaysia, Japan and other Asian countries/ locations who are (i) wholesalers, (ii) traders, (iii) construction companies, and (iv) manufacturers. We have maintained business relationships with our five largest customers during the Track Record Period for over six years on average. We believe that our in-depth market knowledge and stringent quality control measures adopted are crucial factors for their repeated orders for slewing rings from us.

We are capable of manufacturing slewing rings that conform primarily to JIS, with slight modification to conform to other standards such as JB and JB/T or JB or JB/T only. Our Directors consider that JIS is not only relevant and important 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 to our ODM customers, which include overseas wholesalers, traders and construction contractors who apply our slewing rings on machineries and equipments they use. Based on our internal record, for FY2022, approximately 70.3% of the number of our slewing ring manufactured and sold were designed for excavators made by Japanese manufacturers, which to our Directors' knowledge, require equipments and parts to be JIS-compliant. The rest of the slewing rings 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.

Aside from the Japanese domestic market, our Directors are aware that these JIS-compliant excavators are also exported by the Japanese excavator manufacturers to other countries. They are also being manufactured outside Japan. These Japanese excavator manufacturers require the slewing rings be JIS compliant as well. Consequently, the JIS-compliant slewing rings manufactured by us are both for the Japanese domestic market as well as markets outside Japan. Further, the general warranty on products we sell to our top-five customers (who are either ODM or OBM customers) during the Track Record Period generally include the standards such as JB, JB/T or JIS we apply in our production. In fact, the slewing rings manufactured by us are capable of reaching a standard above that required under JIS in certain specifications. Our Directors consider that this niche does enable a medium sized player like our Group to compete with the major market players.

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Our OEM customers, which are leading Japanese manufacturers or their affiliates, would send their technicians to our factory regularly to inspect and make recommendations on our production process to ensure that we are capable of producing JIS compliant slewing rings. Further, our general manager and sales personnel attend meetings with them to learn about their latest production requirements and to keep abreast of the market trend and development. Through these exchanges, we are able to gain better insights into the latest market requirements and technology, which enabled us to respond to changes in market conditions and customer preference promptly.

### **We have a strong focus on stringent quality assurance**

We place a great emphasis on the quality of our products. Our Directors believe that quality assurance is crucial to our business. We strive to maintain consistency in quality and precision in the manufacture of our products and have therefore implemented a quality management system throughout our operation. We were first awarded ISO 9001:2008 for quality management system for the production of slewing rings and the related services in 2009 and such awards have been renewed regularly to give assurance to our customers of the quality of products we manufacture. We believe that this reflects the consistency of quality and precision in the manufacture of slewing rings. Our quality assurance measures cover our entire production process, starting from raw materials procurement, in particular forged rings, to production steps, and further to the finished products inspection, which applies to returned products as well (if any). We are in a position to offer a warranty period of up to 3,000 hours of operation for slewing rings manufactured under OEM basis. 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 complaint from customers and product return. We believe that this was attributable to our effective quality control.

We produce slewing rings for leading Japanese manufacturers or their affiliates on an OEM basis, such as Sumitomo Construction Machinery and Yutani and KATO. To become their approved supplier, our Group was required to satisfy the applicable JIS production procedures and we believe 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 in order to be maintained in their list of approved manufacturer or supplier. Our technicians received regular trainings from these OEM customers to ensure that we are kept abreast 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 expand into 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, to cope with the new developments of JIS from time to time. This will also assist us in improving our production process, helping us to streamline our production process, with the aim to work out an automated process with regard to production.

We continue to improve our production and quality assurance to adhere to a high standard of quality and precision. In 2023, we purchased a CNC coordinate measuring machine to inspect the accuracy of the cutting of the gears of our slewing rings with automated detection and product orientation which reduce reliance on manual power and increase the accuracy in quality control. We also engage independent professional technicians to conduct product testing and quality assurance to ensure our standards are well maintained and there is quality assurance to the products we manufacture.

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### **We have an experienced and capable management team and technicians**

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 15 years. Mr. YP Chan has over 15 years of experience in the manufacture of slewing rings. Our executive Director, Mr. LP Chan has over 18 years in procurement and extensive experience in construction and heavy duty machineries business. Over the years, Mr. YP Chan and Mr. LP Chan developed stable business relationships with major customers.

Our management team has in-depth knowledge and experience in the industry and are supported by our experienced technicians to ensure we have a smooth manufacturing process. Our technicians have over 10 years of experience, with one of them having worked with us since our establishment in 2007. Our management team works closely with our technicians and provide overall supervision and guidance on our production process, in particular when new machineries are introduced. Our technicians, who have vast experience in the field of engineering, oversee our quality assurance department, which is crucial for maintaining high standard, thus there is quality assurance to our products and is instrumental to the success of our Group. 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 document.

### **Our ability to offer comprehensive and new products with value-added services**

We keep abreast of the market trend and seize opportunities in offering new products. In addition to the production and customisation of slewing rings, we are capable of and have expanded our production facilities to manufacturing of mechanical parts and components for our customers.

Over the years, we have established close relationships with our customers. We maintain regular contacts with our customers to obtain feedback on our products and services. To assist our customers in cases of 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 using our slewing rings. Our capabilities in producing slewing rings on OEM basis also strengthens our communications with downstream machineries manufacturers to understand their needs and future developments as well as requirements of slewing rings and their specifications so that we can improve the manufacturing process in a hope that any change can be catered by us promptly and seamlessly.

Further, as an add-on to the services we provide to our customers, we also leverage on the in-depth market knowledge of Mr. YP Chan and Mr. LP Chan and our technicians, to source other slewing rings and other mechanical parts and components as well as machineries for them. For instance, our experience in the production of slewing rings and mechanical parts and components (which comprise consumable parts of excavators and machineries with undercarriage) has given us in-depth knowledge. It has also enabled us to provide insightful pre-sale consultation to our customers for the type of machineries and excavators they need, as well as to give advise on the technical specifications of slewing rings and mechanical parts and components to cater their needs.

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In addition, as a reliable supplier of heavy duty machineries, we provide quality control on the machineries before the shipment and after sales service to customers enabling them to easily identify and procure replacement parts from us. For machineries, we generally offer 120 days credit terms which, according to the Industry Report, is above the average of 80 days and is on the high end of credit period granted, which gives us a further competitive edge over our competitors. Our Directors believe that such arrangements have significantly increased our competitiveness and gives our Company a competitive edge over our competitors, and hopefully can procure us with another stream of income.

### **We can produce multi-units production simultaneously**

Our production facilities have been expanded since our GEM Listing. Whilst we have the capacity to manufacture six principal types of slewing rings, we can modify our slewing rings to fit different types of machineries which require different technical drawings, size and specifications. We have a variety of advanced machines and equipments for different stages of production so that we can produce different specifications of the same type of slewing rings or different types of slewing rings simultaneously. This enables us to shorten our production timeline. Please refer to the section headed “Our production facility” of this section for further details on our production facilities.

### **BUSINESS STRATEGIES, IMPLEMENTATION AND USE OF PROCEEDS**

We pride ourselves as a premium manufacturer of slewing rings and other mechanical parts and components and an “one-stop service” provider for slewing rings, machineries and associated mechanical parts and components. Since the GEM Listing, we have been actively implementing our business plans and strategies to leverage on our competitive advantages to expand the scale of our operation, strengthen our market position and increase our profit margin. In particular, we aim to increase our competitiveness in the 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 reliance on manpower to embrace Industry 4.0 with a more interconnected, efficient and flexible business operations.

We pursue the strategies of (i) acquiring and replacing machineries and equipments 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 to achieve our goals.

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As at 31 December 2022, we had utilised approximately HK\$26.8 million of the net proceeds from the GEM Listing in implementing the strategies which have supported our business growth with increasing revenue and profit after the GEM Listing. Despite the impact of COVID-19 during the Track Record Period, our revenue increased from approximately HK\$69.5 million in FY2020 to HK\$132.3 million in FY2021 and reached approximately HK\$127.7 million in FY2022 and our net profit margin had been maintained at a level of over 25% for the FY2021 and FY2022. Our Directors consider that the strategies had successfully facilitated our Group to achieve our goals and we shall continue to pursue the strategies to expand our market position and in maintaining and strengthening our premium status.

### Use of Proceeds

The final offer price for the GEM Listing was HK\$0.55 per Share and the net proceeds from the GEM Listing after the deduction of underwriting fees and commission and all related expenses was approximately HK\$28.4 million.

The table below sets forth the details of our use of net proceeds from the GEM Listing (as adjusted by us on 9 September 2020) up to 31 December 2022 (being the latest practicable date to determine our Group’s actual use of net proceeds):

	Adjusted and intended use of net proceeds from the GEM Listing		Actual use of net proceeds up to 31 December 2022		Amount of net proceeds remaining as at 31 December 2022		Expected timeline of full utilisation of the net proceeds
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	
1. To acquire and replace machineries and equipments with an aim to enhance and expand our production capacity at our production facilities in Dongguan, the PRC	17,210	60.6	17,210	60.6	—	—	N/A
2. To enlarge our market share and strengthen our marketing efforts	1,246	4.4	1,246	4.4	—	—	N/A
3. To increase our level of automation	2,158	7.6	2,158	7.6	—	—	N/A
4. To establish our ERP system	1,704	6.0	837	2.9	867	3.1	Q4 of 2023
5. To expand our finance department	1,420	5.0	854	3.0	566	2.0	Q4 of 2023
6. To enhance staff training	227	0.8	16	0.1	211	0.7	Q4 of 2023
7. To maintain sound working capital for operation	4,435	15.6	4,435	15.6	—	—	N/A
<b>Total</b>	<b>28,400</b>	<b>100</b>	<b>26,756</b>	<b>94.2</b>	<b>1,644</b>	<b>5.8</b>	



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As at 31 December 2022, the unutilised net proceeds from the GEM Listing amounted to approximately HK\$1.6 million which is expected to be fully utilised by 31 December 2023.

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

With the increasing demand for our slewing rings, our Directors consider that it is pivotal for us to enhance our production capacity by acquiring and replacing machineries and equipments. The aim is twofold. Firstly, we pride ourselves a manufacturer of premium slewing rings. To remain competitive, we need to upgrade our aged machineries and equipments 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 equipments which are capable of multi-units productions, production of larger size slewing rings and reducing product deficiency.

During the Track Record Period, we acquired two new quenching machines which are heat treatment units. They are more technologically advanced in producing slewing rings, to ensure our products are up to our required standards and are capable of quenching slewing rings of up to 3.6m in (inner) diameter. As at the Latest Practicable Date, we received two orders for slewing rings with 2.4m in (inner) diameter, which we could not manufacture in the past. Furthermore, since the new quenching machines are equipped with sensors, less manual work are involved. We can achieve more uniform contour hardening and can produce products with better mechanical properties. With the installation of these new equipments, we were able to extend our production of slewing rings from the maximum of 2.3m to 3.6m in diameter. The new quenching machines also enable us to manufacture mechanical parts and components (other than slewing rings) on an ODM basis by applying heat treatment on semi-finished mechanical parts and components.

As at 31 December 2022, we have utilised approximately HK\$17.2 million of the net proceeds from the GEM Listing to acquire and replace machineries and equipments, which was in line with the plan on the use of net proceeds as disclosed in the GEM Prospectus. As at the Latest Practicable Date, the use of the net proceeds from the GEM Listing for this strategy had been fully utilised.

### **To enlarge our market share and strengthen our marketing efforts**

According to the Industry Report, the revenue from the export of slewing rings from the PRC and the domestic sales revenue in the PRC is expected to grow by 6.6% CAGR and 6.2% CAGR from 2023 to 2027, respectively. We will continue to strengthen our marketing efforts, both in the PRC and overseas, in a bid to capture the expanding markets. Up to 31 December 2022, we had utilised approximately HK\$1.2 million of the net proceeds from the GEM Listing to strengthen our marketing effort.

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As disclosed in the GEM Prospectus, we aimed to participate in major local and international trade exhibitions such as Conexpo-Con/Agg in U.S., Bauma Conexpo in South Africa and Bauma China in the PRC, which are the well-known trade fairs in the construction industry in the U.S., South Africa and the PRC to showcase our product portfolio and production capability to overseas buyers in a bid to enlarge our market share. However, due to COVID-19 and lock-down measures around the globe, these exhibitions had been cancelled, resulting in the suspension of such activities during the Track Record Period. To make up for the loss of such opportunities, and in order to strengthen our marketing efforts and after sales support, we recruited several sales representatives in Hong Kong and the PRC after the GEM Listing. As at the Latest Practicable Date, we had six sales representatives. We also engaged a consultant to design and optimise the contents of our website and to advise regularly on our promotion strategies to increase the visibility and ranking of our website when internet searches are performed through internet search engine by potential customers.

Our Directors consider that our participation in trade exhibitions is still important as it will enable our Group to showcase our products to potential customers from all over the world, and we will utilise our internal resources to fund our participation in these trade exhibitions. With the recent opening up of markets internationally and the relaxation of travel and other restrictions, we intend to once again participate in major local and international trade exhibitions as mentioned above.

### **To increase our level of automation**

To 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. We installed robotic arms to increase our level of automation and production in gear chamfering. We acquired an automatic packaging machines for our products and a CNC coordinate measuring machine to inspect the accuracy of the cutting of the gears of our slewing rings with automated detection and product orientation which reduce reliance on manual power and increase the accuracy in quality control.

As at the Latest Practicable Date, the use of the net proceeds from the GEM Listing as planned for this strategy had been fully utilised.

### **To establish our ERP system**

Since our GEM Listing, we have been upgrading our in-house accounting and inventory monitoring system to cope with the enhancement and expansion of our production capacity. In 2021, we acquired a license to use an ERP system which had enabled us to more efficiently monitor and manage (i) our production process through collecting and providing information on raw materials, inventory at different production stages and expected production schedule; and (ii) our financial information through automation of sales order and payment tracking and automation of payroll processing. With the use of this new ERP system, our management team is able to collect real-time data of our production process and enhance our inventory control and risk management.

As at 31 December 2022, we had utilised approximately HK\$0.8 million of the net proceeds from the GEM Listing for this strategy.

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### **To expand our finance department**

We recruited two additional finance staff with extensive accounting and finance experience and knowledge to strengthen our finance department to accommodate the increase in our business scale and production capacities.

As at 31 December 2022, we had utilised approximately HK\$0.9 million of the net proceeds from the GEM Listing for this strategy and the balance of approximately HK\$0.6 million is expected to be utilised in 2023.

### **To enhance staff training**

We believe that our Group’s success depends on our ability to hire and cultivate dedicated and motivated key management, to retain and nurture workers with appropriate experience and expertise. To enhance the standard and professionalism of our key management and staff, we offer continuous training programs for them including providing full subsidy for our key management and selected employees and workers to attend tailored training programs or courses in different areas from top and middle-level business management to practical courses relating to quality assurance. During the Track Record Period, three of our trained employees were awarded ISO quality management system certificates.

Due to COVID-19, some of the scheduled trainings as outlined in the GEM Prospectus had been delayed or put on hold, but we expect to recommence such trainings in 2023. As at 31 December 2022, we had utilised approximately HK\$16,000 of the net proceeds from the GEM Listing for this strategy and the balance of approximately HK\$0.2 million is expected to be utilised in 2023.

### **REASONS FOR THE [REDACTED]**

Despite the impact of COVID-19, since the GEM Listing, our Group has achieved business growth and expanded our source of income. Our Directors considered that the GEM Listing had facilitated our Group to gain public awareness and recognition from our existing as well as new customers. As it is the combined view of our Directors that the Main Board enjoys a premium status and recognition by investors and customers and as our Group has already achieved the necessary threshold, the [REDACTED], if approved and proceeded, will further promote our Group’s corporate profile and position in the industry. It will also raise our recognition among public investors and thus broaden our Group’s investor base and enhance the trading liquidity of the Shares.

As at the date of this document, the Board has no plan to change the nature of the business of our Group following the [REDACTED]. The [REDACTED] will not involve any issue of new Shares by our Company.

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### BUSINESS MODEL

Our principal business is in the manufacturing of premium slewing rings, and to a lesser extent, mechanical parts and components. Since 2020, we have expanded our business on the sales of machineries and related parts and components not manufactured by us as an ancillary service to our slewing rings and production business. The business rationales for our business expansions are:

- Our customers which order slewing rings produced by us include wholesalers, traders and construction companies. Wholesalers and traders used to source wide ranges of products (including machineries and related parts and components) from various suppliers for re-sale to end customers. For customers who are construction companies, they operate heavy duty machineries during their course of business and thus have a demand on various kinds of heavy duty machineries and a necessity on related parts and components to carry out maintenance for their machineries. For instance, we had been supplying slewing rings to a nominated suppliers for the supply and use of slewing rings in theme parks and resorts in Hong Kong and heavy duty machineries to construction contractors working on the Hong Kong Airport Three Runway System Project. We see business opportunities arising as there is a huge demand from our customers on products other than the slewing rings we produce.
- Leveraging on our long-established business presence in the industry, we have developed a wide network of suppliers along the supply chain. We are in a position to reach out to different suppliers for machineries and related parts and components to cater to the needs of our customers, such as Sumitomo Construction Machinery Sales Co., Ltd. (“**Sumitomo Construction Machinery Sales**”) and Kaneharu Co., Ltd (“**Kaneharu**”).
- We position ourselves as a comprehensive “one-stop solution provider” on machineries and related parts and components as our customers (most of which are located overseas) can spend less effort to locate the wide range of machineries and related parts and components they require.
- Our financial position was strengthened as a result of the GEM Listing. Moreover, since the GEM Listing, we have gained recognition in the market which enabled us to obtain financing for our business operations including obtaining new banking facilities from two principal banks as compared to nil before the GEM Listing. As at the Latest Practicable Date, the banking facilities we have amounted to HK\$31 million. We are therefore financially resourceful to support our business expansions to sell a wide range of products which compliments our slewing rings business.

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### **Slewing rings**

#### *Manufacturing of slewing rings*

Our business is primarily focused on manufacturing slewing rings for local and overseas customers on an ODM basis. Our ODM customers include companies in the wholesale and trading of heavy duty machineries and their related parts and components. They then re-sell our products to the end-users in the market. The products we sold are usually used to replace worn out slewing rings of existing machineries under usage, or for assembly of new machineries. Leveraging on our in-depth knowledge and know-how accumulated over the years, as well as our market knowledge, we are able to produce a diverse range of slewing rings for our customers. In the case of slewing rings for replacement purpose, we are able to customise our production process to manufacture slewing rings which have already ceased production to suit old models of machineries. This is attributable to our in-depth knowledge in the industry and our established database after years of operation in the industry.

We work-out the design as well as all technical specifications from start to finish for our ODM customers, based on their preliminary inputs. Our Directors consider that being in a position to produce slewing rings up to the premium standard under JIS is of significant importance to our ODM customers and this standard is hence applicable to our slewing rings sold to our customers on an ODM basis. Based on our internal record, for FY2022, approximately 69.2% of the number of our slewing rings manufactured and sold on an ODM basis were designed for excavators made by Japanese manufacturers, such as Sumitomo Construction Machinery and KATO, which to our Directors' knowledge, do require the equipments and parts ordered to be JIS-compliant. The slewing rings sold to our ODM customers commonly adopt a quenching standard of JIS or the applicable standards under JB, JB/T or JIS. The products manufactured under the ODM basis will be sold under the brand name of our ODM customers.

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

In respect of our OEM customers, we are usually provided with technical drawings and we are not required to participate in the design of these products. Our OEM customers normally provide us with all specifications and standards they require and we have to strictly adhere to the standards required during the production process. Slewing rings so produced will be applied by our OEM customers directly on their heavy duty machineries. Most of our OEM customers during the Track Record Period are Japanese manufacturers or their affiliates, which require us to produce slewing rings in conformity to the JIS.

## BUSINESS

In addition, we derive our revenue from the sales of our proprietary branded products under OBM basis. We began producing our own branded products under the brand name of "KYOEI" in January of 2011. 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 sold our OBM products under our own brand name to customers located in six locations including the PRC, Hong Kong, Taiwan, Malaysia, the Philippines and Thailand. Our OBM customers are mainly wholesalers or traders.

For slewing rings produced under OBM basis, we are in-charge of the product packaging including its design. Similar to our ODM products, the level of our participation in the design of slewing rings so produced depends on whether our OBM customers will provide us with the technical details. The slewing rings sold to our OBM customers commonly adopt a quenching standard of JIS.

### *Sourcing of slewing rings*

We also source slewing rings for our customers. These slewing rings are mainly models which we do not manufacture currently as (i) they maybe of lower quality and their production would require different raw materials which we do not have; or (ii) they are of small quantity and it is not commercially justifiable for us to spend efforts on product development for such small scale productions; or (iii) they are of size which we do not manufacture.

We position ourselves as a premium slewing rings manufacturer and majority of the slewing rings so produced were complied with the JIS standard. We therefore require the raw materials used for our production to contain certain chemical elements such that the specifications for our final products can be reached. For occasions where our customers do not require slewing rings with such high standards, we source them from our list of suppliers instead of manufacture on our own, as we do not normally prepare raw materials for productions of slewing rings of these kinds.

We may also come across situations where the slewing rings so ordered are of old models. In the event that we do not have the relevant drawings in our database, we have to develop these products by our technicians for production. We may determine to source them from our list of suppliers instead in case the order volumes are low as we consider it not commercially justifiable to spend resources for small volume productions.

During the FY2022, we manufactured slewing rings with a size (being the inner diameter of slewing rings) ranged from 0.2m to 2m. For occasions where our customer require slewing rings with either smaller or larger size than that we manufacture, we may source them from our list of suppliers instead. During the Track Record Period, we acquired three new turning machines and two new quenching machines and are capable of quenching slewing rings of up to 3.6m in diameter.

**BUSINESS**

Set out below is the breakdown of revenue and quantities of slewing rings sourced by us for our customers during the Track Record Period:

	<b>For the year ended 31 December</b>					
	<b>2020</b>		<b>2021</b>		<b>2022</b>	
	<b>Revenue</b>	<b>Quantities</b>	<b>Revenue</b>	<b>Quantities</b>	<b>Revenue</b>	<b>Quantities</b>
	<b>HK\$'000</b>	<b>sold</b>	<b>HK\$'000</b>	<b>sold</b>	<b>HK\$'000</b>	<b>sold</b>
		<i>(units)</i>		<i>(units)</i>		<i>(units)</i>
<b>Slewing rings</b> <i>(note)</i>						
Small size	762	118	2,869	441	460	1,586
Medium size	2,201	152	8,612	452	3,250	580
Large size	<u>2,069</u>	<u>49</u>	<u>11,000</u>	<u>271</u>	<u>13,517</u>	<u>642</u>
<b>Total</b>	<u><u>5,032</u></u>	<u><u>319</u></u>	<u><u>22,481</u></u>	<u><u>1,164</u></u>	<u><u>17,227</u></u>	<u><u>2,808</u></u>

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

**Mechanical parts and components**

***Manufacturing of mechanical parts and components***

To implement our business strategy to expand our slewing rings business, we have utilised part of the net proceeds from the GEM Listing to acquire a number of new equipments for production which enabled us to expand our capability to include manufacturing of mechanical parts and components such as sprocket, track shoes and rollers, which are commonly sought by our customers alongside our slewing rings. These mechanical parts and components are manufactured on an ODM basis where our customers do require mechanical parts and components to fulfil specific functions and specifications to suit their needs. The manufacturing of these mechanical parts and components requires production techniques and multiple production processes which are similar to our production of slewing rings. Depending on the quantities, our capabilities and availability of machines as well as marketing strategies, we may either fulfill customer’s orders by procuring semi-finished parts and components for further manufacturing or sourcing the finished products from the market.

***Sourcing of mechanical parts and components***

The expansion of our business into the sale of mechanical parts and components is complementary to our principal business of manufacturing and sales of slewing rings. It enables our customers to enjoy a more comprehensive “one-stop services” from us which would further strengthen our business relationships with our customers and in turn lead them to place recurring purchase orders with us. The mechanical parts and components we sourced during the Track Record Period were broad in range and numerous in varieties such as telescopic boom, clamshell, bolts and oil seal kits. We sold over 10 kinds of mechanical parts and components during the Track Record Period. Similar to the slewing rings, these mechanical parts and components are consumable parts which require routine replacement over a period of usage.

**BUSINESS**

**Sourcing of machineries**

***Excavators***

As a supplier of slewing rings under OEM basis to Sumitomo Construction Machinery for over 10 years, we have developed long term business relationships with this leading Japanese heavy duty machinery brand and are in a position to source heavy duty machineries directly from it. We have also developed long term business relationship with Kaneharu, an established used heavy equipment wholesalers in 1988, for over 5 years. In catering the needs of our customers, we source both brand new or used Japanese brand excavators for our customers for construction and/or mining purposes.

***Other machineries***

With the expansion of our customer and supplier base alongside our business operations over the years and as a supplier of slewing rings to a number of Japanese brand machinery manufacturers, we received requests from our customers from time to time when they were in need of other machineries such as pile drivers, trucks and wheel loaders. Depending on the availability of these products from our suppliers, we may procure these machineries for them on an ad-hoc basis.

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

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Slewing rings</b>						
— ODM	25,972	37.4	34,473	26.1	56,759	44.4
— OEM	421	0.6	525	0.4	362	0.3
— OBM	3,534	5.1	1,477	1.1	996	0.8
— Sourcing	<u>5,033</u>	<u>7.2</u>	<u>22,481</u>	<u>17.0</u>	<u>17,227</u>	<u>13.5</u>
Sub-total	34,960	50.3	58,956	44.6	75,344	59.0
<b>Mechanical parts and components</b>						
— ODM	5,581	8.0	8,311	6.2	8,950	7.0
— Sourcing	<u>11,738</u>	<u>16.9</u>	<u>25,856</u>	<u>19.6</u>	<u>16,116</u>	<u>12.6</u>
Sub-total	17,319	24.9	34,167	25.8	25,066	19.6
<b>Machineries</b>						
— Excavators	17,220	24.8	27,167	20.5	16,493	12.9
— Others <sup>(Note)</sup>	<u>—</u>	<u>—</u>	<u>11,960</u>	<u>9.1</u>	<u>10,827</u>	<u>8.5</u>
Sub-total	17,220	24.8	39,127	29.6	27,320	21.4
<b>Total</b>	<u><u>69,499</u></u>	<u><u>100.0</u></u>	<u><u>132,250</u></u>	<u><u>100.0</u></u>	<u><u>127,730</u></u>	<u><u>100.0</u></u>

*Note:* Others mainly include pile driver, trucks, and wheel loaders.



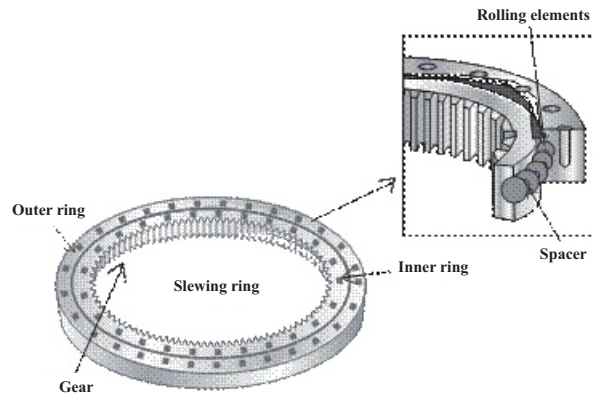
## BUSINESS

### OUR PRODUCTS

We carry three major products: (i) slewing rings; (ii) mechanical parts and components; and (iii) machineries.

#### 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*

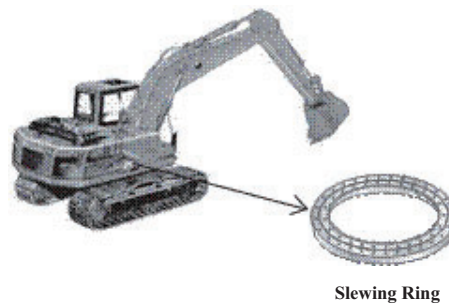
Spacers are typically made of plastic and are used to separate the rolling elements. They are placed between the rolling elements to help minimise friction, jamming and skidding during rotation when the slewing ring is in operation.

#### *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.

**BUSINESS**

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



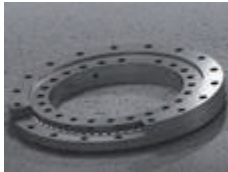
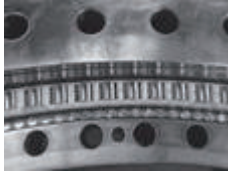
Slewing rings have a broad range of applications. For further details of these applications, please refer to the paragraph headed “Our slewing ring portfolio” in this section.

**Our slewing rings portfolio**


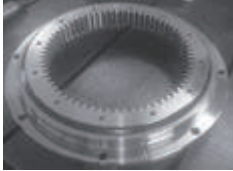

The following are principal types of slewing rings that our Group produced during the Track Record Period:

Name of products	Sample picture	Brief description	Designed application <i>(Note 1)</i>
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) meet 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.

**BUSINESS**

Name of products	Sample picture	Brief description	Designed application ( <i>Note 1</i> )
2. Single-row crossed roller slewing ring (11 series, HJ series and J series)		<p>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.</p>	<p>It is suitable for medium- to heavy-duty application, such as transportation and construction machineries.</p>
3. Triple-row roller slewing ring (13 Series)		<p>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.</p>	<p>It is suitable for heavy-duty machines such as heavy duty cranes, tunnel boring machines, mining machineries, ship cranes and container cranes.</p>

**BUSINESS**

Name of products	Sample picture	Brief description	Designed application (Note 1)
4. Double-row ball slewing ring (02 series)		<p>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.</p>	<p>It is particularly suitable for medium-duty machines such as medium-sized tower cranes and truck cranes.</p>
5. Slim series slewing ring (薄型迴轉支承)		<p>This type of slewing ring has an increased cross section and bore diameter as compared to the standard slewing rings. Its slim features help to save weight, reduce friction, create space, provide excellent running accuracy and increase design flexibility.</p>	<p>It has a broad range of applications including radars, tube and pipe cutting machines, satellite and communications equipments, textile machineries, aerospace and defense, index and rotary tables packaging equipments, machine tools etc.</p>
6. Light series slewing ring (輕型迴轉支承)		<p>This type of slewing ring has the same structure as the others but it is lighter and helps to save weight.</p>	<p>It is commonly used in filling machineries, food machineries, environmental protection machineries and other fields.</p>

*Notes:*

1. These are the designed and intended application according to the best knowledge of our Directors. Our customers may use it for other applications.

## BUSINESS

We produced the above principal types of slewing rings on ODM, OEM or OBM basis depending on the orders placed by our customers. We also sourced other types of slewing rings or models which we do not produce for our customers. The following table sets out the average and the range of 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)		
	FY2020	FY2021	FY2022	FY2020	FY2021	FY2022
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
ODM	11,795	14,515	14,744	2,498–162,734	2,223–549,863	973–320,000
OEM <sup>(Note 1)</sup>	3,239	3,222	3,234	2,735–33,094	3,201–4,441	1,125–6,204
OBM	10,975	9,655	11,713	4,235–54,299	3,580–34,318	4,215–31,573
Sourcing <sup>(Note 2)</sup>	15,777	19,314	6,128	4,317–76,406	561–33,500	10–124,604

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. The average selling price of slewing rings we sourced during the FY2022 was lower, mainly because we received considerable amount of orders from customers on small-sized rings which their unit prices were low.

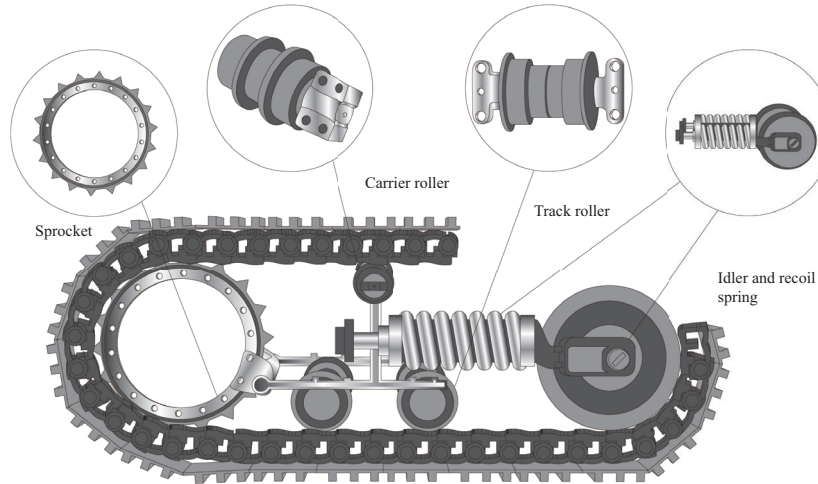
As a slewing ring is an essential part for many machineries and equipments which require a rotational motion and is widely used in heavy duty machineries, it generally has a relatively long product life cycle of more than 20 years. While there could be different specifications for each type of slewing rings to be produced, for example, the diameter, location of drilling holes, each type of slewing ring could last for a long time for different applications. In general, the sale price of our slewing rings are in proportion to their size.

### Overview of mechanical parts and components

Since the GEM Listing, leveraging on our high quality turning and heat treatment process, we expanded our capabilities and products portfolio to include manufacturing of mechanical parts and components that are mainly related to the type of heavy duty machineries on which our slewing rings will be installed or machineries with undercarriage track shoes due to the rising demand from our customers as we are perceived to be a “one-stop” premium service provider and our ability in advising and improving the design and specifications. We adapted our production lines to be capable of conducting manufacturing for some of these mechanical parts and components on an ODM basis as part of our value-added services. These mechanical parts and components include undercarriage parts such as sprocket (驅動輪), idler (引導輪), track roller (支重輪), carrier roller (托帶輪), track chains and track shoes (履帶) for tracked vehicles such as excavators, pile driver and bulldozer. In addition, we source mechanical parts and components which we do not manufacture such as telescopic boom and clamshell to cater the needs of our customers.

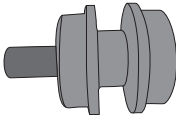
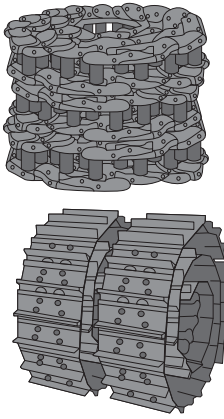
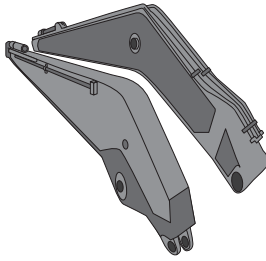

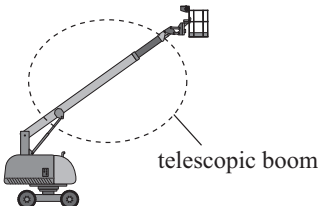
**BUSINESS**

The following diagram shows the major mechanical parts and components used in heavy duty machineries which we manufactured and/or sourced during the Track Record Period:

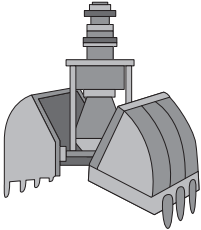



Name of product	Sample picture	Brief description and application
1. Sprocket (驅動輪)		<p>A sprocket is a profiled wheel with teeth that connects the motor and the track chain for the transmission of rotary motion, driving the track chain and hence the machinery movement. Sprockets are commonly used in tracked vehicles.</p>
2. Idler (引導輪)		<p>An idler is a metallic wheel which transmits the rotary force and gives some sort of suspension system to ease the ride and guiding the track shoes to move in a desired direction. It increases controllability and decreases the wear and tear. It also carries some of the weight of the vehicle.</p>
3. Recoil spring/track adjuster (漲緊裝置)		<p>A recoil spring is produced from a circular shaped wire so that tension can be adjusted to keep the track chain with the correct tension. It is assembled with the idler.</p>
4. Track roller (支重輪)		<p>A track roller is an enforced metal wheel that is mounted to bottle of the track frame to support and guide the track shoes as well as to connect and guide the track chain between the sprocket and the front idler. The primary function of the bottom rollers is to bear the weight of the machines.</p>

## BUSINESS

Name of product	Sample picture	Brief description and application
5. Carrier roller (托帶輪/拖鏈輪)		A carrier roller is similar to track roller in that it is mounted to the top of the track frame to support and guide the track chain and track shoes and to adjust the elasticity of the track shoes.
6. Track chain and track shoes (鏈條及履帶)		A track chain is to connect the forward movement that is produced by the pedals to the wheels with driving characteristics in order to cause continuous motion. A track shoe is connected with the track chain to support the machine and have a grip with the ground. The track shoes are formed by connecting a number of gear teeth so that the track shoes have claws to provide a grip to the ground.
7. Long reach arm of excavator (挖掘機加長臂)		The extension long reach arm of an excavator provides greater versatility and increases reaching distance for the use such as excavation, demolition, deeper dredging, digging, barge unloading, tank cleaning etc.
8. Bucket (鏟斗)		A bucket is attached to the excavator arm for digging and loading.
9. Telescopic boom		The special boom section that extend telescopically of a telescopic boom lift.

**BUSINESS**

Name of product	Sample picture	Brief description and application
10. Clamshell		A type of bucket with two hinged jaws for digging and carrying.
11. Oil Seals		A sealing device to prevent entry of dust and foreign objects between connections.

During the Track Record Period, we had production on products 1 to 8 above. Products 9 to 11 were sold through sourcing. The manufacturing of mechanical parts and components requires our input in multiple production processes, in particular the heat treatment which aims to harden the strength and increases the durability and wear resistance of these mechanical parts and components as well as our precise drilling, turning and chamfering to ensure they can be assembled or installed onto the machineries. Any significant discrepancy could cause malfunctioning or lead to such parts and components not being able to be installed properly onto the machineries.

Similar to slewing rings, these mechanical parts and components generally have a very long life cycle of more than 20 years on average as they are common, essential and consumable parts of an undercarriage or heavy duty machineries such as excavators. During the Track Record Period, we recorded a significant increase in the sales of mechanical parts and components we manufactured. Our Group sold 2,816, 68,305 and 109,767 units of mechanical parts and components in FY2020, FY2021 and FY2022, respectively. We also sourced and sold 4,096, 7,372 and 9,291 units of mechanical parts and components during the corresponding years respectively.

The following table sets out the range of the selling price of our mechanical parts and components during Track Record Period:

	Range of selling price (per set)		
	<i>(unaudited)</i>		
	FY2020	FY2021	FY2022
	HK\$	HK\$	HK\$
ODM	10.4–393,000	0.6–96,000	1.7–80,500
Sourcing	9.1–580,000	1.0–603,000	5.7–568,000

We recorded a wide price range for mechanical parts and components we sold as the products categories were broad in range and numerous in varieties which were as small as a bolt or as large as a long reach arm of an excavator.



## BUSINESS

### Overview of machineries

Leveraging on our long established business relationship with a leading Japanese heavy duty machineries manufacturer, we are able to source excavators of this Japanese brand for our customers to broaden our product line and generate additional income stream to our Group. As our customers comprise of wholesalers, traders and construction contractors who have demands on various kinds of machineries, we further extend our heavy duty machineries offering on other types of machineries such as pile drivers, wheel loaders and trucks.

With our accumulated experiences and knowledge in the industry, we advise our customers based on their needs and make recommendation on heavy duty machineries suitable for their use. For used machineries, we carry out multiple monitoring and inspections on the machineries before delivery. If necessary, we also carry out repair and replacement work on the machineries before delivery. In terms of maintenance, we offer our customers slewing rings and the related mechanical parts and components which we could source or produce under the ODM basis.

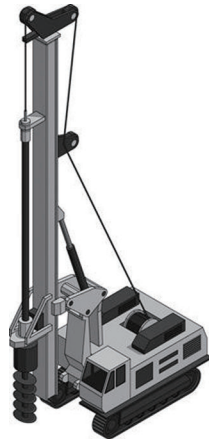
The following are the major types of machineries that our Group sold during the Track Record Period:

#### Types

Excavator



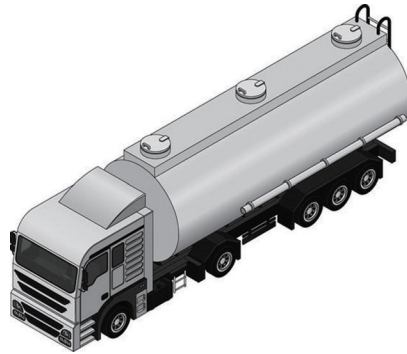
Pile Driver



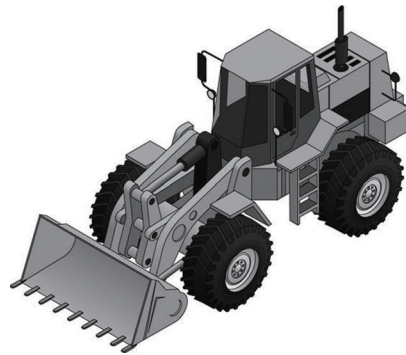
**BUSINESS**

**Types**

Truck



Wheel loader



During the Track Record Period, we sold 10, 71 and 50 machineries, respectively.

The following table sets out the average and the range of the selling price of the machineries during Track Record Period:

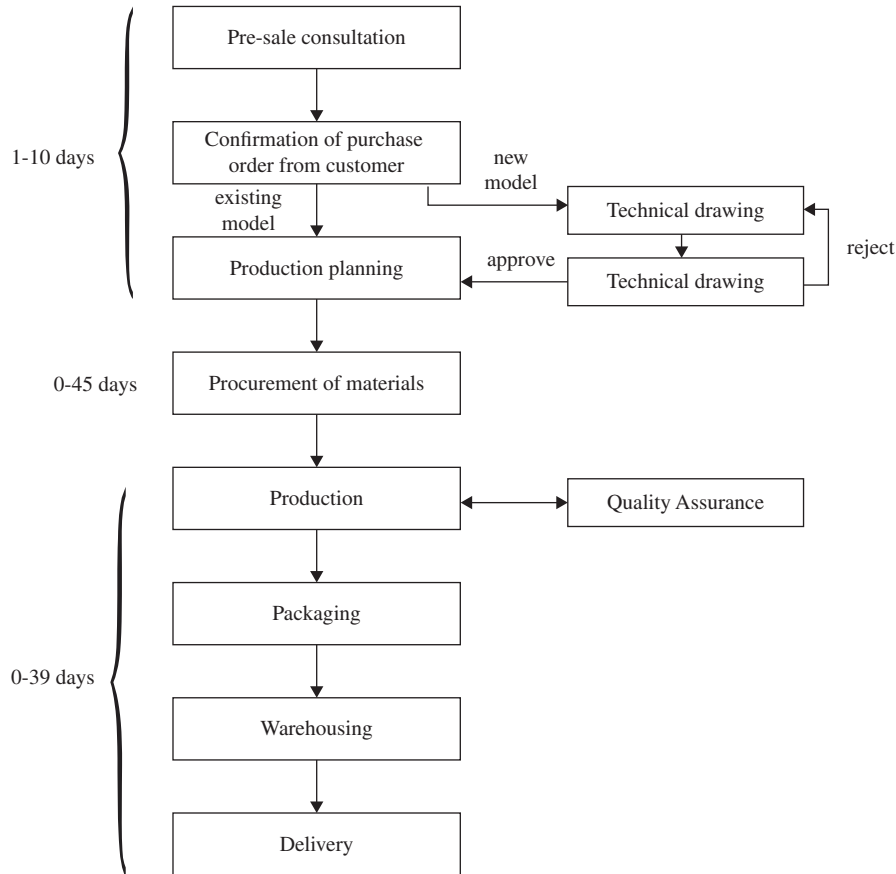
	Average selling price (per unit)			Range of selling price (per unit)		
	<i>(unaudited) and units sold</i>			<i>(unaudited)</i>		
	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Excavators	1,721,973 (10 units)	936,792 (29 units)	458,133 (36 units)	372,000– 2,286,999	196,388– 4,380,908	92,000– 950,000
Others	— (—)	284,754 (42 units)	773,399 (14 units)	— (—)	3,296– 550,000	28,165– 5,000,000

The prices of excavators and other machineries depend on the type and specifications of the machineries. The prices also vary across brand new and used machineries and for used machineries, their length of usage etc.

**BUSINESS**

**PRODUCTION OF SLEWING RINGS AND MECHANICAL PARTS AND COMPONENTS**

The production process of our slewing rings and mechanical parts and components is illustrated by the flowchart below. The lead time between the placing of orders for slewing ring by our customers to product delivery is generally around 4 days (if we have in stock the raw materials for the slewing rings ordered by that our customers) to 99 days, and the lead time between the placing of orders for mechanical parts and components to product delivery is generally around 4 days (if we have in stock the parts and components ordered by our customers) to 94 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 inspection.

## **BUSINESS**

### **Pre-sale consultation**

All enquiries from our customers are directed to our sales department for follow-up and handling. Our sales personnel will liaise with our customers to gather information relating to the intended purchases. They will begin by making enquiry on the purpose(s) of the intended purchase, such as whether it is for replacement of an existing machine or for manufacturing of new machinery, type of machines used, its model number, dimensions etc. We will check if we have such slewing rings or mechanical parts and components in stock, and if we do not have such in stock, we will look for their availability, and our general manager will determine the sale price for new models.

### **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 consolidate all information and work out the timetable for production with each and every department as well as the production road map. Our finance department will input the details of the purchase orders into our in-house database system and issue invoices to our customers.

### **Technical drawings and customer approval**

Our technical department will take the lead in devising the technical drawings if we do not have those particular technical drawings in our database. In preparing the technical drawings, 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 comments thereon, we will discuss with them and revise the technical drawings further to suit the need of our customers. The process is repeated until our customers sign off the final drawing.

### **Production planning**

Our production department and procurement department work closely during the production process to ensure the entire process is smooth and on schedule. It is responsible for reporting the progress to our customers. Our production department is also responsible for preparing production plans, including setting adjustments on production machineries, manpower allocation, raw materials delivery timeline, production timeline, warehousing, etc. for review by our general manager. To ensure we are able to meet the purchase orders, our procurement department works closely with our sales department to conduct production rolling forecast for the upcoming three-months.

The implementation of the production plans is reviewed regularly to ensure that our operations are on schedule. For instance, our machines for turning, heat treatment and drilling need to be properly scheduled for our productions to ensure there be no overlaps in the orders of production whilst the production cycle will not be hindered. In general, our sales department will evaluate our production capacities with our production department before accepting a purchase order. When we come across orders for new models of slewing rings or mechanical parts and components, our customers will usually engage us for a trial production at their own costs.

## BUSINESS

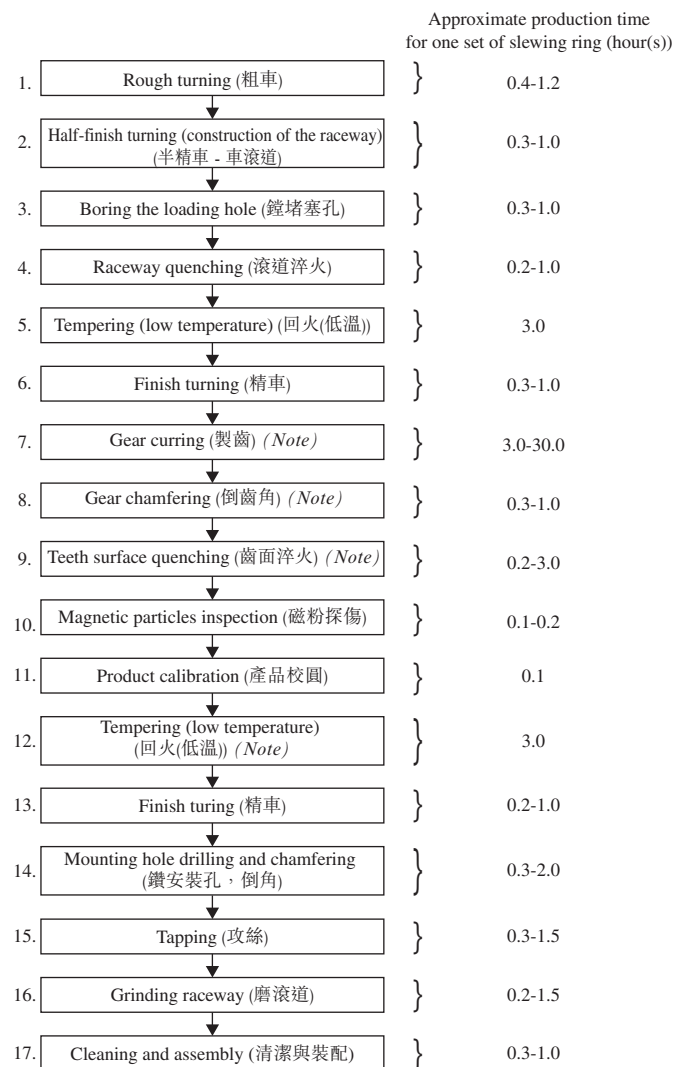
### Procurement of materials

Our procurement department is responsible for the purchase of raw materials from suppliers upon receipt of the raw materials lists from our production department. The raw materials are inspected by our quality assurance department upon delivery. The raw materials are checked randomly and any substandard raw materials and supplies are returned to our suppliers. The raw materials will be kept in the storage area of our production facilities.

### Production

#### *Slewing rings*

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



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

## BUSINESS

### 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 by thermal expansion and contraction of the forged ring during the tempering stage.

### 7. *Gear cutting (製齒)*

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

## BUSINESS

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 full 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 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)*

The mounting holes on the slewing rings are drilled by robotic arms so that they can be fixed onto 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.

## BUSINESS

### 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.

#### Mechanical parts and components

For illustrative purpose, the manufacturing steps of mechanical parts and components vary across different parts and components, and generally, include the following key steps:

- Heat treatment (comprising quenching (淬火) and tempering (回火)) (steps 4, 5 and 12)
- Rough turning (粗車) (step 1)
- Finish turning (精車) (steps 6 and 13)
- Mounting hole drilling and chamfering (鑽安裝孔, 倒角) (step 14)
- Grinding (打磨)
- Painting (噴漆)
- Cleaning and assembly (清潔與裝配) (step 17)

Please refer to 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. We will then pack the finished products with packaging materials using our automatic packaging machines. 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 them becoming rusty or oxidised.



**BUSINESS**

**Warehousing**

Our production is scheduled according to the purchase orders we received and a rolling forecast for the upcoming three-month periods. As such, we do not normally keep excessive inventory of finished products. Our finished products are only temporarily stored in our production facilities prior to the delivery to our customers. Our warehouse is guarded by floormen on shifts, and is overseen by the surveillance system and security team of our Group. During the Track Record Period, we have not encountered any issue with obsolete inventories.

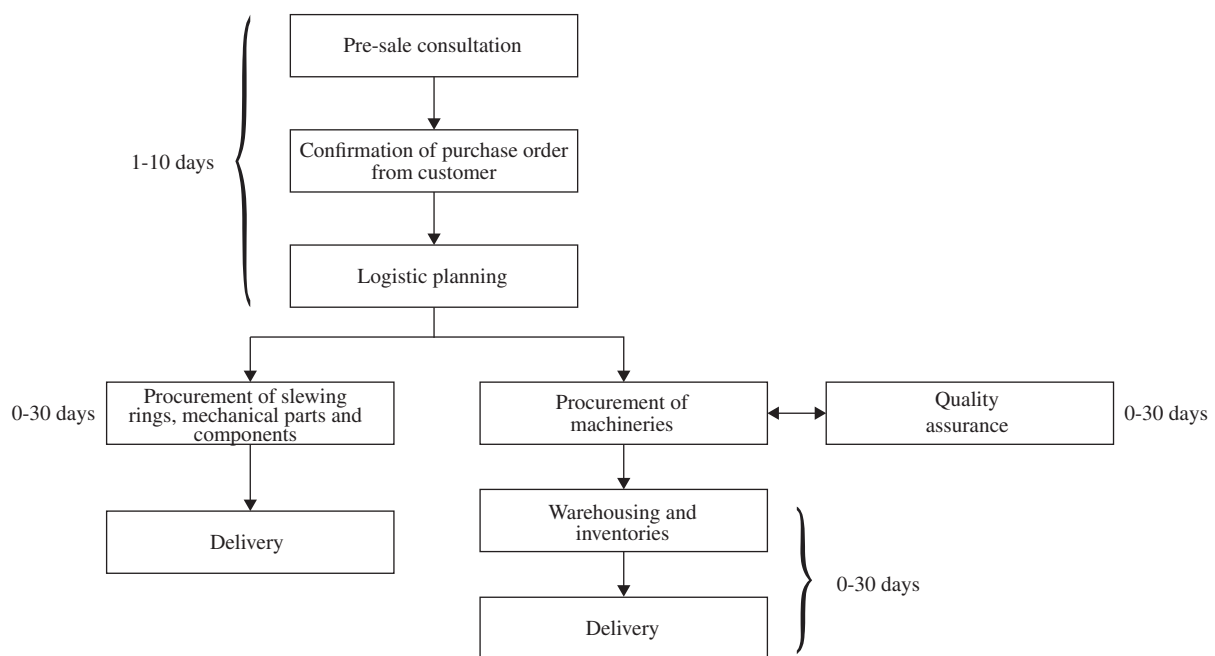
**Delivery**

During the Track Record Period, our Group engaged independent logistic service providers for the delivery of our products to the destinations specified by our 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 or Ex Works terms. In general, our customers bear the delivery costs.

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

**SOURCING OF MACHINERIES, SLEWING RINGS AND MECHANICAL PARTS AND COMPONENTS**

The procurement process for machineries, slewing rings and mechanical parts and components not produced by us is illustrated by the flowcharts below. The lead time between the placing of orders for machinery by our customer to delivery is generally around 30 to 50 days; and the lead time between the placing of orders for slewing rings, mechanical parts and components by customers to product delivery is generally around 30 days.



## **BUSINESS**

### **Pre-sale consultation**

All enquiries from our customers are directed to our sales department for follow-up and handling. Our sales personnel will liaise with our customers to gather information relating to the intended purchases. They will begin by making enquiry on the purpose(s) of the intended purchase, such as whether it is for replacement of an existing machine or for a new machinery. They will then obtain further information regarding the desired type, model number, estimated length of use and whether a brand new or used machinery is required. We will review the technical specifications of the products and make suggestions to customers on the types and models available and suitable for their needs, make recommendations on modifications if required and the sale price for customers' consideration.

### **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 consolidate all information and work out the timetable for each department as well as the delivery road map. Our finance department will input details into our in-house database system and issue invoices to customers.

### **Logistic planning**

Our logistics department will monitor the logistic process to ensure the order is processed on schedule. Our sales department is also responsible for reporting the progress to our customers. Our procurement department is responsible for preparing transportation plans and setting out the delivery timeline. While we do not produce these products, planning is still required in arranging for the shipment and delivery, carrying out inspections, and/or repair work (in case of heavy duty machineries).

### **Procurement**

Our procurement department is responsible for the purchase of slewing rings, mechanical parts and components and machineries from suppliers once the purchase order is confirmed. As part of our quality assurance service, every heavy duty machinery will be inspected before shipment to our designated warehouse. If the heavy duty machinery is to be delivered to Hong Kong, further inspection, repair and replacement work will also be carried out if necessary.

### **Warehousing**

Our procurement is based on the purchase orders we received and we do not generally keep inventory on products we source. For machineries, they are either temporarily stored in our designated warehouse prior to delivery to our customers or shipped directly from the suppliers to our customers. For slewing rings and mechanical parts and components, they will be shipped directly from the suppliers to our customers.

**BUSINESS**

**Delivery**

We engaged independent logistic service providers for the delivery of the products to destinations as 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. In general, our customers bear the delivery costs.

**SUPPLIES AND PROCUREMENT**

We do not enter into long-term supply agreement with our suppliers and we order raw materials and supplies on a case-by-case basis in accordance with our production schedule. We have not experienced material fluctuation in the price of our raw materials during the Track Record Period and 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 price of the raw materials, we are able to shift the price increment (or at least a part thereof) to our customers by increasing the sale price of our slewing rings and mechanical parts and components. To the best knowledge of our Directors, all our suppliers are Independent Third Parties.

**Slewing rings**

The principal raw materials that we use for the manufacture of slewing rings include forged rings and steel balls. Forged rings account for a substantive part of the costs for raw materials. We generally purchase forged rings from our suppliers in bulk. We believe that our relatively stable purchase price for forged rings during the Track Record Period were attributable to the fact that we purchased in bulk from these suppliers. Our suppliers are mainly located in the PRC. The following table sets out the breakdown of raw materials acquired by us for the periods indicated:

	<b>FY2020</b>		<b>FY2021</b>		<b>FY2022</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Forged Rings	6,939	91.5	9,058	91.0	12,569	93.4
Steel Balls	410	5.4	651	6.5	598	4.4
Others	<u>236</u>	<u>3.1</u>	<u>243</u>	<u>2.5</u>	<u>289</u>	<u>2.2</u>
<b>Total</b>	<b><u><u>7,585</u></u></b>	<b><u><u>100.0</u></u></b>	<b><u><u>9,952</u></u></b>	<b><u><u>100.0</u></u></b>	<b><u><u>13,456</u></u></b>	<b><u><u>100.0</u></u></b>

For slewing rings not produced by us, we locate the supplies through our industry network of suppliers. During the Track Record Period, we sourced slewing rings from 5 suppliers.

**BUSINESS**

**Mechanical parts and components**

The principal raw materials that we use for the manufacturing of mechanical parts and components are their semi-finished forms, and their assemble parts such as pin, o-rings etc. Our suppliers are located in the PRC. The following table sets out the breakdown of raw materials (which are mainly semi-finished items) acquired by us during the Track Record Period:

	FY2020		FY2021		FY2022	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Long reach Arm and Bucket	1,019	41.2	1,562	24.7	1,513	37.0
Track chain and track shoes	82	3.3	2,343	37.1	799	19.5
Recoil Spring	939	38.0	1,491	23.6	481	11.8
Track Roller	28	1.1	364	5.8	372	9.1
Idler	0	0.0	88	1.4	97	2.4
Sprocket	5	0.2	18	0.3	39	1.0
Carrier Roller	14	0.6	15	0.2	15	0.4
Others <i>(Note)</i>	<u>385</u>	<u>15.6</u>	<u>442</u>	<u>7.0</u>	<u>769</u>	<u>18.8</u>
<b>Total</b>	<b><u>2,472</u></b>	<b><u>100.0</u></b>	<b><u>6,323</u></b>	<b><u>100</u></b>	<b><u>4,085</u></b>	<b><u>100.0</u></b>

*Note:* Others include assemble parts such as bolt, pin etc.

For mechanical parts and components we source, we locate the supplies through our industry network of suppliers. During the Track Record Period, we sourced mechanical parts and components from 26 suppliers.

**Machineries**

The machineries we sold during the Track Record Period were mainly heavy duty machineries such as excavators. Due to our longstanding ties with Sumitomo Construction Machinery and a leading Japanese heavy duty machinery manufacturer, we are able to directly source excavators under their brands for our customers. We may experience requests from our customers on other machineries such as pile drivers and trucks. We source these machineries on an ad-hoc basis through our extensive network of suppliers so established due to our long presence in the industry. Our suppliers are mainly located in Japan, the PRC, Hong Kong and Singapore. During the Track Record Period, we sourced machineries from 14 suppliers.

As set forth in the paragraph headed “Quality assurance” of this section, we only source from reputable suppliers which had passed our internal selection criteria. Although we usually source different mechanical parts and components through different groups of suppliers due to their price competitiveness and range of products offer, we have alternative suppliers for raw materials, mechanical parts and components and machineries 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.

## BUSINESS

### SUPPLIERS

#### Selection of suppliers

We procure raw materials through our procurement department and substantially all of our raw materials are supplied by suppliers located in the PRC. We generally purchase raw materials after receiving orders from customers to minimise inventory risk. Please refer to the paragraph headed “Inventory” in this section for further details.

Our Directors consider that it is crucial that we have a stable source of supply of quality raw materials at competitive prices. In this connection, we maintain a list of approved suppliers and service providers. Potential suppliers must pass our internal evaluation criteria before the first engagement. Our internal evaluation criteria encompass several areas, which include the quality of raw materials and services, the punctuality and the condition of the raw materials on delivery, as well as the background check on such suppliers. We would also demand our suppliers to comply with all relevant local and industrial quality assurance standards. We will also perform quality tests on the supplied items.

We 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 their supplies and the punctuality of delivery. We will consider to remove those who have repeatedly failed to meet our standards. Further, prior to making any purchase with our suppliers in bulk, we place small orders with them to test the quality of their supplies. 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”.

#### Salient terms of a typical purchase transaction

During the Track Record Period, our Group typically entered into individual purchase orders with our suppliers. 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 products being ordered. These supplies and 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 are usually inclusive of tax.
- *Delivery:* our supplier is generally responsible for the delivery of the raw materials and our Group is generally responsible for the relevant costs. For our sourcing products, our supplier usually arranges the delivery to our designated locations.

## BUSINESS

- *Credit arrangement and payment:* we are generally granted a credit period of 0–90 days, and we usually pay by bank transfer.
- *Quality standard:* our supplier shall supply the products according to the specifications set out in our purchase orders from time to time.
- *Delivery standards and product quality:* we inspect the supplies based on the standards set forth in the individual purchase orders. For raw materials, 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 had not experienced any material product quality issue with the raw materials supplied by our suppliers.
- *Termination (if applicable):* for raw materials, we are 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 FY2020, FY2021 and FY2022, our purchases from our five largest suppliers represented approximately 68.3%, 67.0% and 61.1% of our total purchase, respectively, and purchases from our single largest supplier accounted for approximately 23.4%, 22.2% and 16.4%, respectively, of our total purchase in the corresponding years.

**BUSINESS**

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

***For FY2020***

Name of supplier	Location	Typical credit terms and payment method	Number of years of business relationship with our Group as at the Latest Practicable Date <i>(approximate)</i>	Example of products supplied	Purchase amount <i>(approximate)</i> <i>(HK\$'000)</i>	Percentage to total purchase costs of our Group <i>(approximate)</i> <i>(%)</i>
Supplier A <sup>(Note 1)</sup>	South Korea	90 days; Bank transfer	3	Machineries	8,549	23.4
Supplier B <sup>(Note 2)</sup>	Hong Kong	90 days; Bank transfer	5	Slewing rings and mechanical parts and components	6,384	17.5
Supplier C <sup>(Note 3)</sup>	Hong Kong	90 days; Bank transfer	3	Machineries	3,900	10.7
Supplier D <sup>(Note 4)</sup>	The PRC	Cash on delivery; Bank transfer	4	Forged rings	3,659	10.0
Supplier E <sup>(Note 5)</sup>	The PRC	90 days; Bank transfer	11	Forged rings	2,429	6.7

***For FY2021***

Name of supplier	Location	Typical credit terms and payment method	Number of years of business relationship with our Group as at the Latest Practicable Date <i>(approximate)</i>	Example of products supplied	Purchase amount <i>(approximate)</i> <i>(HK\$'000)</i>	Percentage to total purchase costs of our Group <i>(approximate)</i> <i>(%)</i>
Supplier B <sup>(Note 2)</sup>	Hong Kong	90 days; Bank transfer	5	Slewing rings and mechanical parts and components	15,923	22.2
Supplier F <sup>(Note 6)</sup>	Hong Kong	90 days; Bank transfer	2	Machineries	13,176	18.3
Supplier G <sup>(Note 7)</sup>	Hong Kong	Cash on delivery; Bank transfer	1	Machineries	7,129	9.9
Supplier H <sup>(Note 8)</sup>	The PRC	90 days; Bank transfer	2	Mechanical parts and components	6,995	9.7
Supplier D <sup>(Note 4)</sup>	The PRC	Cash on delivery; Bank transfer	4	Forged rings	4,957	6.9

**BUSINESS**

***For FY2022***

Name of supplier	Location	Typical credit terms and payment method	Number of years of business relationship with our Group as at the Latest Practicable Date <i>(approximate)</i>	Example of products supplied	Purchase amount <i>(approximate)</i> <i>(HK\$)</i>	Percentage to total purchase costs of our Group <i>(approximate)</i> <i>(%)</i>
Supplier B <sup>(Note 2)</sup>	Hong Kong	90 days; Bank transfer	5	Slewing rings and mechanical parts and components	9,651	16.4
Supplier D <sup>(Note 4)</sup>	The PRC	Cash on delivery; Bank transfer	4	Forged rings	7,052	12.0
Supplier H <sup>(Note 8)</sup>	The PRC	90 days; Bank transfer	2	Mechanical parts and components	6,833	11.6
Supplier I <sup>(Note 9)</sup>	Singapore	90 days; Bank transfer	1	Machineries	6,751	11.5
Sumitomo Construction Machinery Sales Co., Ltd. <sup>(Note 10)</sup>	Japan	Cash on delivery; Bank transfer	1	Machineries	5,645	9.6

*Notes:*

- (1) Supplier A is a private limited liability company incorporated in South Korea. Its business scope includes buying, selling and shipping of heavy construction equipments, car auto parts, scrap metals.
- (2) Supplier B is a private limited liability company incorporated in Hong Kong which principally engages in trading.
- (3) Supplier C is a private limited liability company incorporated in Hong Kong which principally engages in construction.
- (4) Supplier D is a private limited liability company established in the PRC which is principally engaged in the production and sale of iron and steel products.
- (5) Supplier E is a private limited liability company established in the PRC. Its business scope includes manufacturing, processing and sales of forged rings.
- (6) Supplier F is a private limited liability company incorporated in Hong Kong which principally engages in machinery hire, sale and purchase, motor trading and repairing.
- (7) Supplier G is a limited liability company incorporated in Hong Kong which principally engages in trading, agency, consulting, sale and development businesses.
- (8) Supplier H is a limited liability company established in the PRC which principally engages in wholesale and trading of machineries, metal and parts and electronic products.



## BUSINESS

- (9) Supplier I is a limited liability company incorporated in Singapore which principally engages in the trading of mechanical parts and components and machineries.
- (10) Sumitomo Construction Machinery Sales Co. Ltd., is a limited liability company incorporated in Japan. It is a subsidiary of Sumitomo Heavy Industries, Ltd., a company which shares are listed on the Tokyo Stock Exchange. Sumitomo Construction Machinery Sales Co., Ltd is principally engaged in the sales of Sumitomo Construction Machinery’s products within Japan.

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 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.

### INVENTORY

Our inventory consists of raw materials, work in progress and finished goods. We are able to monitor the inventory level of our raw materials and each stage of the warehousing process through our in-house database and the new ERP system.

#### Raw materials

Our procurement department is responsible for the procurement of raw materials used in our manufacturing process. It monitors the inventory level of each type of raw materials regularly through our in-house database, ERP system and also by stocktaking. The level of raw materials will generally depend on our stock in hand, and the projected production plan based on the purchase orders we received. We will maintain a sufficient level of raw materials to meet our production need while we aim to minimise our inventory level of raw materials and record our cost of inventories based on the weighted average method. The following table sets out the breakdown of raw materials as of the dates indicated:

	<b>As at 31 December</b>					
	<b>2020</b>		<b>2021</b>		<b>2022</b>	
	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%	<i>HK\$’000</i>	%
Forged rings	4,736	70.3	5,245	63.3	5,848	66.3
Steel balls	541	8.0	477	5.8	335	3.8
Others <i>(Note)</i>	<u>1,459</u>	<u>21.7</u>	<u>2,565</u>	<u>30.9</u>	<u>2,634</u>	<u>29.9</u>
<b>Total</b>	<b><u>6,736</u></b>	<b><u>100.0</u></b>	<b><u>8,287</u></b>	<b><u>100.0</u></b>	<b><u>8,817</u></b>	<b><u>100.0</u></b>

*Note:* Others include bolts, pins, spacers, seals, low value materials etc..

## **BUSINESS**

### **Work in progress**

All of our work in progress are tagged with individual identification card, which records the completion of the various stage(s) of production. Our sales department, production department, logistics department and procurement department also work closely together 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 and ERP system to ensure our inventory will be in line with our sales plan. We also review our inventory level by stocktaking regularly to ensure that the information recorded in our in-house database is accurate. Although we endeavour not to keep excessive inventory of finished goods, there were occasions where we had to accumulate finished goods before we make a shipment to customers for reasons such as consolidation of products and lowering the shipment costs which might raise the inventory level in our warehouse. Our production department and sales department communicate closely to ensure that the inventory can match the delivery schedule. Our Group also performs stocktaking and internal audit yearly to ensure that the inventory-in and inventory-out information is accurately recorded.

## **SALES AND MARKETING**

Our marketing strategy is 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. Our sales department is primarily responsible for the marketing of our goods and we strive to expand our customer base both in the PRC and internationally on an on-going basis. We have established stable relationship with our major customers during the Track Record Period, and our sales personnel primarily market our products through our participation in international trade fairs and exhibitions as well as referral and word-of-mouth within the industry. We have also maintained our website and engaged a consultant to design its contents in order to attract attentions of our potential customers. Our Directors consider that the image and the recognition of our Group and our brand had been raised after our GEM Listing which provided stronger confidence and comfort to our existing and potential customers.

### **Pricing policy**

For the slewing rings and mechanical parts and components, we generally determine our pricing on a cost-plus basis taking into consideration factors such as production costs, price of raw materials, technical requirements, level of our value added services and consultation required, timing for the production, market conditions, and our Group’s expected profit margins. In general, we classify our slewing rings into small, medium and large size in terms of their diameters. The larger is the slewing ring, the higher will be the sale price generally. For mechanical parts and components, the more complex the machining work and value-added service were required, the higher would be the selling price in general. For machineries, likewise, we typically determine our pricing on a cost-plus basis taking into account primarily the sale price from suppliers, consultation and inspection work required, transportation cost, credit terms, the market price and availability and our Group’s expected profit margin. For further details about 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 document.

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### CUSTOMERS

Our customers are mainly wholesalers, traders, manufacturer (including leading Japanese machinery manufacturers or their affiliates) and construction contractors from various countries. During the Track Record Period, we derived revenue from 34, 36 and 36 customers, respectively and the following table sets out the breakdown of our revenue by the types of customers in the respective year.

	<b>For the year ended 31 December</b>					
	<b>FY2020</b>		<b>FY2021</b>		<b>FY2022</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Traders	36,203	52.1	89,031	67.3	74,355	58.2
Wholesalers	22,206	32.0	33,132	25.1	28,827	22.6
Construction contractors	9,998	14.4	8,087	6.1	21,704	17.0
Manufacturers	<u>1,092</u>	<u>1.5</u>	<u>2,000</u>	<u>1.5</u>	<u>2,844</u>	<u>2.2</u>
<b>Total</b>	<u><u>69,499</u></u>	<u><u>100.0</u></u>	<u><u>132,250</u></u>	<u><u>100.0</u></u>	<u><u>127,730</u></u>	<u><u>100.0</u></u>

Our wholesalers and traders customers are not regarded as distributors, franchisees or consignees of our Group for the following reasons:

- (1) our customers which are wholesalers and traders 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 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, construction contractors and companies providing after sales services such as equipment repair for construction machineries and equipments, to purchase through wholesalers and traders, especially overseas users;
- (4) we have not entered into any long-term sales contracts with any of our wholesalers and traders customers and all of our sales to such wholesalers and traders 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 wholesalers and traders customers is independently negotiated and conducted on a non-consignment basis without the right to return the products to us, save that we do provide guarantee on our products against defective materials or workmanship and provide other general warranties to our major wholesalers and traders customers. We do not (i) have repurchase clause with our customers nor (ii) any guarantee on the minimum resale value of our products;

## BUSINESS

- (6) we cannot impose any requirement or have control on the business operations of our wholesalers and traders 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 wholesalers and traders 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 wholesalers and traders customers sell our products to.

### Sales agreements

Generally, we confirm the quantity of products required, the product specifications, purchase price, payment method and terms of delivery in writing by entering into individual sales contracts or purchase orders with our customers after they have agreed on the major terms.

### Salient terms of a typical sales transaction with customers

During the Track Record Period, our Group typically entered into individual sales contracts or purchase 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 required.
- *Delivery:* the locations, delivery date and manner of delivery are specified by our customers. We generally deliver our products to customers in Hong Kong on EXW terms, and to our overseas customers on FOB terms. The delivery methods can be by land, by sea or air.
- *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 account various factors. For further details please refer to the paragraph headed “Pricing policy” in this section.
- *Credit arrangement and payment:* we generally grant a credit period of 0 day to 90 days. For machineries, we generally grant a credit period of up to 120 days. Customers usually settle via bank transfer or by cheque.
- *Warranty period:* in respect of our slewing rings manufactured under ODM and OBM basis, we normally provide a warranty period of 2,000 hours of operation or 18 months (whichever occurs first). For our slewing rings manufactured under OEM basis, we in general provide a warranty period of 1,500–3,000 hours of operation or two years (whichever occurs first). There is no warranty period for the mechanical parts and components unless the products have defects upon delivery or installation. For products we source, we do not provide any warranty in general, but if our customers discover any defect upon delivery or installation, we will endeavour to make warranty claims against our corresponding suppliers. Our Group has not encountered any material warranty claim on our products during the Track Record Period and up to the Latest Practicable Date.

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### **Salient terms of a typical quality assurance agreement**

Most of our OEM customers on our slewing rings, which are leading Japanese manufacturers or their affiliates, have a stringent requirement on our product quality. During the Track Record Period, these OEM customers entered into quality assurance agreements with us, which set forth the applicable or required standards of quality assurance in respect of the products to be sold by us, before they would place orders with us. The typical quality assurance agreement contained the following 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 or GB/T 19001–2000 idt ISO 9001:2000. Other specific requests, in particular those pertaining to the safety requirements, should be adhered to strictly. Upon request made by our OEM customers, we shall 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 two years (whichever occurs first). In general, during the warranty period, if our products are found to be substandard, our Group will be liable to indemnify our OEM customers of their acquisition costs of the product, and in some instances the repair costs and other disbursements. Except for special circumstances, our Group will not be liable for the product if the warranty period has expired. Our Group has not encountered 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 will 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 set forth in the individual purchase orders or otherwise agreed.

### **Our top five customers**

For FY2020, FY2021 and FY2022, sales to our top five customers accounted for approximately 63.9%, 58.6% and 55.1% of our revenue, respectively. In the corresponding years, sales to our largest customer were approximately HK\$13.1 million, HK\$23.6 million and HK\$28.9 million, which accounted for approximately 18.8%, 17.9% and 22.6% of our revenue, respectively. Our Directors consider that we do not place over-reliance on any single customer because we had a range of customers (comprising wholesalers, traders, manufacturers including leading Japanese manufacturers or their affiliates, and construction contractors) as well as an expanding product range including mechanical parts and components and machineries during the Track Record Period. Further, to the best knowledge of our Directors, part of our slewing rings were re-sold to other countries through some of our customers. As such, we believe that our products can be sold globally.

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Having made reasonable enquiries, to the best knowledge, information and belief of our Directors, 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-Overlapping of our top five customers and top five suppliers” below, none of our top five customers was our supplier during the Track Record Period.

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

***For FY2020***

Name of customer	Location	Type	Typical credit terms and payment method	Number of years of relationship with our Group as at the Latest Practicable Date <i>(approximate)</i>	Example of products purchased	Sales amount <i>(approximate)</i> <i>(HK\$'000)</i>	Percentage to revenue of our Group <i>(approximate)</i> (%)
Customer A <i>(Note 1)</i>	Singapore	Trader	90 days; Bank transfer	12	Slewing rings; mechanical parts and components;	13,053	18.8
Customer B <i>(Note 2)</i>	Northern Ireland	Wholesaler	90 days and 120 days for machineries; Bank transfer	6	Slewing rings; machineries	10,109	14.5
Kangwoo Parts Pte. Ltd. <i>(Note 3)</i>	Singapore	Trader	90 days; Bank transfer	5	Slewing rings; mechanical parts and components	8,043	11.6
Customer C <i>(Note 4)</i>	Hong Kong	Construction contractor	90 days and 120 days for machineries; Bank transfer	5	Slewing rings; mechanical parts and components; machineries	7,159	10.3
True Always Machinery Engineering Co. <i>(Note 5)</i>	Hong Kong	Trader	90 days; Cheque	6	Mechanical parts and components	6,067	8.7

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***For FY2021***

Name of customer	Location	Type	Typical credit terms and payment method	Number of years of relationship with our Group as at the Latest Practicable Date (approximate)	Example of products purchased	Sales amount (approximate) (HK\$'000)	Percentage to revenue of our Group (approximate) (%)
Customer A <sup>(Note 1)</sup>	Singapore	Trader	90 days; Bank transfer	12	Slewing rings; mechanical parts and components;	23,609	17.9
Customer D <sup>(Note 6)</sup>	The Philippines	Trader	90 days and 120 days for machineries; Cheque	1	Slewing rings; mechanical parts and components; machineries	17,684	13.4
Kangwoo Parts Pte. Ltd. <sup>(Note 3)</sup>	Singapore	Trader	90 days and 120 days for machineries; Bank transfer	5	Slewing rings; mechanical parts and components; machineries	16,601	12.6
Titan Track Industries Sdn. Bhd. <sup>(Note 7)</sup>	Malaysia	Wholesaler	90 days; Bank transfer	11	Slewing rings; mechanical parts and components;	10,313	7.8
Customer E <sup>(Note 8)</sup>	Hong Kong	Wholesaler	120 days; Cheque	5	Machineries	9,099	6.9

***FY2022***

Name of customer	Location	Type	Typical credit terms and payment method	Number of years of relationship with our Group as at the Latest Practicable Date (approximate)	Example of products purchased	Sales amount (approximate) (HK\$'000)	Percentage to revenue of our Group (approximate)(%)
Customer A <sup>(Note 1)</sup>	Singapore	Trader	90 days; Bank transfer	12	Slewing rings; mechanical parts and components;	28,856	22.6
Customer F <sup>(Note 9)</sup>	Hong Kong	Construction contractor	90 days and 120 days for machineries; Cheque	1	Mechanical parts and components; machineries	12,355	9.7
Kangwoo Parts Pte. Ltd. <sup>(Note 3)</sup>	Singapore	Trader	90 days; Bank transfer	5	Slewing rings; mechanical parts and components	10,478	8.2
Customer G <sup>(Note 5)</sup>	Malaysia	Wholesaler	90 days; Bank transfer	4	Slewing rings; mechanical parts and components	9,362	7.3
Titan Track Industries Sdn. Bhd. <sup>(Note 7)</sup>	Malaysia	Wholesaler	90 days; Bank transfer	11	Slewing rings; mechanical parts and components	9,314	7.3

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*Notes:*

- (1) Customer A is a sole proprietorship set up in Singapore which principally engages in general wholesale trading.
- (2) Customer B is a private limited liability company incorporated in the United Kingdom which principally engages in the sale and export of heavy machinery.
- (3) Kangwoo Parts Pte. Ltd. (“**Kangwoo**”) is a private limited liability company incorporated in Singapore which principally engages in the trading of a variety of goods including industrial, construction and related machineries and equipment.
- (4) Customer C is a private limited liability company incorporated in Hong Kong which principally engages in construction and engineering works.
- (5) True Always Machinery Engineering Co. (“**True Always**”) is a sole proprietorship established in Hong Kong which principally engages in sales and trading of machinery and provision of engineering services. Kangwoo is wholly-owned by the same person who runs the sole proprietorship in Hong Kong. To the best knowledge of our Directors, Kangwoo, which carries its own brand, is a trader of slewing rings, among other businesses it carries on whilst True Always is established to cover the business in the PRC, Hong Kong and Macau.
- (6) Customer D is a stock corporation incorporated in the Philippines which principally engages in importation and trading of building and construction materials, steel products, construction equipment etc.
- (7) Titan Track Industries Sdn. Bhd. is a private limited liability company incorporated in Malaysia which principally engages in the trading of spare parts for heavy machineries.
- (8) Customer E is a private limited liability company incorporated in Hong Kong which principally engages in the trading of construction equipments and machineries.
- (9) Customer F is a private limited liability company incorporated in Hong Kong which principally engages in the leasing and trading of construction equipments and machineries and is a registered subcontractor under the Construction Industry Council in Hong Kong.
- (10) Customer G is a sole proprietorship established in Malaysia which principally engages in the trading of hardware, building and construction materials.

### **Overlapping of our top five customers and top five suppliers**

During the Track Record Period, an affiliate of Customer C and Customer E were also our top five suppliers (Supplier F and Supplier B) respectively; and Supplier I and Sumitomo Construction Machinery (Tangshan) Co., Ltd, an affiliate of Sumitomo Construction Machinery and Sumitomo Construction Machinery Sales, were also our customers. These overlaps arose due to the broad range in products nature we offer alongside the supply of machineries and the business nature of our customers and suppliers as wholesalers and traders.

According to the Industry Report, it is not uncommon that heavy duty machineries will be bought and sold by wholesalers, traders or construction contractors as there is a market for second-hand machineries. Pre-owned machineries are traded from one user to another (such as wholesalers and construction contractors). These customers which bought mechanical parts and components could also sell off their machineries. It is also common that suppliers of mechanical parts and components will overlap and transact business with each other due to the same business nature. As most of our overlapping customers and suppliers were in the business of wholesale and trading of mechanical parts and components (including slewing rings) as well as machineries, and as our Group had expanded our products offering to include mechanical parts and components and machineries during the Track Record Period, there were occasions where we source and sell different products to our customers and suppliers. Furthermore, having been a slewing rings supplier to Japanese machineries manufacturers, our acquaintance allows us to source machineries from them directly for our customers.



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The table below lists the breakdown of the revenue generated from the sale of our products to and purchases made from paid to our overlapping customers and suppliers which were either our top five customers or top five suppliers during the Track Record Period:

Customer/Supplier	FY2020		FY2021		FY2022	
	<i>(approximately, HK\$'000)</i>		<i>(approximately, HK\$'000)</i>		<i>(approximately, HK\$'000)</i>	
	Amount purchased	Amount sold by us and percentage of our total purchase revenue	Amount sold by us and percentage of our total revenue during the year	Amount purchased	Amount sold by us and percentage of our total revenue during the year	Amount purchased

**Customer C/Supplier F**

We regularly sold slewing rings, mechanical parts and components and excavators to Customer D as it is a construction contractor. We purchased excavators of different models and telescopic crane from Supplier F for our customers in FY2021. Customer D and Supplier F share a common major shareholder.

7,159	—	7,957	13,176	4,349	—
(10.3%)	—	(6.0%)	(18.3%)	(3.4%)	—

**Customer E/Supplier B**

We mainly source slewing rings which we do not produce from Supplier D. As it is a wholesaler, it purchased excavators from us in FY2021.

—	6,384	9,099	15,923	—	9,651
—	17.8%	6.9%	22.2%	—	16.4%

**Supplier I**

We sold mechanical parts and components and an excavator to Supplier I. In FY2021, we purchased wheel loaders and pile drivers from it.

—	—	2,357	585	—	6,751
—	—	1.8%	0.8%	—	11.5%

**Sumitomo Construction Machinery Sales Co., Ltd.**

We produced slewing rings on OEM basis for Sumitomo Construction Machinery, an affiliate of Sumitomo Construction Machinery Sales as it is a machineries manufacturer. We purchased excavators from Sumitomo Construction Machinery Sales for our customers in FY2021 and FY2022.

449	—	448	2,246	288	5,645
(0.6%)	—	(0.3%)	(3.1%)	(0.2%)	(9.6%)

## **BUSINESS**

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

### **QUALITY ASSURANCE**

#### **Slewing rings and mechanical parts and components**

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 measures 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 duty 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 audit regularly. As such, we have developed a quality assurance system throughout our operation with continuous improvement from time to time. Our Group achieved internationally recognised standards for manufacturing slewing rings since 2008 (first certificate issued in January 2009). In 2009, we engaged an external consultant to review our production process, including our quality assurance system. We further extended our quality assurance process to our manufacturing of mechanical parts and components as we expand our business. As at the Latest Practicable Date, we had 10 quality control personnel with two of them having over 15 years of experience in the manufacture of slewing ring.

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

#### ***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 number of factors, including their market reputation as well as the quality and pricing of their products. For new suppliers, we will place small orders with them to test the quality of their supplies. It is only after the products supplied have passed our inspection by our quality assurance department will we purchase in bulk from such suppliers. We typically enter into technical standard agreements with our suppliers on forged rings to specify the technical requirements we require, for instance the chemical composition, hardness, mechanical performance and appearance of the forged rings. We also set forth the testing methodology, which include the areas, the frequency, the position of the product, and the applicable standards (for example, GB/T and JIS standards), under which the forged rings will be tested. We also engage independent service providers to analyse the quality of their products periodically to ensure quality assurance. We review our list of approved suppliers regularly with respect to the quality of raw materials and delivery time, to ensure that we only source from quality and reliable suppliers. If a supplier repeatedly provides supplies that cannot pass our quality assurance standards, we will remove it from our list of approved suppliers.

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### ***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 for raw materials for slewing rings to make sure that the chemical composition conforms to our specifications set forth in our purchase order. 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 inspection on the forged rings and semi-finished mechanical parts and components to see if there are defects on their surface on a sampling basis. For the steel balls, our inspection team regularly inspects their sphericity and hardness on a random sampling basis. We return substandard raw materials to suppliers if they do not pass our inspection.

### ***Production quality assurance***

During our production, we attach an identification tag to the products after such products have passed the quality assurance check. Our quality assurance team conduct quality assurance tests at each stage of the production process as described in the paragraph headed "Production process". We conduct inspection by deploying measurements tools and magnetic particles detection tools to detect any crack on all slewing rings. We also acquired a CNC coordinate measuring machine to inspect the accuracy of gear cutting. These measures will ensure that the products do meet the quality requirements (including the size, shape and dimension of the gear teeth, backlash, turned ring, raceway, elasticity etc.), and identify any defect in the production process.

### ***Final inspection and sampling testing***

Upon completion of the manufacture of slewing rings and mechanical parts and components, our quality assurance department will conduct final quality assurance test on the finished products, which includes measuring the assembly clearance, testing whether the outer and inner rings can rotate smoothly or the mechanical parts and components are assembled correctly and functioning. We conduct quality testing on all types of finished slewing rings and mechanical parts and components to ensure that they comply with our customers' specifications.

To ensure that the heat treatment is carried out properly and up to the standard required by our customers, we take random samples from the finished products of the slewing rings for testing and dissect them to perform various tests on their hardness, precision and accuracy and other quality requirements as well as whether the heat treatment is done properly for the entire work-in-progress. The average pass rate during the Track Record Period was approximately 99%.

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### ***JIS, JB or JB/T compliance checking process for slewing rings***

#### *(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*

The technical drawings, which will specify the applicable standards, will be approved by our customers before we commence 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 primarily based on JIS requirements. 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. If our customer requests for modification to comply with other standards such as JB or JB/T, our checklists will be revised to reflect the modification. The checklist can also ensure that the products are in compliance with the required standards.

### ***Delivery and acceptance of products by our customers***

Our customers will inspect the slewing rings and mechanical parts and components upon receipt. They will accept our products after they have checked the products delivered by us contain no defect and being delivered in the condition they required.

#### *Customer complaint*

In the case of any complaints on the product, we will test the products to identify any quality issue. We hold regular internal meetings to discuss our quality assurance procedures and improve them from time to time. In addition, our sales department is responsible for providing after sales services including obtaining customers' feedback and handling customer complaints. They perform regular survey and discussion with the customers to ensure our products are satisfactory and carry out remedial work if there is any complaint on our products. During the Track Record Period, we did not receive any substantive complaint in relation to our products and services.

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### Machineries

For our sourcing of machineries, the suppliers are also required to go through our supplier qualification process. We will arrange inspection and testing on the machineries provided by our suppliers before we make out offers to our customers. For machineries delivered to Hong Kong, we also arrange for further inspection and any repair and replacement work if necessary to ensure the machineries will be delivered in a good and usable conditions.

Our customers may inspect the machineries upon receipt. They will usually accept our products being delivered in conditions as per the specifications set out in the inspection reports. We do not generally provide any warranty to machineries.

### 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 FY2020, FY2021 and FY2022, the depreciation charged against the right-of-use of such production facility were approximately HK\$488,000, HK\$616,000 and HK\$595,000, respectively. As at the Latest Practicable Date, we did not possess any property interest. We used our leased properties for non-property activities as defined under Rule 5.01(2) of the 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 document 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.

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

Name of unit	FY2020			FY2021			FY2022		
	Annual production capacity <sup>1,5</sup> (set)	Actual production volume (set)	Average utilisation rate <sup>2, 3, 4</sup>	Annual production capacity <sup>1</sup> (set)	Actual production volume (set)	Average utilisation rate <sup>2, 3, 4</sup>	Annual production capacity <sup>1</sup> (set)	Actual production volume (set)	Average utilisation rate <sup>2, 3, 4</sup>
Turning unit	3,836	2,363	62%	4,943	3,002	61%	6,039	3,517	58%
Heat treatment unit	4,830	2,363	49%	6,224	3,002	48%	9,654	3,517	36%
Gear cutting unit	2,513	2,363	94%	3,238	3,002	93%	6,052	3,517	58%

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*Notes:*

1. The annual production capacity for each of the production units is calculated based on the assumption that these production units can be operated (i) 268 days annually during the Track Record Period, being the working days of each financial year; (ii) 16 hours per day in respect of the turning unit, heat treatment unit and gear cutting unit; (iii) at their optimum production speed; and (iv) without intermission of the turning and heat treatment units for the manufacture of mechanical parts and components. The newly acquired machines for turning, heat treatment and gear cutting only commenced operation in the 2nd half of 2022. 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 by the annual production capacity for the same machineries and equipments. As the annual production capacity is worked in accordance with assumptions adopted under Note 1 above, the average utilisation rates of our machineries and equipments are subject to change if any one or more of the underlying assumptions is varied, due to reasons beyond our control.
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.
4. As our manufacturing of mechanical parts and components can use the same turning and heat treatment units, the actual production volume varies depending on the allocation of usage of these equipments.
5. Due to COVID-19, our production facility had to be suspended temporarily and operated only 208 days in FY2020.

The average utilisation rate of turning unit, heat treatment unit and gear cutting unit decreased for the FY2022 as compared to that for the FY2021, mainly due to the increase in production of annual production capacity as a result of the commencement of operation of newly acquired machines for turning, heat treatment and gear cutting in the 2nd half of 2022.

### **IMPACT OF COVID-19**

The outbreak of COVID-19 in late 2019 has caused disruption to our production plant which resulted in lockdown and quarantine measures as well as suspension in our production plant in the PRC for approximately two months in FY2020. It also caused disruption to the global transportation and logistics services. Some of our overseas customers were also required to suspend operations due to imposition of government policies and pandemic mitigation measures. However, even with the corresponding suspension of operations of our production plant as well as our customers, we did not experience any termination of contracts in relation to our sales. We had also been able to agree a new delivery schedule with our customers for orders placed during the period of COVID-19. Our Directors also confirm that we did not encounter any labour shortage as a result of the outbreak of COVID-19. Please refer to the section headed “Risk factors — The global occurrence and possible recurrence of COVID-19 may result in a significant delay in the delivery of our products, thus leading to a possible material and severe disruption on our business, financial condition and operations” of this document for details.

## BUSINESS

### Machineries and equipments

Our production facility is equipped with a variety of machineries and equipments for different stages of production. All of our machineries and equipments are owned by our Group and were mainly purchased in the PRC. The table below sets forth our primary machineries and equipments acquired during the Track Record Period:

Our key machineries and equipments used	Number of machineries	Acquisition costs	Carry amount as at 31 December 2022 (Note 1) (in RMB)	Commencement of usage	Estimated remaining useful life (Note 2)	Key steps as indicated in the paragraph headed “Production of slewing rings and mechanical parts and components — Production” of this section
<b>Turning unit</b>						
<ul style="list-style-type: none"> <li>● CNC precise boring machine (精密數控臥式鏜銑床)</li> </ul>	1	RMB619,000 (equivalent to approximately HK\$705,660)	RMB585,000 (equivalent to approximately HK\$666,900)	2022	9 years	<ul style="list-style-type: none"> <li>● No. 3 Boring the loading hole (鏜堵塞孔)</li> </ul>
<ul style="list-style-type: none"> <li>● CNC single column vertical machining center (數控單柱立式車銑加工中心)</li> </ul>	1	RMB1,637,000 (equivalent to approximately HK\$1,866,180)	RMB1,546,000 (equivalent to approximately HK\$1,762,440)	2022	9 years	<ul style="list-style-type: none"> <li>● No. 1 Rough turning (粗車)</li> <li>● No. 2 Half-finish turning (construction of the raceway) (半精車(車滾道))</li> <li>● No. 6 Finish turning (精車)</li> <li>● No. 13 Finish turning (精車)</li> <li>● No. 14 Mounting hole drilling and chamfering (鑽安裝孔, 倒角)</li> <li>● No. 15 Tapping (攻絲)</li> <li>● No. 16 Grinding raceway (磨滾道)</li> </ul>
<ul style="list-style-type: none"> <li>● CNC double column vertical machining center (數控雙柱立式車銑加工中心)</li> </ul>	1	RMB3,805,000 (equivalent to approximately HK\$4,337,700)	RMB4,300,000 (equivalent to approximately HK\$4,902,000)	2023 (expected)	10 years	<ul style="list-style-type: none"> <li>● No. 1 Rough turning (粗車)</li> <li>● No. 2 Half-finish turning (construction of the raceway) (半精車(車滾道))</li> <li>● No. 6 Finish turning (精車)</li> <li>● No. 13 Finish turning (精車)</li> <li>● No. 14 Mounting hole drilling and chamfering (鑽安裝孔, 倒角)</li> <li>● No. 15 Tapping (攻絲)</li> <li>● No. 16 Grinding raceway (磨滾道)</li> </ul>
<b>Heat treatment unit</b>						
<ul style="list-style-type: none"> <li>● 2 meter CNC raceway quenching machine (2米滾道數控淬火機床)</li> </ul>	1	RMB1,947,000 (equivalent to approximately HK\$2,219,580)	RMB1,839,000 (equivalent to approximately HK\$2,096,460)	2022	9 years	<ul style="list-style-type: none"> <li>● No. 4 Raceway quenching (滾道淬火)</li> <li>● No. 9 Teeth surface quenching (齒面淬火)</li> </ul>
<ul style="list-style-type: none"> <li>● Trolley line tempering furnace (台車式回火爐)</li> </ul>	1	RMB414,000 (equivalent to approximately HK\$471,960)	RMB391,000 (equivalent to approximately HK\$445,740)	2022	9 years	<ul style="list-style-type: none"> <li>● No. 12 Tempering (low temperature) (回火(低溫))</li> </ul>

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Our key machineries and equipments used	Number of machineries	Acquisition costs	Carry amount as at 31 December 2022 (Note 1) (in RMB)	Commencement of usage	Estimated remaining useful life (Note 2)	Key steps as indicated in the paragraph headed “Production of slewing rings and mechanical parts and components — Production” of this section
<b>Gear cutting unit</b>						
• CNC milling machine (數控高速銑齒機)	1	RMB2,522,000	RMB2,382,000 (equivalent to approximately HK\$2,715,480)	2022	9 years	• No. 7 Gear cutting (製齒)
• CNC coordinate measuring machine (三座標測量機)	1	RMB885,000	RMB1,000,000 (equivalent to approximately HK\$1,140,000)	2023 (expected)	10 years	• Tri-geometry coordination measuring and inspection
<b>Others</b>						
• Super sonic cleaning machine (超聲波機器)	1	RMB46,000 (equivalent to approximately HK\$52,440)	RMB41,000 (equivalent to approximately HK\$46,740)	2021	8 years	• No. 17 Cleaning and assembly (清潔與裝配)
• Track chain compressor (壓鏈機)	1	RMB118,000	RMB111,000 (equivalent to approximately HK\$126,540)	2022	9 years	• For compressing and assembling the track chain

*Notes:*

1. The carrying amount is translated into HK\$ from RMB at historical exchange rate.
2. 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 the avoidance of doubt, the estimated remaining useful life may not be the same as the basis of our depreciation expenses as stated in the Accountant’s Report set out in Appendix I to this document.

### Repair and maintenance

Our manufacturing process is capital-intensive and depends heavily on the normal operation of various large-scale production machineries and heavy duty equipments. Our maintenance team under the production department comprising four employees is responsible for the repair and maintenance of machineries and equipments. We implement regular repair and maintenance procedures for our key machineries and equipments 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 equipments on a daily basis, and conduct detailed checking on a monthly basis. For FY2020, FY2021 and FY2022, our overall costs incurred for repair and maintenance were approximately HK\$0.3 million, HK\$0.5 million and HK\$0.5 million, respectively. Our Directors confirm that during the Track Record Period, we did not experience any significant interruption to our production due to the breakdown of machineries and equipment.



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### RESEARCH AND DEVELOPMENT

Our research and development are led by two employees from the technical department with an average experience of over 10 years in the industry, in collaboration with our production and quality assurance departments. 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 process with his extensive knowledge in the industry. He was one of the key personnel in preparing the submission of JB standard compliant slewing rings for examination and approval (送審稿) to National Technical Committee for Standardisation on Rolling Bearing (全國滾動軸承標準化技術委員會). Under his leadership, our Group also contributed to the development of the industry by cooperating with a university in the PRC in 2012 to conduct research and development to develop a high precision production equipment for the manufacture of slewing rings. With the technological advancement and automation under Industry 4.0, our research and development department will continue to explore the use of new equipments and skillset to enhance and expand our products portfolio and to streamline our production process. Under the leadership of Mr. YP Chan together with the effort of our technical department which sets the standard of our quality and technical requirements, as at the Latest Practicable Date, we had 27 patents obtained under our own research and development in the PRC.

Based on the collaborative effort of our sales, quality assurance and technical departments over the years and following the benchmark requirement of the High and New Technology Enterprise, Kyoei Seiki 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, with such status renewed in 2020. We were granted 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). We were listed in the 2023 Guangdong Province Advanced Manufacturing Development Special Fund Project Storage Plan\* (2023年廣東省先進製造業發展專項資金項目入庫計劃) in August 2022.

During the Track Record Period, we incurred HK\$1.6 million, HK\$1.5 million and HK\$3.1 million, as our research and development expenses for FY2020, FY2021 and FY2022 respectively.

### SEASONALITY

Our Directors consider that there is no material seasonal pattern of the manufacture and sales of our products, in particular slewing rings.

### COMPETITION

According to the Industry Report, the market of the manufacturing and sales of slewing rings in China is fairly fragmented, with the top three manufacturers together accounted for approximately 47.6% of the market in 2021. Our Company is a medium sized player with an integrated production line in the market. In 2021, 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 fifth, accounting for approximately 1.5% of the market in 2021 in terms of sales revenue to the overseas market. Our Company is the largest manufacturer of slewing rings in the South China in terms of sales revenue to the overseas market. In addition to the competition in the PRC, our Group also faces

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potential competition from non-PRC players in the overseas markets, especially in the developed regions such as Japan and Europe, where local manufacturers have relatively strong experience to the local markets. Further, Japanese construction equipment manufacturers may set up their production plants outside Japan to save production and transportation costs and establish foothold in overseas market, while the raw material requirement is still JIS-compliant. However, our Group has capacity to produce a wide variety of high quality products at a competitive price which helps to attract and retain customers.

The major entry barriers of the PRC's slewing ring market include (i) the steady production meeting stringent quality requirement; (ii) the possession of industry know-how, equipment and technology; (iii) strong capital strength; and (iv) the ability to establish and retain good relationships with its customers.

Supported by the country's strategy in revitalising the manufacturing industry and urbanisation process and the increasing use of wind turbine for new energy in the PRC, it is expected that there will be a growing demand for slewing rings of approximately a CAGR of 6.3% during 2023 to 2027 in the PRC. While slewing ring is mainly applied in the manufacturing of construction equipments, its application is broad, including medical machines, packaging facilities, transporters, water treatment processes and mining equipments etc. In 2021, the China Bearing Industry Association published the National Bearing Industry 14th Five Year Development Plan which outlined that continuous research and development shall be devoted to the application of advanced slewing rings onto high-end industries such as aerospace equipments, marine engineering equipments, energy saving and new energy vehicles. Meanwhile, global markets have been recovering from COVID-19 and the rise in the adoption of renewable energy and expansion in the infrastructure section is driving the market expansion for slewing rings globally with growth in the revenue on the sales of slewing rings at a CAGR of 13.0% between 2017 to 2022 and an expected CAGR of 6.6% between 2023 to 2027.

In terms of the global market size for construction and industrial machineries and other parts (which mainly refers to excavators and undercarriage parts), it is expected to grow at a CAGR of 5.9% from 2023 to 2027 which will be attributable to the continued increase in population, urbanisation and the corresponding needs for infrastructure and buildings as well as the growth of mining, both surface and underground. In the Southeast Asia, the overall construction demand is forecasted to rise, with an increase in demand for healthcare facilities, civil engineering work, and government projects. The market size is expected to grow at a CAGR of 8.2% from 2023 to 2027, of which 7.9% will be attributed by new machineries and 8.8% from pre-owned machineries. The renewal and replacement cycle of construction machinery such as excavator, bulldozer and grader are generally 8–10 years. In Japan, excavators had the highest production volume amongst construction equipments in between 2017 and 2021, representing a CAGR of 3.8%. Undercarriage parts like sprocket, idler, track roller need to go through many processing steps such as casting, precision machining, heat treatment and surface finishing, before it can be assembled. These processes take time to perform. A one-stop solution provider engaged in the provision of construction and industrial machineries and other parts takes complexity out of the procurement process, which reduce lead time and improves quality, so that time and resources can be spent on market growth.

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Our Directors believe that with our enhanced production capacity and advanced machineries, stringent quality assurance control, in-depth industry understanding as well as our long term relationship with our customers, we are competitive and can gain a part of the growing demand. 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 to attract customers from overseas.

### 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	Usage
Tutang village, Changping town, Dongguan City, Guangdong Province, the PRC (中國東莞市常平鎮土塘村)	RMB540,000	1 July 2020 to 30 June 2026 (with an option to renew to 31 October 2042)	7,463.86 sq.m. (3,600 sq.m. plant, the rest is open area and buildings)	Production plant
Unit 1226B, Star House, No. 3 Salisbury Road, Kowloon, Hong Kong	HK\$108,000	10 October 2022 to 9 October 2024	330 sq.ft.	Office

#### 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, Guangdong province, the PRC (the “**DG Leased Property**”), which was primarily used as our production facility and staff dormitory, from an Independent Third Party. On 1 July 2020, we as tenant and the Independent Third Party as landlord entered a new lease agreement for the leasing of the DG Leased Property as our production facility and staff dormitory in the PRC for a term of six years commencing from 1 July 2020 at the annual rent of RMB540,000. The rent for the DG Leased Property was agreed between Kyoei Seiki and the landlord based upon the rent payable for similar properties in proximity, the tenure of the lease and the property market condition of such locations. We were not aware of the title defect as set out below at the start of the lease in 2007.

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 document for details.

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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.

According to the Dongguan Historical Property and Public Resources Unauthorised Construction Rectification Policy of the People's Republic of China\* 《中華人民共和國東莞市歷史遺留產業類和公共配套類違法建築補辦不動產權手續實施方案》(the "**Rectification Policy**"), for property which was constructed prior to 12 December 2019 but without obtaining the property ownership certificate and is situated within the city enhancement and development plan, the owner or occupant of such property could apply to rectify the defect to obtain the property ownership certificate.

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 tax authority accepted the lease agreement was valid;
- based on the interview with the Integrated Management Bureau of Dongguan City (東莞市城市綜合管理局常平分局) (the "**Dongguan City Integrated Management Bureau**") conducted by our PRC Legal Advisers, it was confirmed that (i) relevant authority has not taken any action against the DG Leased Property or Kyoei Seiki; (ii) the party in default was the landlord who may be subject to a fine; and (iii) there is currently no instructions to deal with the voluminous historical illegal construction;
- based on the interview with the Planning Management Bureau of Changping Town, Dongguan City (東莞市常平鎮規劃管理所) (the "**Changping Planning Bureau**") conducted by our PRC Legal Advisers, it was confirmed that (i) the usage of the DG Leased Property was in accordance with the land usage planning; (ii) the Changping Planning Bureau has not received any notifications that our DG Leased Property is currently included in any demolition plan for public infrastructure projects or other projects in the coming years; (iii) there had been no record of punishment on the DG Leased Property since the establishment of Kyoei Seiki; and (iv) the owner or occupant of the DG Leased Property will not be penalised if the DG Leased Property is used in the current condition.
- based on the interview with the Housing Planning and Construction Bureau of Changping Town, Dongguan City (東莞市常平鎮住房和城鄉建設局) (the "**Changping Property and City and Rural Construction Bureau**") conducted by our PRC Legal Advisers, it was confirmed that (i) it is common for historical illegal construction in Dongguan City due to historical economy development reasons; (ii) they had not and currently do not intend to impose any penalty against Kyoei Seiki; and (iii) Kyoei Seiki can continue to use the DG Leased Property even if Kyoei Seiki does not apply for the permit under the Rectification Policy or during such application process, and our operations would not be affected;

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- Application for rectification pursuant to the Rectification Policy has been applied to and an acknowledgment was issued on 21 March 2023.
- 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 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.

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.

As stipulated in the lease agreement and advised by the PRC Legal Advisers, if anything happens which renders the performance of the lease agreement impossible during the tenure, the lessor will compensate us for actual losses which should include the costs for relocation, as well as any increase in rental payable by us throughout the original term of the lease for the DG Leased Property and will refund the remaining rent to us.

## **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 — 7. Intellectual property rights of our Group” in Appendix IV to this document.

### **Patents**

As at the Latest Practicable Date, our Group had registered twenty-seven 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 — 7. Intellectual property rights of our Group” in Appendix IV of this document.

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 the violation of other parties’ rights.

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**AWARDS AND RECOGNITIONS**

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

<b>Awards/Recognition</b>	<b>Issuing Party</b>	<b>Year(s) of Receipt</b>
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	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, 2021
Certificate SGS/UKAS ISO 9001:2008	SGS United Kingdom Ltd.	2014
Heat Treatment Certification* (熱處理認定證)	Sumitomo Construction Machinery (住友建機株式会社) and Sumitomo Construction Machinery (Tangshan) Co., Ltd.	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, 2020
Certificate SGS/UKAS ISO 9001: 2015	SGS United Kingdom Ltd.	2017, 2020
Listing on GEM	The Stock Exchange	2019
Price performance award (成本協力獎)	Sumitomo Construction Machinery	2019
Caring Company	The Hong Kong Council of Social Service	2023

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### INSURANCE

We maintain general business risks insurance and accidental insurance, which is part of the employee benefit insurance plan, to cover employer’s liabilities associated with workplace injuries to all our employees. We also maintain a directors’ and officers’ liability insurance for our Directors.

For each of FY2020, FY2021 and FY2022, the total insurance costs, excluding social insurance for our employees in the PRC, paid by our Group amounted to approximately HK\$57,000, HK\$68,000 and HK\$79,000, respectively. These policies cover the sum to pay as compensation for personal injuries in accident or disease sustained in the course of employment of our workers. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not encounter any material claim not covered by insurance policies taken out by us.

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

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. For risk factors relating to our insurance policies, please refer to the section headed “Risk Factors — Risks relating to our business and our industry — 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” of this document.

### EMPLOYEES

As at the Latest Practicable Date, we had a total of 93 full-time employees in the PRC and Hong Kong. The following table sets out the breakdown of our employees categorised by region and function as at the Latest Practicable Date:

Function	PRC	Hong Kong	Total
Finance	6	2	8
Administrative	5	1	6
Production	39	0	39
Quality assurance	10	0	10
Technical and repair	6	0	6
Human resource	6	1	7
Sales	5	1	6
Procurement	3	1	4
Logistics	6	1	7
<b>Total</b>	<b>86</b>	<b>7</b>	<b>93</b>

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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 are 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 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 required 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 RMB36,000, RMB0.4 million and RMB0.5 million for FY2020, FY2021 and FY2022, respectively.

According to the Social Insurance Law of the PRC, if an employer fails 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. However, as it is not uncommon that the social insurance contributions fell short of the standard under the Social Insurance Law, in January 2021, the Premier of the State Council of the PRC, Mr. Li Keqiang announced that China will continue to deepen reforms and improve overall system and that the authority should not take initiatives to request enterprises to pay up the historical



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shortage resulting in increasing the costs of enterprises and the payment methodology should be maintained. Our Directors confirm that, in an unlikely event that if we receive notice of order from the relevant government authority, Kyoei Seiki will immediately settle the outstanding contribution together with such additional late payment fee so that the maximum liability against Kyoei Seiki in its non-compliance with the Social Insurance Law of the PRC during the Track Record Period will comprise (i) such additional late payment fee in the maximum amount of approximately RMB0.2 million; and (ii) the shortfall in social insurance under the PRC laws.

We obtained letters of confirmation (the “**Social Insurance Confirmation**”) from Dongguan Social Credibility System Coordination Office (東莞市社會信用體系建設統籌協調小組辦公室), which stipulated that from 1 January 2020 to 3 January 2023, Kyoei Seiki had no record of administrative penalty imposed. Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not receive any notification of penalty or rectification requirement.

We have confirmation letters from all relevant employees whereby they agreed to renounce their right to any potential claim against our Group in respect of the social insurance contributions and to maintain the payment of the social insurance contributions at the current level.

In connection with the foregoing situation, our PRC Legal Advisers held the view that (i) the relevant governmental authorities aforesaid were competent authorities to issue the Social Insurance Confirmation; (ii) unless there is any significant changes to the current laws and policy or any complaint by the relevant employees, (a) the likelihood that we will be fined or will be required by the relevant social insurance fund authority to make up the social insurance contributions is remote; and (b) we can continue to pay the social insurance contributions at the current level.

### *Housing provident fund*

During the Track Record Period, Kyoei Seiki had 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 contributions made by Kyoei Seiki fell short of the requirement 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 RMB0.1 million, RMB0.3 million and RMB0.4 million for FY2020, FY2021 and FY2022, respectively.

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 employer 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, the maximum liability against Kyoei Seiki will be the shortfall in housing provident contributions under the PRC laws.

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As at the Latest Practicable Date, Kyoei Seiki had already obtained written confirmation (the “**Housing Provident Fund Confirmation Letters**”) from the Dongguan Social Credibility System Coordination Office (東莞市社會信用體系建設統籌協調小組辦公室), which stipulated that Kyoei Seiki had no record of material violations of the housing provident fund regulations from 1 January 2020 to 31 January 2023.

We received confirmation letters from all our relevant employees whereby they agreed to renounce their right to any potential claim against our Group in respect of the housing provident fund contributions and to maintain the payment of the housing provident contributions at the current level.

In connection with the foregoing situation, our PRC Legal Advisers held the view that (i) Dongguan Social Credibility System Coordination Office was the competent authority to issue the Housing Provident Fund Confirmation Letters; (ii) unless there will be any change in the current laws and policy or there is any complaint made by any employee, (a) the likelihood that we will be fined or will be required by the relevant housing provident fund authority to make up the housing provident fund contributions is remote; and (b) we can continue in making the housing provident fund contributions at the current level.

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 FY2020, FY2021 and FY2022, our total employee benefits were approximately HK\$8.0 million, HK\$10.6 million and HK\$12.1 million, which accounted for approximately 15.2%, 11.8% and 13.7% 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 document.

We believe that it is important and essential to protect the environment and we take an active role in ensuring sustainable and environmentally friendly production and operations by employing various measures. For this reason, we have in place our environmental, social and governance policy (the “**ESG Policy**”) which sets forth the policies and procedures in identifying, evaluating and determining the significance of environmental aspects and impacts by and on the company and ensuring compliance with all relevant national and local environmental laws and regulations. We also formulated a climate change guidelines to monitor and improve our energy consumption practices.

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During the Track Record Period, in addition to our closed circuit system for reusing cooling water used in our production process, we have commissioned a third party specialist 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. In May 2020, we had also obtained the sewage disposal permit to dispose waste water into the city drainage system from Dongguan Environmental Protection Bureau. In respect of our solid waste such as scrap metal, we have also commissioned a third party solid waste disposal operator to dispose of the solid waste. During the Track Record Period, we incurred approximately HK\$26,000, HK\$18,000 and HK\$15,000, respectively in relation to our environmental protection and compliance. We expect the costs of compliance as set out in our ESG Policy will be consistent and proportionate to our scale of operations.

In September 2018, we received confirmation from the Dongguan Environmental Protection Bureau that our noise, solid waste pollution prevention and control facilities satisfied the basic requirement on environmental protection. As at the Latest Practicable Date, Kyoei Seiki had already obtained written confirmation letters from the Dongguan Social Credibility System Coordination Office\* (東莞市社會信用體系建設統籌協調小組辦公室), which stipulated that Kyoei Seiki had no record of violations of the environmental protection regulations from 1 January 2020 to 3 January 2023.

### SOCIAL AND WORK SAFETY

We strive to create a workplace which makes our employees feel valued and inspired to do their best and at all times regard our employees as valuable assets for our sustained development and growth. We are committed to provide our employees with equal opportunity on recruitment, promotion, compensation and benefits.

During the Track Record Period, we did not have any incident of non-compliance with relevant laws and regulations that have a significant impact on our Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

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 equipments, 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 equipments safely. We carry out annual inspection and testing of our production machineries and equipments to ensure compliance of the application regulations. Our operational safety officer attended training courses and oversees the work place safety of our production facilities.

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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 equipments. All of our employees are given an employee manual which stipulates our corporate cultural development, working procedures, safety precautions, promotions and termination conditions. 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 also provide regular in-house training to our employees.

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 equipments and engage external professionals to check and confirm the safety features of our machineries and equipments are mentioned in good order and operating.

We have established a policy in recording and handling work place accidents and recovery follow-up. There were 3 cases, 1 case and 2 cases of light work-related injuries, which were covered by social insurance during the Track Record Period respectively. Our Directors confirm that we did not encounter material accident or claim concerning work safety or any claim disputes on compensation or work-related injury investigation by the government officials 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 AND RISK MANAGEMENT**

We believe an effective internal control and risk management could streamline our operations efficiently as well as to safeguard shareholders' investments and assets of our Group. We were awarded ISO accredited quality management system certificates since 2009. Whilst our independent non-executive Directors are generally responsible for overseeing our internal control and corporate governance, our Board had established a corporate governance committee on 31 March 2022 to take full account of our Group's policies and practices on corporate governance, legal and regulatory compliance and professional development of our management team. We also implement stringent anti-corruption and whistle blowing policy in upholding high standards of business integrity, honesty and transparency in all our business dealings.

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We are exposed to various risks as part of our business operations. We have different risk management policies and procedures in managing and evaluating these risks, including products development, raw materials procurement, production and quality control, financial management and credit, legal and compliance and business continuity etc. During the Track Record Period and up to the Latest Practicable Date, we did not engage in any hedging activities. Please refer to the section headed “Risk Factors — risks relating to our business and our industry” of this document for details on the risk in our operations.

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**”) on the measures and recommendations for the implementation of internal control since the GEM Listing. Based on the results of the Internal Control Review, our Directors are of the view that applicable internal control procedure and policies have been put in place by our Group and do not have any significant deficiencies or material non-compliance had been identified as at the Latest Practicable Date.

### 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. For our operations in Hong Kong, we do not require any particular licence or permit other than the business registration certificate. 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 the abovementioned licenses when they expire.

The table below set forth material licences and permits we possess in relation to our operations in the PRC since the commencement of the Track Record Period and up to the Latest Practicable Date:

<b>Licences/Permits</b>	<b>Date of grant or registration</b>	<b>Date of expiry</b>
1. Registration with the Customs of the PRC	11 December 2007	31 July 2068
2. City sewage network disposal of polluted water permit* (城鎮污水排入排水管網許可證)	26 May 2020	25 May 2025
3. General disposal of sewage permit	13 January 2023	12 January 2028

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### NON-COMPLIANCE & LITIGATION

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.

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.

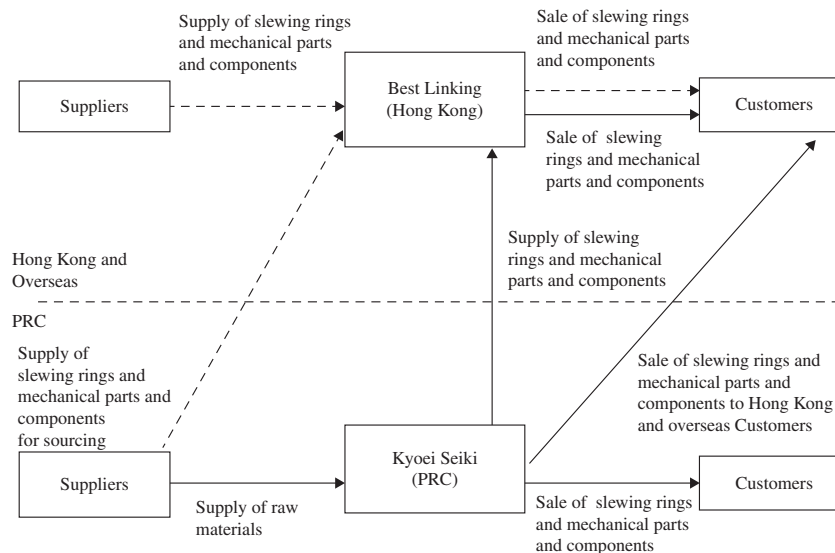
### REGULATORY COMPLIANCE

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.

### 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:



*Note:* Our machineries business was not subject to transfer pricing arrangement as it was managed solely under Best Linking during the Track Record Period.

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Our production was carried out by Kyoei Seiki in our factory located in Dongguan City, the PRC. Kyoei Seiki mainly purchased the raw materials from suppliers in the PRC. The raw materials were delivered to our factory for processing. Our slewing rings and mechanical parts and components were then sold to customers located in the PRC, Hong Kong or overseas directly from Kyoei Seiki, and 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 and mechanical parts and components to Best Linking for onward sale to customers in Hong Kong and overseas. Meanwhile, as a “one-stop” service provider, Best Linking also procured slewing rings and mechanical other parts and components that we do not produce from suppliers in Hong Kong and the PRC to cater the needs of our customers. 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. There is also no foreign exchange control in 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 and mechanical parts and components 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 approximately HK\$15.6 million, HK\$15.5 million and HK\$27.0 million for FY2020, FY2021 and FY2022, respectively.

We engaged an independent tax adviser to conduct transfer pricing study concerning the above transactions during the Track Record Period 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 8 comparable companies for fiscal years 2019 to 2021 was 2.91% to 18.38%, with a median of 9.73%. The weighted average full cost mark up ratio of Kyoei Seiki calculated for the period covering the Track Record Period was 13.82%, which was within the interquartile range derived from the transactional net margin method analysis. The analysis result suggests that (i) the Transfer Pricing Arrangements were carried out on an arm’s length basis in a material respect during the Track Record Period; and (ii) with the consideration of the business factors and the applicable transfer pricing regulatory environment in the PRC and Hong Kong, the practical risk that the said Transfer Pricing Arrangements would be challenged through transfer pricing by the tax authorities in the PRC and Hong Kong is not considered as high. Our Directors, after considering the analysis result and reviewing the transfer pricing study prepared by our independent tax adviser, are of the view that our Group is in compliance with the applicable transfer pricing laws and regulations in Hong Kong and the PRC in all material respect during the Track Record Period.

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;

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- 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).

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. Please refer to the section headed “Risk Factors — We may be subject to transfer pricing challenge” of this document 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.