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Application Proof

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

(Incorporated in the Cayman Islands with limited liability)

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

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	:	[REDACTED] Shares (subject to the [REDACTED])
Number of [REDACTED]	:	[REDACTED] Shares (subject to reallocation)
Number of [REDACTED]	:	[REDACTED] Shares (subject to reallocation and the [REDACTED])
[REDACTED]	:	Not more than HK\$[REDACTED] per [REDACTED] and expected to be not less than HK\$[REDACTED] per [REDACTED] plus brokerage fee of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	[REDACTED]

Sole Sponsor



[REDACTED], [REDACTED] and [REDACTED]

[●]

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See “Risk Factors” for a discussion of certain risks that you should consider before [REDACTED] in our Shares.

The [REDACTED] is expected to be determined by agreement between the [REDACTED] (on behalf of the [REDACTED]) and our Company on or about [REDACTED] and, in any event, not later than [REDACTED]. The [REDACTED] will be not more than HK\$[REDACTED] per [REDACTED] and is currently expected to be not less than HK\$[REDACTED] per [REDACTED], unless otherwise announced. [REDACTED] applying for the [REDACTED] must pay, on application, the maximum [REDACTED] of HK\$[REDACTED] per [REDACTED], together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the [REDACTED] is less than HK\$[REDACTED] per [REDACTED].

The [REDACTED] (for itself and on behalf of the [REDACTED]), with the consent of our Company, may reduce the indicative [REDACTED] range stated in this document and/or reduce the number of [REDACTED] being offered pursuant to the [REDACTED] at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, notices of the reduction of the indicative [REDACTED] range and/or the number of [REDACTED] will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the [REDACTED]. Further details are set out in “Structure and Conditions of the [REDACTED]” and “How to Apply for the [REDACTED]”. If, for any reason, the [REDACTED] is not agreed between our Company and the [REDACTED] (on behalf of the [REDACTED]) on or before [REDACTED] (Hong Kong time), the [REDACTED] (including the [REDACTED]) will not proceed and will lapse. See “[REDACTED] — [REDACTED] arrangements and expenses — [REDACTED] — Grounds for termination” for further details.

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

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds for termination arise prior to 8:00 a.m. on the [REDACTED]. Such grounds are set out in the subsection headed “[REDACTED] — [REDACTED] arrangements and expenses — [REDACTED] — Grounds for termination” in this document.

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

TABLE OF CONTENTS

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

	<i>Page</i>
EXPECTED TIMETABLE	i
TABLE OF CONTENTS	iv
SUMMARY	1
DEFINITIONS	11
GLOSSARY OF TECHNICAL TERMS	20
FORWARD-LOOKING STATEMENTS	21
RISK FACTORS	23
INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]	38
DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]	42
CORPORATE INFORMATION	45
INDUSTRY OVERVIEW	47
REGULATORY OVERVIEW	57
HISTORY, REORGANISATION AND CORPORATE STRUCTURE	76
BUSINESS	83
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	147
CONNECTED TRANSACTIONS	152
DIRECTORS AND SENIOR MANAGEMENT	156
SUBSTANTIAL SHAREHOLDERS	168
SHARE CAPITAL	170
FINANCIAL INFORMATION	174
FUTURE PLANS AND [REDACTED]	211
[REDACTED]	214

TABLE OF CONTENTS

STRUCTURE AND CONDITIONS OF THE [REDACTED]	225
HOW TO APPLY FOR THE [REDACTED]	234
APPENDIX I — ACCOUNTANTS’ REPORT	I-1
APPENDIX II — UNAUDITED [REDACTED] FINANCIAL INFORMATION	II-1
APPENDIX III — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW	III-1
APPENDIX IV — STATUTORY AND GENERAL INFORMATION	IV-1
APPENDIX V — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION	V-1

SUMMARY

This summary aims at giving you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to [REDACTED] in the [REDACTED].

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

OVERVIEW

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

As a leading steel and metal engineering company in Hong Kong, we are capable to offer a full range of engineering services from design, manufacture, supply, installation and maintenance of steel and metal products. We generally provide our steel and metal engineering services on a project-by-project basis, and participate in a variety of projects, including residential properties, office buildings, shopping malls, and other public facilities. For the years ended 31 March 2016, 2017 and 2018, our revenue in respect of steel and metal engineering services amounted to approximately HK\$96.1 million, HK\$103.3 million and HK\$140.6 million, representing approximately 78.3%, 64.0% and 70.6% of our total revenue, respectively. During the Track Record Period, our Group completed 31 projects which were awarded by tender with a total contract sum of HK\$277.6 million. As at the Latest Practicable Date, we had 37 on-going projects (either in progress or yet to commence) with a total contract sum of HK\$389.8 million, including one construction contract with contract sum of HK\$35.1 million which was awarded after 31 March 2018. During the Track Record Period, most of our revenue in respect of engineering services were generated from the public section projects.

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

Our Group, through Huizhou Hengyi, our PRC operating subsidiary, owns the production facilities located in Huizhou, the PRC, which manufactures steel and metal products required by our customers based on their demand and specifications. We manufacture metal gates, shutters and doors, such as collapsible gates, fire-insulated shutters, rolling shutters, metal doors and other steel and metal products. We consider that our ability to manufacture steel and metal products at our own production

SUMMARY

facilities enables us to provide full range services to our customers and to control quality, as well as to achieve cost efficiency and offer competitive prices as compared to our competitors. In addition, Huizhou Hengyi obtained the AEO certification in December 2015 which is an internationally recognised quality mark indicating that our role in the international supply chain is secure, and that the customs controls and procedures are efficient and compliant, and such certification is generally awarded to participants who fully meet AEO requirements, such as customs compliance, appropriate record keeping, financial solvency and, where relevant, security and safety standards.

OUR BUSINESS MODEL

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

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

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

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

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

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

See “Business — Business model” for further details of our business model.

SUMMARY

OUR CUSTOMERS

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

OUR SUPPLIERS AND SERVICE PROVIDERS

Our purchases of raw materials from suppliers are mainly stainless steel, metal, galvanised coils and accessories. Our suppliers are located in the PRC and Hong Kong and we have developed the stable relationships with our suppliers. For the years ended 31 March 2016, 2017 and 2018, our purchases attributable to our five largest suppliers amounted to approximately HK\$15.2 million, HK\$37.3 million and HK\$19.2 million, representing approximately 27.4%, 54.4% and 44.9% of our total purchases, respectively. Our purchases attributable to our largest supplier during the years ended 31 March 2016, 2017 and 2018 amounted to approximately HK\$7.0 million, HK\$20.1 million and HK\$5.7 million, representing approximately 12.5%, 29.3% and 13.3% of our total purchases, respectively. See “Business — Suppliers and services providers — Suppliers” for details.

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

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

OUR PRODUCTION FACILITIES

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

CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or the exercise of options to be granted under the Share Option Scheme), HY Steel will directly hold [REDACTED]% of our

SUMMARY

Company’s issued share capital. As at the Latest Practicable Date, HY Steel, an investment holding company, is owned as to 70% by Mr. PS Lee and 30% by Ms. LC Lau. As such, for the purpose of the Listing Rules, Mr. PS Lee, Ms. LC Lau and HY Steel are a group of our Controlling Shareholders. See “Relationship with Our Controlling Shareholders” for details.

COMPETITIVE STRENGTHS

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

BUSINESS STRATEGIES

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

RISK FACTORS

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

SUMMARY OF FINANCIAL INFORMATION

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

SUMMARY

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

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	122,698	161,483	199,199
Direct costs	<u>(82,606)</u>	<u>(107,712)</u>	<u>(124,840)</u>
Gross profit	40,092	53,771	74,359
Other income and other gains and losses	720	524	7,784
Administrative expenses	(5,265)	(7,675)	(13,091)
Finance costs	(116)	(132)	(121)
[REDACTED]	<u>—</u>	<u>—</u>	<u>[REDACTED]</u>
Profit before taxation	35,431	46,488	62,534
Income tax expense	<u>(6,025)</u>	<u>(8,395)</u>	<u>(10,310)</u>
Profit for the year	29,406	38,093	52,224
Other comprehensive income (expense) for the year			
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operation	<u>250</u>	<u>(293)</u>	<u>429</u>
Total comprehensive income for the year	<u><u>29,656</u></u>	<u><u>37,800</u></u>	<u><u>52,653</u></u>

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

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

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

SUMMARY

Selected information from consolidated statements of financial position

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

Selected information from consolidated statements of cash flows

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

Our cash and cash equivalents balance was approximately HK\$21.3 million as at 1 April 2015, and increased to approximately HK\$25.4 million as at 31 March 2016, mainly due to the net effect of the cash inflows from operating activities of approximately HK\$12.2 million, cash outflows of approximately HK\$2.5 million used in purchase of machinery and cash outflows of approximately HK\$5.0 million used in repayments to the Controlling Shareholders. Our cash and cash equivalents balance further increased to approximately HK\$31.4 million as at 31 March 2017, mainly due to the net effect of the cash inflows from operating activities of approximately HK\$39.0 million, cash outflows of HK\$24.0 million dividends paid, cash outflows of approximately HK\$7.0 million used in repayments to the Controlling Shareholders, and the cash outflows of approximately HK\$1.3 million used in purchase of motor vehicles and machinery. Our cash and cash equivalents balance dropped to approximately HK\$28.6 million as at 31 March 2018, mainly due to the net effect of the cash inflows from operating activities of approximately HK\$60.4 million, cash inflows of approximately HK\$10.6 million received from the disposal of certain investment properties of the Group, cash outflows of approximately HK\$45.0 million used in repayments to the Controlling Shareholders, cash outflows of HK\$24 million dividends paid, cash outflows of approximately HK\$2.9 million used in purchase of machinery, and the cash outflows of approximately HK\$1.3 million used in repayments of obligations under finance leases. See “Financial Information — Liquidity and capital resources” for details.

SUMMARY

Key financial ratios

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

Notes:

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year end.
2. Interest coverage is calculated by the profit before interest and tax divided by the interest expenses for the respective year.
3. Gearing ratio is calculated based on the total interest-bearing debts divided by the total equity as at the respective year and multiplied by 100%.
4. Return on assets is calculated by the profit for the year divided by the total assets for the respective year and multiplied by 100.0%.
5. Return on equity is calculated by the profit for the year divided by the total equity for the respective year and multiplied by 100.0%.
6. Net profit margin is calculated by the profit for the year divided by the revenue for the respective year and multiplied by 100.0%.

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

LITIGATION, CLAIMS AND NON-COMPLIANCE

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

SUMMARY

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

DIVIDEND AND DIVIDEND POLICY

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

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

[REDACTED] STATISTICS

All statistics in the table below are based on the assumption that the [REDACTED] is not exercised.

	Based on minimum indicative [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on maximum indicative [REDACTED] Of HK\$[REDACTED] per [REDACTED]
Market capitalisation of our Shares (<i>Note 1</i>)	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited [REDACTED] adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 per Share (<i>Note 2</i>)	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

1. The calculation of market capitalisation is based on the [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED] and [REDACTED] and assuming that the [REDACTED] is not exercised.
2. The unaudited [REDACTED] adjusted consolidated net tangible assets per Share has been arrived at after adjustments referred to in “Appendix II — Unaudited [REDACTED] Financial Information — A. Statement of unaudited [REDACTED] of Adjusted Consolidated Net Tangible Assets of the Group Attributable to Owners of the Company” to this document and on the basis of [REDACTED] Shares in issue at the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per [REDACTED] immediately following completion of the [REDACTED] and [REDACTED] and assuming that the [REDACTED] is not exercised.

SUMMARY

[REDACTED]

We currently intend to apply the net [REDACTED] from the [REDACTED] of approximately [REDACTED] for the following purposes assuming the [REDACTED] is not exercised and assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] range stated in this document:

Intended use of net [REDACTED]	Approximate amount	Approximate percentage of net [REDACTED]
Acquiring machines to replace and enhance our production capacity	HK\$[REDACTED]	[REDACTED]%
Expanding our workforce in Hong Kong and the PRC	HK\$[REDACTED]	[REDACTED]%
Renovation and re-design of our existing production facilities	HK\$[REDACTED]	[REDACTED]%
Purchasing delivery trucks	HK\$[REDACTED]	[REDACTED]%
Upgrading our information technology system and equipment	HK\$[REDACTED]	[REDACTED]%
General working capital of our Group	HK\$[REDACTED]	[REDACTED]%

The above allocation of the net [REDACTED] from the [REDACTED] will be adjusted on a pro-rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED] range stated in this document.

In the event that the [REDACTED] is exercised in full, we intend to apply the [REDACTED] from the [REDACTED] to the above uses in the proportions stated above.

See “Business — Business strategies” and “Future Plans and [REDACTED]” for further details.

[REDACTED]

Our Directors estimate that the total estimated [REDACTED] in connection with the [REDACTED] are approximately HK\$[REDACTED], based on the mid-point of the [REDACTED] of HK\$[REDACTED] per [REDACTED] and assuming no [REDACTED] will be exercised, of which approximately HK\$[REDACTED] has been charged to our consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2018, and approximately HK\$[REDACTED] is expected to be further charged to our consolidated statement of profit or loss and other comprehensive income for the year ending 31 March 2019, and approximately HK\$[REDACTED] is expected to be accounted for as a deduction from equity upon the [REDACTED].

SUMMARY

RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 37 on-going construction contracts awarded by tender (whether in progress or yet to commence) with an aggregate contract sum of approximately HK\$389.8 million, including one contract with contract sum of approximately HK\$35.1 million awarded after the Track Record Period. See “Business — Our projects — On-going projects” for details of our on-going projects (with contract sum of more than HK\$10.0 million).

Furthermore, as at the Latest Practicable Date, we had submitted 17 tenders for provision of steel and metal engineering services with an estimated contract sum of approximately HK\$64.3 million.

NO MATERIAL ADVERSE CHANGE

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

DEFINITIONS

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

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Accountants’ Report”	the accountants’ report of our Group prepared by the Reporting Accountants set out in Appendix I to this document
“[REDACTED]”	[REDACTED], [REDACTED] and [REDACTED], or where the context so requires, any of such forms as used in the [REDACTED]
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, conditionally adopted on [●] with effect from the [REDACTED], and as amended from time to time, a summary of which is contained in Appendix III to this document
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Biopower Co.”	Biopower Co., Ltd., a limited liability company incorporated in the BVI on 2 January 2001, which is wholly owned by Mr. PS Lee
“Board”	the board of Directors
“business day”	a day on which banks in Hong Kong are open for general banking business, other than (i) a Saturday or a Sunday; or (ii) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“[REDACTED]”	[REDACTED]
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of our Board
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, consolidated or otherwise modified from time to time
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Hang Yick Holdings Company Limited (恒益控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2018
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and in the context of our Company, means Mr. PS Lee, Ms. LC Lau and HY Steel
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated [●] and executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries) to provide certain indemnities, further details of which are set out in “Statutory and General Information — E. Other information — 1. Tax and other indemnities” in Appendix IV to this document
“Deed of Non-competition”	the deed of non-competition dated [●] and executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries), further details of which are set out in “Relationship with our Controlling Shareholders — Non-competition undertaking”
“Director(s)”	the director(s) of our Company
“Frost & Sullivan”	Frost & Sullivan Limited, an independent industry consultant
“Frost & Sullivan Report”	an independent industry report commissioned by us and issued by Frost & Sullivan
“GDP”	gross domestic product
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries
“Hang Yick”	Hang Yick Gate Engineering Limited (恒益捲閘工程有限公司), a company incorporated in Hong Kong with limited liability on 20 January 1993, and an indirect wholly-owned subsidiary of our Company upon completion of Reorganisation
“Hang Yick Co”	Hang Yick Gate Eng Co. (恒益捲閘工程公司), a sole proprietor established in Hong Kong which was owned by Mr. PS Lee since 1 June 1982 and ceased to operate on 8 March 2018
“Hang Yick Macau”	Hang Yick Gate Engineering (Macau) Limited (恒益捲閘工程(澳門)有限公司), a company incorporated under laws of Macau on 21 December 2005 and dissolved on 11 April 2017

DEFINITIONS

“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” or “HK dollars” or “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“[REDACTED]”	[REDACTED]
“Hong Kong Government”	the Government of Hong Kong
“[REDACTED]”	[REDACTED]

DEFINITIONS

“Huizhou Hengyi”	Huizhou Hengyi Wujin Zhipin Limited* (惠州恒益五金製品有限公司), a limited liability company established in the PRC on 27 August 2010, and an indirect wholly-owned subsidiary of our Company upon completion of Reorganisation
“Huizhou Jiantai”	Huizhou Jiantai Sujiao Wujin Zhipin Limited* (惠州市健泰塑膠五金製品有限公司), a limited liability company established in the PRC on 26 July 2005, which is indirectly wholly owned by Mr. PS Lee through Biopower Co.
“HY Metal”	HY Metal Company Limited, a company incorporated in the BVI with limited liability on 15 March 2018, and a direct wholly-owned subsidiary of our Company upon completion of the Reorganisation
“HY Steel”	HY Steel Company Limited, a company incorporated in the BVI with limited liability on 14 March 2018 which is owned as to 70% by Mr. PS Lee and 30% by Ms. LC Lau, as one of our Controlling Shareholders
“Independent Third Party(ies)”	person(s) or company(ies) which are independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of our Company, any of our subsidiaries or any of our respective associates, and an “Independent Third Party” means any of them
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]

DEFINITIONS

“[REDACTED]”	[REDACTED]
“IRD”	Inland Revenue Department of the Hong Kong Government
“Latest Practicable Date”	14 May 2018, being the latest practicable date for the inclusion of information in this document prior to the printing of this document
“Legislative Council”	Legislative Council of Hong Kong
“[REDACTED]”	[REDACTED]
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“[REDACTED]”	[REDACTED]
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, adopted on [●] with immediate effect, and as amended from time to time
“Mr. Benny Lee”	Mr. Lee Ka Chun Benny (李嘉俊先生), our non-executive Director and the son of Mr. PS Lee and Ms. LC Lau
“Mr. PS Lee”	Mr. Lee Pui Sun (李沛新先生), our Chairman, chief executive officer, executive Director and Controlling Shareholder, the spouse of Ms. LC Lau and the father of Mr. Benny Lee
“Ms. LC Lau”	Ms. Lau Lai Ching (劉麗菁女士), our executive Director and Controlling Shareholder, the spouse of Mr. PS Lee and the mother of Mr. Benny Lee

DEFINITIONS

“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“PRC” or “China”	The People’s Republic of China which, for the purpose of this document, shall exclude Hong Kong, Macau and Taiwan
“PRC Government”	the central government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the laws of Hong Kong) as in force before 3 March 2014
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganisation”	the corporate reorganisation of our Group in preparation for the [REDACTED] as described in “History, Reorganisation and Corporate Structure — Reorganisation”
“Reporting Accountants”	Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on [●], a summary of principal terms of which is set out in “Statutory and General Information — D. Share Option Scheme”
“Shares”	ordinary shares of our Company with a nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Shares
“[REDACTED]”, “[REDACTED]”, “[REDACTED]” or “[●]”	[●], a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities, acting as the [REDACTED], [REDACTED] and [REDACTED] of the [REDACTED]
“Sole Sponsor” or “Fortune Financial Capital”	Fortune Financial Capital Limited, the sole sponsor of our Company for the [REDACTED], a corporation licensed by the SFC to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, acting as the sponsor to the [REDACTED]
“sq.m.” or “m ² ”	square metres
“[REDACTED]”	[●]
“[REDACTED]”	[REDACTED]
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the years ended 31 March 2016, 2017 and 2018
“[REDACTED]”	the [REDACTED] and the [REDACTED]
“[REDACTED]”	the [REDACTED] and the [REDACTED]
“United States”, “U.S.” or “US”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars” or “US dollars”	United States dollars, the lawful currency of the United States
“[REDACTED]”	[REDACTED]
“[REDACTED]”	[REDACTED]
“%”	per cent

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

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

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

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

GLOSSARY OF TECHNICAL TERMS

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

“AEO”	Authorised Economic Operator
“al-alloys”	aluminium alloys
“collapsible gate (摺閘)”	a gate which is usually fabricated from steel and can be opened or closed by slight pull or push, and is used where the width of the door is large and space is insufficient to provide two-leafed hinged shutters to open. It is usually fabricated from steel
“CNC”	computer numerical control, an automation methodology that uses computer as an integral controller to operate the machine tools with precisely programmed commands
“fire-insulated shutter (防火閘)”	the shutter has a fire insulation value, which must undergo and fulfill certain fire test to determine its fire insulation capability according to certain international standards
“GMS”	galvanised mild steel
“ISO”	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“private sector”	construction works commissioned by individuals, privately owned property development companies and commercial enterprises
“public sector”	construction works commissioned by Hong Kong Government, MTR Corporation Limited and the Airport Authority, and construction works commissioning departments and statutory bodies of the Hong Kong Government include Hong Kong Housing Authority, Development Bureau, Civil Engineering and Development Department, Water Services Department and Hong Kong Housing Authority, as well as schools, educational institutions and universities, and properties owned and/or managed by Link Real Estate Investment Trust, excluding any infrastructures projects
“variation order(s)”	an alteration to the scope of works in a construction contract in the form of an addition, substitution or omission from the original scope of works

FORWARD-LOOKING STATEMENTS

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

RISK FACTORS

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

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

RISKS RELATING TO OUR BUSINESS

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

During the Track Record Period, approximately 70% of our revenue was derived from provision of steel and metal engineering services in Hong Kong, which were awarded to us by successful tenders or by quotation requests. For the years ended 31 March 2016, 2017 and 2018, our tender success rate was approximately 22.2%, 24.6%, and 35.8%, respectively. Our past tender success rates are not indicative of our future results and we cannot guarantee you that we will achieve similar or an even higher success rate in the future.

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

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

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

RISK FACTORS

engineering services in public sector projects amounted to approximately 74.3%, 62.5% and 66.8% of our total revenue, respectively, and our revenue in respect of sales of steel and metal products on standardised collapsible gates amounted to approximately 4.3%, 21.1% and 21.5% of our total revenue, respectively.

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

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

For the years ended 31 March 2016, 2017 and 2018, our revenue generated from sales of standardised collapsible gates amounted to approximately HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, respectively, representing approximately 4.3%, 21.1% and 21.5%, respectively. The increase in sales of standardised collapsible gates during the Track Record Period was mainly due to the policy implemented by the Hong Kong Housing Authority to replace the old-type see-through collapsible gates in the flats of public rental housing estates for the year 2015/2016. In the event that there is a change in or termination of the relevant government policy, the demand for standardised collapsible gates will decrease. As such, our sales of standardised collapsible gates may be adversely affected causing a decrease in our revenue and results of operations.

We may be unable to retain or replace our major customers

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

RISK FACTORS

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

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

Our customers are generally required under the construction contracts (for those awarded by tender) to make progress payments on a monthly basis based on the amount of work done by us. Once our Group has submitted a monthly bill, our customers will certify the amount of work done. Our customers usually settle the bill, net of any agreed retention money within 30 days to 45 days after receipt of the payment certification.

Meanwhile, according to the construction contracts (for those awarded by tender), our customers are generally given the right to withhold a sum ranging from 5% to 10% of each progress payment due to us as retention monies, and the total amount of retention monies shall not exceed 5% of the total contract sum of the contracts. The retention monies are generally released to us in two instalments but the retention period could vary. The first half of the retention monies is generally released after practical completion or issuance of the certificate of completion under the main contracts, while the second half is generally released after the defect liability period (usually being 12 months to 24 months from completion date as set out in the main contract) or upon issuance of final completion certificate. As at 31 March 2018, the retention monies withheld by our customers presented as retention receivables amounted to approximately HK\$18.2 million.

Any dispute between us and our customers as to the value of work properly done in a particular period, or failure by our customers to make progress payment or retention money on time or in full, would have an adverse effect on our liquidity position and financial performance.

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

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

RISK FACTORS

We rely on key management personnel and experienced employees

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

We are exposed to disputes, claims or litigation

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

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

RISK FACTORS

Our Group may be liable for any defects in our projects

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

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

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

According to the legal opinion from our Hong Kong legal counsel as to Inland Revenue Ordinance, Ms. Sabrina S.Y. Ho, the likelihood that the IRD to impose penalty on Hang Yick in respect of the 2017 Filings would be remote. While the IRD has issued additional tax assessments for the tax undercharged without any penalty or surcharge in respect of the 2017 Filings, there is no assurance that the relevant authorities would not take any enforcement action against our Group in relation to the tax undercharged. In the event that any enforcement action is taken and the amount of tax undercharged after the final assessment of the IRD and tax penalty imposed substantially exceeds what we expect, our reputation and cash flow may be adversely affected.

RISK FACTORS

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

It is a part of our business strategy to acquire machines and equipment, delivery trucks and information technology systems and equipment and expanding manpower by utilising a portion of the net [REDACTED] from the [REDACTED]. See “Business — Business strategies” and “Future Plans and [REDACTED]” for further details. As a result, there could be potential increase of our depreciation and staff costs going forward, bringing impacts on our business and results of operations.

Given our planned investments in machines and equipment, delivery trucks, and information technology systems and equipment and expanding our manpower will increase our costs, any material adverse change in the steel and metal work industry and material decrease in demand for our services and products may lead to overcapacity of machinery and manpower and in turn, our business and financial positions may be adversely affected.

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

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

Industrial actions or strikes may affect our business

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

RISK FACTORS

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

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

Risk of uncertainties of our future plan

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

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

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

All our steel and metal engineering services projects have been and is expected to be located in Hong Kong. The future growth and level of profitability of the construction industry, in particular steel and metal works, in Hong Kong depend primarily upon the continued availability of large development or construction projects. The nature, extent and timing of such projects depend on a variety of factors. These factors include, the Hong Kong Government’s spending patterns on the construction industry in Hong Kong and its land supply and public housing and public facilities policies, speed of approval of the relevant budgets and/or projects, the investment of property developers and the general conditions and prospects of the Hong Kong economy. These may affect the availability of construction projects from the public sector or institutional bodies. Apart from the fluctuations in the public spending of the Hong Kong Government, other factors also affect the construction industry. These factors include cyclical trends in the economy as a whole and fluctuations in interest rates. If there is any recurrence of recession in Hong Kong, deflation or any changes in Hong Kong’s current policy, or if the demand for construction works in Hong Kong deteriorates, our operations and profitability could be adversely affected.

RISK FACTORS

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

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

Our operation may be affected by changes in existing laws

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

RISKS RELATING TO DOING BUSINESS IN THE PRC

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

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

The PRC economy differs from most developed economies in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC economy has grown significantly in the recent decade, we cannot assure you that such growth will continue. In response to the global economic downturn and market volatility, the PRC Government has lowered interest rates and announced large fiscal stimulus packages to boost the domestic economy. Recently, the PRC Government has taken measures to tighten the control over bank lending. Any adverse change in the economic, political and social conditions or government policies in the PRC could have a material adverse effect on overall economic growth, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

RISK FACTORS

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

Some of our costs were denominated in Renminbi during the Track Record Period. We currently plan to retain approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] for our PRC operations. Our Renminbi denominated assets and liabilities are expected to significantly increase as we further expand our operations and machinery in the PRC. Therefore, we are subject to risks associated with foreign exchange rate fluctuations.

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

The PRC regulations of investment and loans by offshore holding companies to the PRC entities may delay or prevent our Company from using the [REDACTED] of the [REDACTED] to make additional capital contributions or loans to members of our Group

Any capital contributions or loans our Company, as an offshore entity, makes to our PRC subsidiary, including from the [REDACTED] of the [REDACTED], are subject to the PRC regulations. Furthermore, our Group’s capital contributions to our PRC subsidiary must be approved by the competent authorities of the Ministry of Commerce of the PRC and the State Administration of Foreign Exchange. Our Group cannot assure that it will be able to obtain these approvals on a timely basis, or at all. If our Group fails to obtain such approvals, its ability to capitalise our PRC subsidiary or fund their operation or to utilise the [REDACTED] of the [REDACTED] in the manner described in “Future Plans and [REDACTED]” may be adversely affected, which could adversely affect the liquidity of our PRC subsidiary, our Group’s ability to grow through its subsidiaries’ operation and its financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

As there has been no prior public market for our Shares before the [REDACTED], the liquidity and [REDACTED] of our Shares following the [REDACTED] may be volatile

Before the [REDACTED], there has not been a public market for our Shares. The [REDACTED] for our Shares will be the result of negotiations between the [REDACTED] (for itself and on behalf of the [REDACTED]) and us, which may differ from the [REDACTED] of our Shares after the [REDACTED]. There is no assurance that the [REDACTED] will result in the development of an active and liquid public [REDACTED] for our Shares following the [REDACTED] or in the future or, if it does develop, that it will be sustained after the [REDACTED] or that the [REDACTED] of our Shares will not decline below the [REDACTED]. The [REDACTED], [REDACTED], and

RISK FACTORS

[REDACTED] of our Shares may be volatile due to variations of our Group’s revenue, earnings and cash flows or any developments and may result in substantial losses for [REDACTED] purchasing the [REDACTED] in the [REDACTED]. Factors that may affect the [REDACTED] at which our Shares will be [REDACTED] include:

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

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

[REDACTED] for the Shares will incur immediate and substantial dilution and may experience further dilution in the future

[REDACTED] may incur immediate and substantial dilution and may experience further dilution in the future. As the [REDACTED] of our Shares is higher than the net tangible assets per Share of our Shares immediately prior to the [REDACTED], [REDACTED] of our Shares in the [REDACTED] could experience an immediate dilution in unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company of HK\$[REDACTED] per Share (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the low-end of the indicative range of the [REDACTED]) and HK\$[REDACTED] per Share (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the high-end of the indicative range of the [REDACTED]). If we issue additional Shares in the future, [REDACTED] of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

RISK FACTORS

Further sales by our existing Shareholders of a substantial number of our Shares in the [REDACTED] could materially and adversely affect the prevailing [REDACTED] of our Shares

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

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

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

There may be a [REDACTED] on the earnings per Share associated with the Share Option Scheme and an impact on future earnings.

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

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

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

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

RISK FACTORS

RISKS RELATING TO STATEMENTS IN THIS DOCUMENT

[REDACTED] should read the entire document and should not rely on any information contained in press articles, websites or other media coverage regarding us and the [REDACTED]

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

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

Facts, statistical and forecast information relating to the respective economies and markets contained in this document have been compiled from various publicly available official governmental sources and the independent industry report prepared by Frost & Sullivan. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. Although we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective affiliates or advisers or any other parties involved in this document. Therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics. Such facts, forecasts and statistics include the facts, forecasts and statistics used in “Summary”, “Risk Factors”, “Industry Overview” and “Business”. Due to the possibility of flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts or statistics.

RISK FACTORS

No person is authorised to give any information in connection with this document or to make any representation not contained in this document, and any information or representation not contained herein must not be relied upon as having been authorised by us, our Controlling Shareholder, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], and the [REDACTED], any of our or their respective directors, officers, agents, employees, or advisers or any other party involved in this document.

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

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

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

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

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor

Fortune Financial Capital Limited

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

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

**[REDACTED], [REDACTED] and
[REDACTED]**

[●]

[REDACTED]

[●]

[●]

Legal advisers to our Company

As to Hong Kong law:

Khoo & Co.

2/F & 5/F, Tern Centre Tower 2
251 Queen’s Road Central
Hong Kong
(Solicitors of Hong Kong SAR)

As to the PRC law:

Deheng Law Offices (Shenzhen)

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

As to the Cayman Islands law:

Conyers Dill & Pearman

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

As to the Inland Revenue Ordinance:

Ms. Sabrina S.Y. Ho

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

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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

CORPORATE INFORMATION

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

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INDUSTRY OVERVIEW

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

SOURCE OF INFORMATION

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

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

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

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

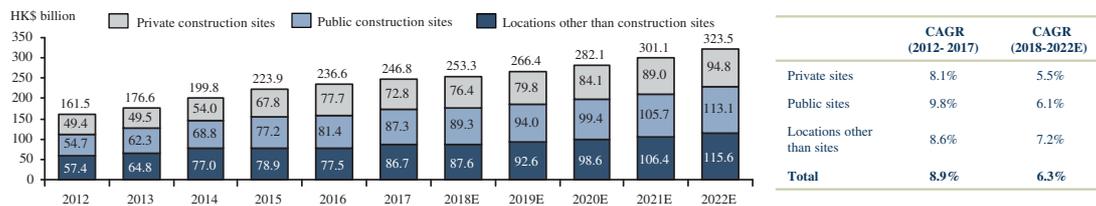
OVERVIEW OF MACROECONOMIC ENVIRONMENT IN HONG KONG

Gross value of construction works performed

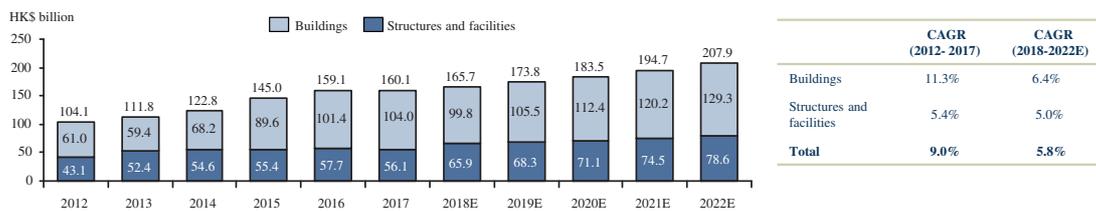
According to Census and Statistics Department, gross value of construction works performed by main contractors in Hong Kong demonstrated a steady growth from approximately HK\$161.5 billion in 2012 to approximately HK\$246.8 billion in 2017, representing a CAGR of 8.9%. The growth was primarily driven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

INDUSTRY OVERVIEW

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



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

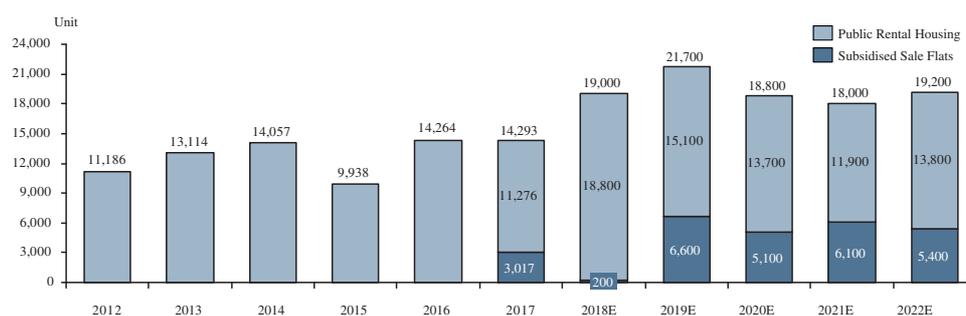


Source: Census and Statistics Department, Frost & Sullivan

Public housing production

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

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



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

OVERVIEW OF STEEL AND METAL ENGINEERING SERVICES MARKET IN HONG KONG

Definition and general categories of steel and metal works

Steel and metal works are generally defined as individual parts, large structures and assemblies specially designed and fabricated for buildings and facilities, which are made of metal (e.g. steel, stainless steel, cast iron, wrought iron and aluminium). Steel and metal works are generally rigid, well designed and even tailor-made to fit in the built structures based on certain specification. For illustration purpose, the steel and metal works referred herein exclude temporary steel and metal

INDUSTRY OVERVIEW

works such as temporary scaffolding, fencing, stands, temporary ladders and storage facilities in construction site, structural steels and steel and metal for infrastructures. Set out below are the major categories of steel and metal works for building and facilities. Steel and metal engineering services generally cover (i) supply of materials, (ii) installation, (iii) testing, and (iv) repair and maintenance. According to Architectural Services Department, design, use of materials steel and metal works in Hong Kong shall comply with the British Standards published by the British Standards Institution and ISO standards by International Organisation for Standardisation.

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

Steel and metal works are generally categorised as follows:

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

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

Classification of roller shutters

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

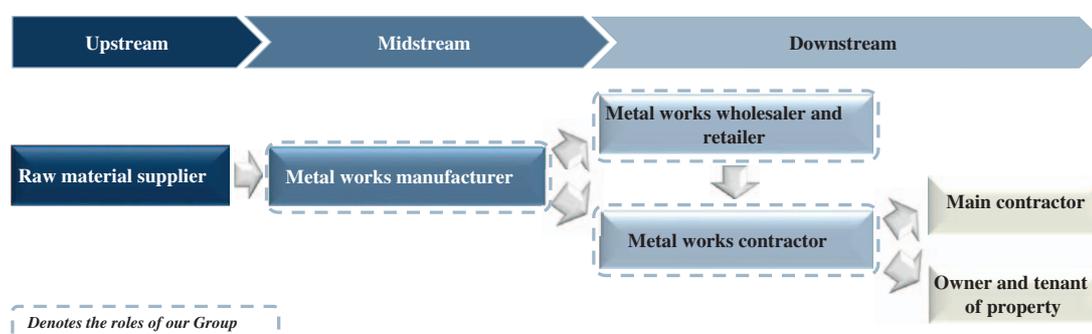
- (i) Fire-insulated shutters: fire-insulated shutters are specially designed and manufactured with metals (e.g. galvanised mild steel and aluminium) and fire and thermal insulation materials. Design, manufacturing and installation of fire-insulated shutters are required to comply with fire safety and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

INDUSTRY OVERVIEW

Value chain analysis

Tendering is a common practice for selection of steel and metal works contractor in public sector in Hong Kong, while some steel and metal works contractors may undertake relevant specialised engineering services through main contractors in new construction projects. Upon tender award as well as receiving the requirement and specification of steel and metal works from customers such as main contractors and property owners (e.g. Hong Kong Housing Authority or private property developers), steel and metal works manufacturer sources key raw materials including steel, iron and aluminium for fabrication and welding, and supply the finished products to (i) steel and metal works wholesalers and retailers for sales or (ii) steel and metal works contractors for installation. In general, a steel and metal works contractor is responsible for the subsequent testing and maintenance works for the installed steel and metal works. In particular, according to General Specification for Building issued by Architectural Services Department, steel and metal works contractors shall be responsible for defects or issues arising from defective materials, workmanship or design of the installed roller shutters.

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



Source: Frost & Sullivan

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

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

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

INDUSTRY OVERVIEW

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

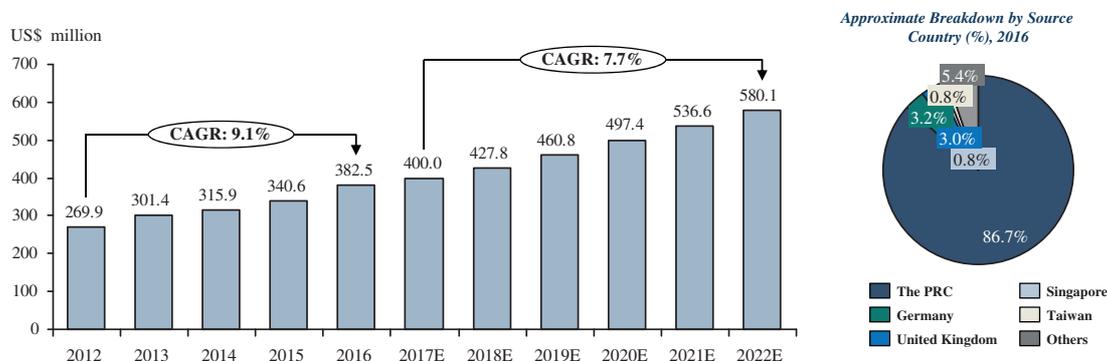


Source: Frost & Sullivan

Import value of steel and metal products in Hong Kong

Attributable to the increasing demand for steel and metal products from development and construction of buildings and facilities, the import value of steel and metal products in Hong Kong witnessed a steady growth from approximately US\$269.9 million in 2012 to approximately US\$382.5 million in 2016, representing a CAGR of 9.1%. The import value of steel and metal products in Hong Kong is expected to grow at a CAGR of 7.7% during 2017 to 2022. The PRC is the major source country for steel and metal products in Hong Kong, which accounted for approximately 86.7% of total import value of steel and metal products in Hong Kong in 2016.

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



Notes:

- (i) Data are extracted from Trade Map under HS Code 7308 Structures and parts of structures.
- (ii) Latest available figures were recorded in 2016

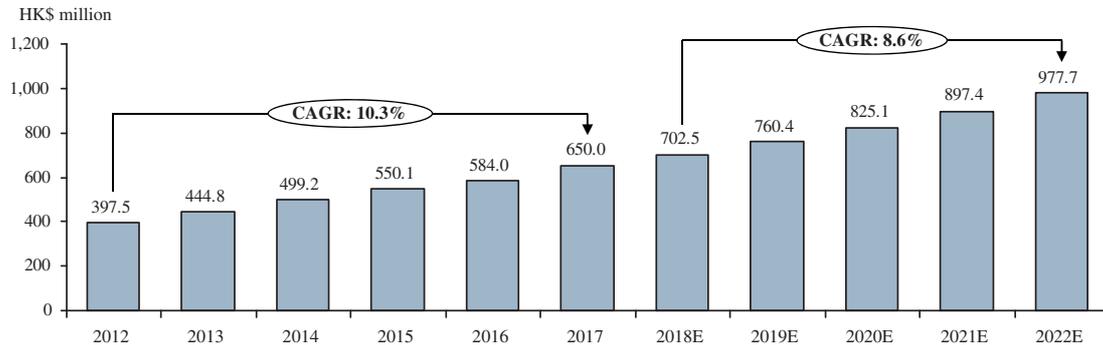
Source: Trade Map, Frost & Sullivan

Sales value of metal gates in Hong Kong

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

INDUSTRY OVERVIEW

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



Source: Frost & Sullivan

Market drivers

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

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

Sustainable development of commercial property amid increasing competition — in Hong Kong, the property managers and property developers are operating a diversified portfolio of retail stores and commercial facilities such as offices and hotels to create a better experience for tenants and visitors. With the increasing competition among retailers, renovation works are regularly performed to improve the existing facilities and enhance the overall value of the commercial properties, which in turn bring immense business opportunities to commercial tenants while maximising the investment returns of property developers. Shopping malls are no exception and saw the robust needs for renovation in recent years. Renovation and fitting out works are performed for common areas, new retail shops, food and beverage shops and the associated facilities, such as metal gates, doors, louvre frames, brackets, fencing and ceiling tiles. It is expected that the sustained development of commercial property would continue to drive the needs for design, manufacture, supply, installation and maintenance of steel and metal works in Hong Kong.

INDUSTRY OVERVIEW

Market trend

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

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

Future opportunities and challenges

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

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

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

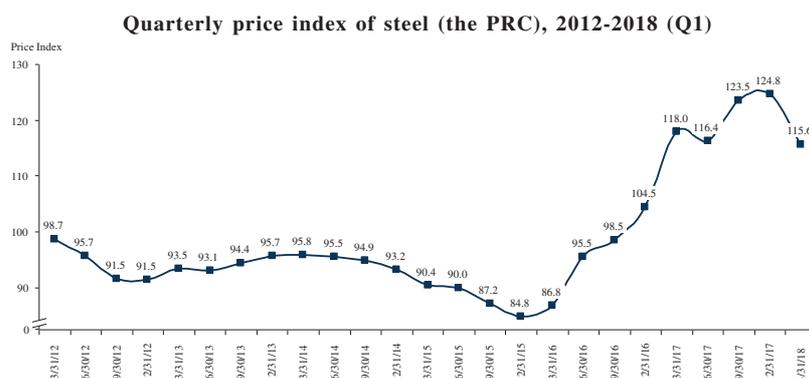
Rising cost of operation — the urban renewal and rising land supply have increased the demand for construction works and labour. The average salary of employees in steel and metal works industry, including project managers, foremen and workers, recorded a significant growth from 2012 to 2017.

INDUSTRY OVERVIEW

Coupled with the surging demand for construction works in Hong Kong, the ageing and limited pool of workforce is likely to heighten the imbalance, which further increases the wage rate of the industry. As a result, higher cost of operation may impact on the profitability of steel and metal works engineering companies in Hong Kong.

Price trend of raw materials

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



Source: National Bureau of Statistics of China, Frost & Sullivan

Labour cost of steel and metal works manufacturing in the PRC

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

Labour cost of steel and metal workers in Hong Kong

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

Average monthly salary of project manager and foreman in construction industry

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

COMPETITIVE LANDSCAPE OF HONG KONG STEEL AND METAL ENGINEERING SERVICES MARKET

Overview of market competition

The overall steel and metal engineering services market in Hong Kong is fragmented in terms of number of market participants. There were an estimate of approximately 400 contractors principally engaged in steel and metal engineering services while approximately 50 steel and metal works contractors are registered in Hong Kong Housing Authority. Our Group has an estimated market share of approximately 8.6% in the overall steel and metal engineering services market in Hong Kong in 2017. The steel and metal engineering services market in public sector is relatively concentrated and the aggregate market share for the top three market participants reached approximately 57.1% in 2017. Our Group was the largest steel and metal engineering services provider in the overall public sector

INDUSTRY OVERVIEW

with a market share of approximately 31.9% in 2017. In addition, our Group had supplied approximately 24,500 sets of collapsible gates to the public rental housing estates under the collapsible gate replacement scheme launched by the Hong Kong Housing Authority for the year ended 31 March 2017, which accounted for a market share of approximately 61.3% of households under the replacement scheme in terms of number of collapsible gates supplied for the year ended 31 March 2017.

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

Note:

- (i) *The revenue of our Group is based on year ended 31 March 2018. According to Frost & Sullivan, our Group, Company A and Company B are the notable steel and metal engineering service providers in the public sector, while the market share of other market participants are relatively small or without strong presence in provision of steel and metal engineering service in public sector.*
- (ii) *Company A was established in 2006 and principally engaged in steel and metal engineering services in public and private sectors.*
- (iii) *Company B was established in 1997 and principally engaged in provision of concrete precast units, steel moulds, metal products and office partition.*

Source: Frost & Sullivan

Factors of market competition

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

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

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

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

INDUSTRY OVERVIEW

Entry barrier

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

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

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

COMPETITIVE STRENGTH OF OUR GROUP

See “Business - Competitive Strengths” for a detailed discussion of our Group’s competitive strengths.

REGULATORY OVERVIEW

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

HONG KONG LAWS AND REGULATIONS

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

LABOUR, HEALTH AND SAFETY

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

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

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

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

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

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

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

REGULATORY OVERVIEW

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

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

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

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

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

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

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

REGULATORY OVERVIEW

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

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

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

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

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

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

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

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

REGULATORY OVERVIEW

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

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

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

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

ENVIRONMENTAL PROTECTION

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

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

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

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

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

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

Section 16B of the Waste Disposal Ordinance strictly prohibits depositing construction waste disposal on private lots, unless (i) the total area on which the construction waste has been deposited within the lot does not exceed 20 m²; or (ii) the sole owner or all of the owners of the private lot has

REGULATORY OVERVIEW

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

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

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

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

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

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

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

REGULATORY OVERVIEW

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

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

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

CONTRACTOR LICENSING REGIME AND OPERATION

Subcontractor Registration Scheme

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

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

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

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

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

PRODUCT LIABILITY AND CONSUMER PROTECTION

Consumer Goods Safety Ordinance

There are several pieces of legislation dealing with general product safety requirements in Hong Kong, one of which being the Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong

REGULATORY OVERVIEW

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

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

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

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

Contractual obligations and the Sale of Goods Ordinance

In Hong Kong, contracts for the sale of goods are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong). The quality or fitness requirements of the goods supplied are often treated as an implied term of the sale contract; and that ordinance governs the meaning of certain implied conditions and warranties. The Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) regulates civil liability and has an impact on the effectiveness of any terms in the contract which seek to avoid civil liability for breach of contract, negligence or other breaches of duty. Both of these statutes seek to supplement and codify the common law position and provide further protection to consumers or users as contracting parties,

Tortious obligations

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

REGULATORY OVERVIEW

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

COMPETITION

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

The Competition Ordinance (Chapter 619 of the Laws of Hong Kong) came into force on 14 December 2015. The Competition Ordinance prohibits certain restrictions on competition in Hong Kong by taking the form of two “conduct rules”: (i) first conduct rule: prohibits anti-competitive agreements if the object or effect of the agreement, concerted practice or decision is to prevent, restrict or distort competition in Hong Kong; and (ii) second conduct rule: prohibits a business with substantial market power to abuse the power if the object or effect of the conduct is to prevent, restrict or distort competition in Hong Kong. Furthermore, the Competition Ordinance has a merger rule which prohibits anti-competitive mergers and acquisitions that have or are likely to have the effect of substantially lessening competition in Hong Kong. Currently, the merger rule only applies to mergers involving carrier licence holders within the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

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

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

TRANSFER PRICING

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

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) contains the provisions relevant to pricing for intra-group transactions. It contains provisions which require the adoption of the arm’s length principle for pricing in transactions between associated enterprises.

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

REGULATORY OVERVIEW

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

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

PRC LAWS AND REGULATIONS

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

FOREIGN INVESTMENT

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

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

REGULATORY OVERVIEW

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

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

IMPORTATION AND EXPORTATION OF GOODS

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

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

Pursuant to the Customs Law of the PRC (中華人民共和國海關法) promulgated by the SCNPC on 22 January 1987, and subsequently amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be

REGULATORY OVERVIEW

completed by their entrusted PRC Customs brokers that have registered with the PRC Customs. The consignees and consignors for import or export goods and the customs declaration enterprise shall register with the PRC Customs themselves for declaration activities at customs, and anyone who is not registered at the customs shall not conduct declaration activities.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (中華人民共和國海關報關單位註冊登記管理規定), which was promulgated and came into effect on 13 March 2014 and subsequently revised on 20 December 2017 and come into effect on 1 February 2018, “consignor or consignee of export or import goods” means any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import or export goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After completing the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. And a PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of two years.

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

TAXATION

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), which became effective on 1 January 2008 and amended on 24 February 2017, and its implementation rules, tax payers are divided into resident enterprise and non-resident enterprise. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC. A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not inside the PRC, but has offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has income originating from the PRC. A non-resident enterprise

REGULATORY OVERVIEW

having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC as well as on incomes derived from outside the PRC but which has real connection with the said offices or establishments at the rate of 25%. A non-resident enterprise having no office or establishment inside the PRC, or whose incomes have no actual connection to its institution or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “**Provisional Regulations**”), last amended on 19 November 2017 and effective on the same day, and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, providing labour services of processing, repairs or maintenance, or selling services, intangible assets or real property in PRC or importing goods to PRC are required to pay value-added tax (the “**VAT**”). The tax rate of VAT under the Provisional Regulations is:

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

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

REGULATORY OVERVIEW

Income tax on indirect property transfer by non-resident enterprise

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

Withholding tax on dividends

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

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

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

REGULATORY OVERVIEW

Export tax rebate

According to the Provisional Regulations on VAT and the Notice of the Ministry of Finance and the SAT on the Policies of Value-added Tax and Consumption Tax Applicable to Exported Goods and Services (財務部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通知) which partially came into effect since 1 January 2011 and partially came into effect since 1 July 2012, goods and services exported by export-oriented enterprises shall be eligible for VAT exemption and rebate policies. In accordance with the Regulations on the export tax rebate rate, export commodities have different tax rebate rates depending on the different types, respectively 5%, 6%, 9%, 11%, 13%, 15% and 17%.

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

Transfer pricing

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

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

FOREIGN EXCHANGE

Foreign currency exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the “**Foreign Exchange**

REGULATORY OVERVIEW

Administration Rules”), which was promulgated on 29 January 1996 and amended on 14 January 1997 and 1 August 2008. Under Foreign Exchange Administration Rules, the Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfers, direct investment, investment in securities, derivative products or loans, unless prior approval of the State Administration of Foreign Exchange (the “SAFE”) or of its branches was obtained.

On 30 March 2015, SAFE promulgated Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) to reform the management approach regarding the settlement of the foreign exchange capital of foreign-invested enterprises. The notice implemented a discretionary foreign exchange settlement where the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises.

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

Overseas investment by domestic residents

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

REGULATORY OVERVIEW

Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also incur penalties under PRC foreign exchange administration regulations to relevant domestic resident.

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

MARKET COMPETITION AND PRODUCT QUALITY

Anti-Unfair market competition

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

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

Product quality

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

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

REGULATORY OVERVIEW

ENVIRONMENTAL PROTECTION

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

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

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

LAWS AND REGULATIONS RELATING TO FIRE SAFETY AND PRODUCTION SAFETY

Fire safety

According to the Fire Control Law of the PRC (中華人民共和國消防法), which was promulgated on 29 April 1998 and amended on 28 October 2008, the fire safety facility design and construction of a construction project shall conform to the state technical standards on fire control. The construction, design, contractor and the supervision units shall be legally liable for the quality of the fire safety

REGULATORY OVERVIEW

design and construction of the project. Upon the completion of a construction project containing a fire control design conducted in accordance with requirements of the State Technical Standards on Fire Control for Engineering Construction, the project must go through acceptance check or filing on fire control in accordance with the relevant provisions.

Production safety

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

LABOUR AND SOCIAL INSURANCE

Labour and employment

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

According to the Labour Law of the PRC which was promulgated on 5 July 1994 and amended on 27 August 2009, and the PRC Labour Contract Law which was promulgated on 29 June 2007 and amended on 28 December 2012, to establish a labour relationship, a written labour contract should be concluded. The wages paid by the employer to the employee shall not be less than the minimum wage rate in the place where the employer is located. In certain circumstances, financial compensation shall be paid to the employee if the employer terminates its employment relationship with the employee. The employer shall provide relevant education and training to the employee. Employers are also required to provide healthy and safe working conditions in conformity with the relevant national rules and standards and provide regular healthy checks for the employees who are engaged in hazardous work.

As required under the Social Insurance Law of the PRC, the Regulation of Insurance for Work-Related Injury, the Regulations on Unemployment Insurance, the Provisional Measures on

REGULATORY OVERVIEW

Insurance for Maternity of Employees, the Interim Provisions on Registration of Social Insurance and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

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

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

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

BUSINESS AND CORPORATE DEVELOPMENT

Overview

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

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

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

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

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Business milestone

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

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

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate history

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

Our Company

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

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

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

Hang Yick

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

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

Huizhou Hengyi

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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

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

HY Metal

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

Cessation of our sole proprietorship business and other subsidiary

Hang Yick Co

Hang Yick Co was a sole proprietorship established in Hong Kong by Mr. PS Lee in June 1982 and ceased its operation in March 2018 in order to streamline our Group’s business operation. Prior to its cessation, it was principally engaged in the business of gate engineering.

Hang Yick Metal Products

Hang Yick Metal Products was a sole proprietorship established in Hong Kong by Ms. LC Lau in March 2003 and ceased its operation in March 2018 in order to streamline our Group’s business operation. Prior to its cessation, it was principally engaged in the business of wholesales, retail sales and engineering.

Latest status of Hang Yick Co and Hang Yick Metal Products

On 23 March 2018, both Hang Yick Co and Hang Yick Metal Products ceased all operation. The Business Registration Office of the IRD had been notified of the cessation of all operation of Hang Yick Co and Hang Yick Metal Products, and their respective business registration were cancelled on 23 March 2018 accordingly.

Hang Yick Macau

Hang Yick Macau was incorporated under the law of Macau. Its operation commenced on 21 December 2005, and was wholly owned by Mr. PS Lee and Ms. LC Lau since its incorporation. For the reason that Hang Yick Macau did not operate any business, Hang Yick Macau was dissolved on 11 April 2017.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Reorganisation

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

The companies comprising our Group underwent the Reorganisation to rationalise our Group’s structure in preparation for the [REDACTED] [REDACTED]. The Reorganisation involved the following steps:

(i) *Incorporation of our Company*

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

(ii) *Incorporation of HY Metal*

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

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

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

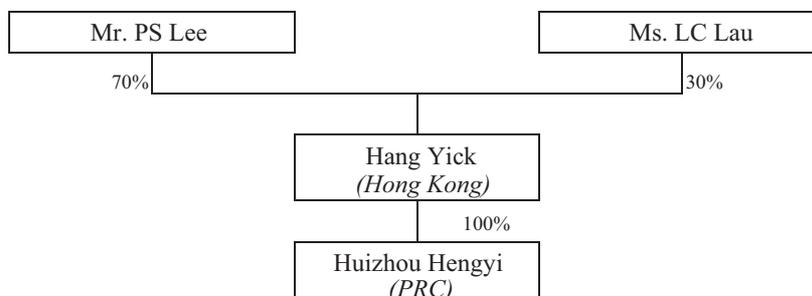
(iv) *Acquisition of Hang Yick by HY Metal*

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

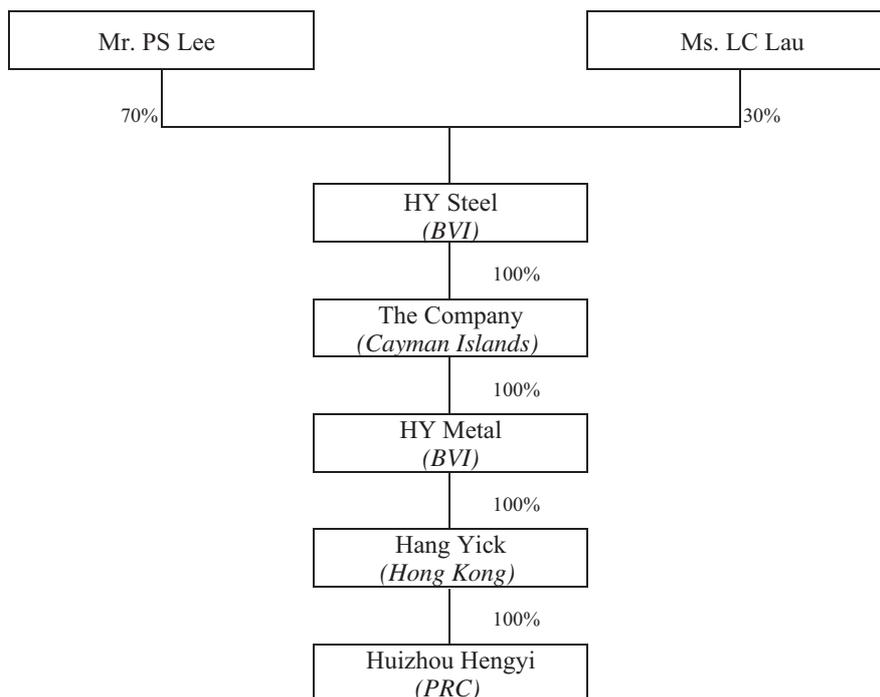
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

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

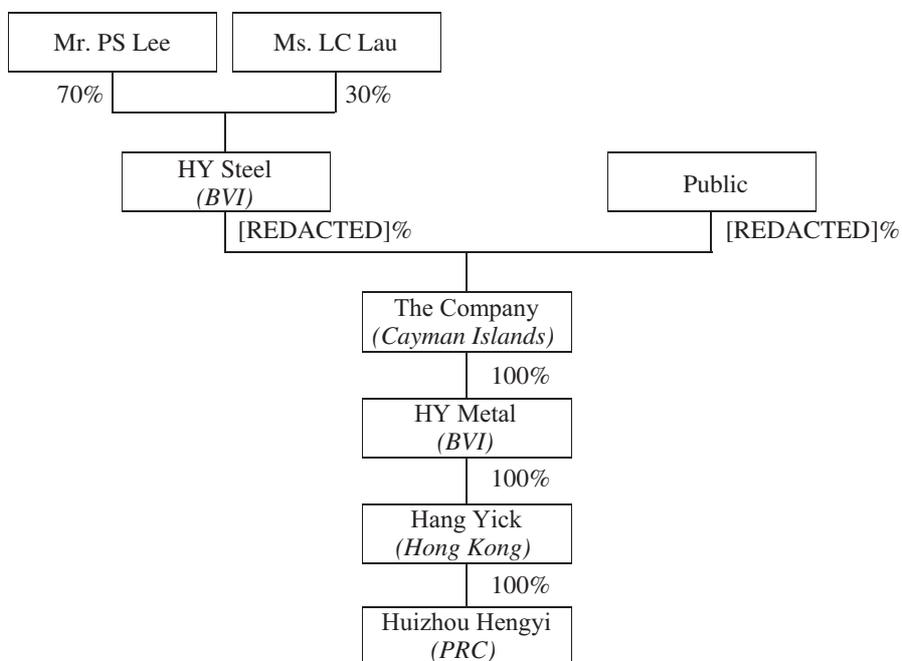


The following chart sets out the corporate structure of our Group immediately following the Reorganisation but before the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or the exercise of options to be granted under the Share Option Scheme):



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding structure of our Group immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or the exercise of options to be granted under the Share Option Scheme):



BUSINESS

OVERVIEW

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

As a leading steel and metal engineering company in Hong Kong, we are capable to offer a full range of engineering services from design, manufacture, supply and installation of steel and metal products. We generally provide our engineering services on a project-by-project basis, and participate in a variety of projects, including residential properties, office buildings, shopping malls and other public facilities. For our steel and metal engineering services, our major customers are primarily main contractors of different types of construction projects. The majority of our revenue during the Track Record Period was derived from public sector projects. Our Group has maintained stable business relationships with most of our five largest customers during the Track Record Period. For the years ended 31 March 2016, 2017 and 2018, our steel and metal engineering services contributed approximately HK\$96.1 million, HK\$103.3 million and HK\$140.6 million, representing approximately 78.3%, 64.0% and 70.6% of our total revenue, and significant amount of our revenue in respect of engineering services was generated from the public sector, which amounted to approximately 74.3%, 62.5% and 66.8% of our total revenue, respectively. During the Track Record Period, our Group completed 31 projects by tender, of which 26 projects were in public sector. As at the Latest Practicable Date, we had 37 on-going projects (either in progress or yet to commence) with a total contract sum of HK\$389.8 million, one of which was awarded after Track Record Period with a contract sum of approximately HK\$35.1 million. See “Our projects” below for further details.

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

Our Group, through Huizhou Hengyi, our PRC operating subsidiary, owns the production facilities located in Huizhou, the PRC, which manufactures steel and metal products required by our customers. Our production facilities have achieved the standard required under ISO 9001:2008 (production and service of steel gate, iron gate, volume gate, al-alloy door & window, all kinds of

BUSINESS

stents, hardware door lock etc.) and ISO 14001:2004 (environmental management). See “Award and recognitions” in this section for details. We consider that our ability to manufacture steel and metal products at our own production facilities enables us to provide full range services to our customers and to control quality, as well as to achieve cost efficiency and offer competitive prices as compared to our competitors. In addition, Huizhou Hengyi obtained the AEO certification in December 2015 which is an internationally recognised quality mark indicating that our role in the international supply chain is secure, and that the customs controls and procedures are efficient and compliant, and such certification is generally awarded to participants who fully meet AEO requirements, such as customs compliance, appropriate record keeping, financial solvency and, where relevant, security and safety standards.

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

COMPETITIVE STRENGTHS

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

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

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

Our Group is capable of undertaking the projects with a wide range of buildings and facilities types, including residential, commercial buildings and various facilities for construction projects in Hong Kong. During the Track Record Period, we had completed 31 projects by tender, of which 26 projects were in public sector. As at the Latest Practicable Date, we had 37 on-going projects by tender (whether in progress or yet to commence), of which one project with the contract sum of approximately HK\$35.1 million, was awarded after the Track Record Period. Also, see “History, Reorganisation and Corporate Structure — Business and corporate development — Business milestone” for some of our projects undertaken before the Track Record Period.

We have maintained stable and long-term business relationships with most of our major customers which included well-known construction contractors in Hong Kong. Most of our major

BUSINESS

customers invite us to tender their projects from time to time. Our Directors believe that our outstanding performance and our leading market position in the steel and metal works industry in Hong Kong allows us to gain trust of our existing customers and give us a competition edge when tendering for construction contracts, which are crucial to our future business development.

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

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

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

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

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

We have an experienced and dedicated management team and direct workforce

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

BUSINESS

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

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

We place considerable emphasis to maintain safety standard and quality control as they can directly affect our reputation, our service quality and our profitability. The safety standard and quality control are also among our customers' key assessment criteria in selecting engineering service providers. Our efforts in up-keeping the safe working environment is well-recognised as demonstrated by various awards we have received for our quality and safety and environmental compliance management over the years. Our production facilities are located in Huizhou, the PRC which is certified to be in accordance with the standard required under ISO 9001:2008 (production and service of steel gate, iron gate, volume gate, al-alloy door & window, all kinds of stents, hardware door lock etc.) and ISO 14001:2004 (environmental management). Also, Huizhou Hengyi obtained AEO Certification in December 2015 which is a top accreditation. See “Qualifications and certifications” for details. Our Directors believe that our effective occupational health, safety and environment management systems as well as good compliance track record would help to reduce our exposure to these claims and improve our overall service quality and profitability.

BUSINESS STRATEGIES

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

To strengthen our capacity in order to capture the business opportunities and expand our market share

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

- (1) During the Track Record Period, we had completed 31 projects which were awarded by tender with an aggregate contract sum of HK\$277.6 million, and the recognised revenue of HK\$82.3 million, HK\$75.8 million and HK\$24.6 million, representing for approximately 67.1%, 46.9% and 12.3% of total revenue, respectively, for the years ended 31 March 2016, 2017 and 2018. As at Latest Practicable Date, we had 37 on-going projects which were awarded by tender with a total contract sum of HK\$389.8 million, of which one contract was awarded after the Track Record Period with contract sum of approximately HK\$35.1 million.
- (2) At the Latest Practicable Date, we submitted 17 tenders and the results were still pending, which the estimated aggregate contract sum is approximately HK\$64.3 million. Having considered our proven track record in providing steel and metal engineering services and our strong management capability, our Directors believe that our Group may be awarded with a few contracts.

BUSINESS

- (3) With the support of Frost & Sullivan Report, in view of the Hong Kong Government’s plans for increasing public rental housing units and subsidised sale flats, in particular, “Public Housing Construction Programme 2017-18 to 2021-22” released by Transport and Housing Bureau, we believe that the demand for steel and metal engineering services and steel and metal products continues to grow steadily, and it is crucial to continue to expand and strengthen our project management and direct workforce, as well as to enhance our production capability. In addition, it is expected that the building supply and maintenance works continues to grow, with the market size of steel and metal engineering services by revenue is expected to grow at a CAGR of 6.8% during 2018 to 2022, attaining approximately HK\$2.2 billion by 2022. The market size of steel and metal engineering services market by revenue in private sector, comprising residential and commercial buildings such as shopping malls, and public sector recorded a steady growth at a CAGR of 9.1% and 8.5% respectively during 2012 to 2017. In 2017, market size of steel and metal engineering services by revenue in residential properties accounted for approximately 65.6% in the overall public sector, representing a market value of approximately HK\$273.8 million.
- (4) We sold steel and metal products, which contributed HK\$26.6 million, HK\$58.2 million and HK\$58.6 million, representing approximately 21.7%, 36.0% and 29.4% of our total revenue for the years ended 31 March 2016, 2017 and 2018. According to Frost & Sullivan Report, with the continuous growing demand for metal gates from increasing supply of new buildings as well as regular renovation and maintenance works in old aged residential buildings such as the five-year replacement scheme of old type collapsible gate launched by Hong Kong Housing Authority in public rental housing starting from 2015, the sales value of metal gates is expected to increase at a CAGR of 8.6% during 2018 to 2022.

As such, we intend to expand our project team and production capacity to capture opportunities in the anticipated growing market demand for steel and metal works industry, as follows:

- (a) To recruit additional staff and training

To pursue project opportunities, our Directors believe that a strong project management team equipped with extensive knowledge and experience in the steel and metal works industry is crucial to our continuing success. We plan to retain high calibre talents in areas such as project management, design and finance so as to further improve our project management capabilities and to cater for our business expansion. Our Directors also consider that it is essential to organise internal trainings and seminars for our employees from time to time with a focus on project management and design, so to improve our quality of services and our technical know-hows. Having considered the abovementioned, our Group intends to recruit the following personnel for project management works and compliance works:

BUSINESS

For the year ending 31 March 2019

- two project managers with at least ten years of related experience and having at least a degree or above;
- one project manager (drawing) with at least ten years of related experience and having at least a degree or above;
- two drawing officers with at least three years of related experience and having at least a diploma or above;
- one sales officer with at least three years to five years of related experience and having at least completed secondary education
- one legal counsel with at least five years of related experience and having at least a degree or above;
- one accounting staff with at least five years of related experience and having at least accounting qualifications;

For the year ending 31 March 2020

- one tender manager with at least ten years of related experience and having at least a degree or above;
- three foremen with at least seven years of related experience;
- one procurement manager with at least five years of related experience and having at least a diploma or above;
- one procurement officer with at least two years of related experience and having at least completed secondary education; and
- four lorry drivers with at least five years of related experience.

To pursue this strategy, we plan to utilise approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED], for recruiting and retaining the above in the next three years. Our Directors expect that the additional amount of salaries and allowance would be HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED] for the three years ending 31 March 2021, respectively.

BUSINESS

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

Our Directors consider that it is imperative for us to enhance our production capacity in order to stay competitive in the steel and metal works industry as well as to support the business opportunities for sizeable and more projects, so that we would be able to accommodate the estimated increase in demands for our existing and potential customers in the future. Nevertheless, many of our major machines had been used for more than ten years which were more than the expected useful life, and our production capacity had reached more than 90% of our utilisation rate for the year ended 31 March 2018. See “Production capacity” for details. Therefore, it is important to maintain the functionality of the existing machines which can still be used and at the same time we plan to replace and enhance our machines by acquiring the following more advanced machines in the PRC and European countries as compared to our existing machine:

Types of machinery	Functions	Expected useful life	Units	Estimated acquisition costs (HK\$'000)
Hydraulic shears	— shearing metal sheets	10 years	9	[REDACTED]
CNC Hydraulic shears	— shearing and notching metal sheets	10 years	9	[REDACTED]
Fiber laser shearing tables	— cutting metal by fiber laser	10 years	1	[REDACTED]
Fiber laser molding machines	— mold metal	10 years	1	[REDACTED]
Laser CNC sheet metal laser shearing machines	— cutting complicated metal sheets	10 years	2	[REDACTED]
CNC laser cutting machines	— cutting and changing thickness and different shapes	10 years	4	[REDACTED]
CNC laser tube fiber laser machines	— cutting metal tube	10 years	3	[REDACTED]
CNC bending machines	— bending metal sheets	10 years	4	[REDACTED]
Welding robots	— welding	10 years	7	[REDACTED]
Total:				[REDACTED]

We expect that with these more-advanced machines, we can strengthen our production capacity and efficiency, and we can also rearrange our workers to other tasks or functions which require more labour to handle. Based on the above, we intend to utilise approximately HK\$[REDACTED], representing approximately [REDACTED]% of the new [REDACTED] from the [REDACTED], to purchase the following machines for the year ending 31 March 2019.

BUSINESS

In addition, we will seek to expand our workforce in terms of staff strength in our production team by recruiting a total of 30 workers at our production facilities for the next two years ending 31 March 2020. We will also provide training to our existing and newly recruited staff at the production facilities on works operation, occupational health and safety and environmental protection to be conducted either through internal training or by external training instructions. Our Directors consider that our expansion scale in both manpower and machinery and equipment are of a level comparable with our Group’s historical business strategy. We plan to utilise approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED].

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

We plan to renovate and re-design our production facilities in Huizhou, the PRC, in order to customise our production flow with new machines and to provide safety and good working environment to our employees. Hence, we plan to utilise approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED] from the [REDACTED] to improve and renovate our existing production facilities, as well as to expand our warehouse.

(d) To purchase delivery trucks

Generally, our logistic team arranges delivery of our products from our production facilities to construction sites or our customers through our delivery trucks or engaging other delivery services companies. As at the Latest Practicable Date, we had four delivery vehicles for delivery of our products. In order to be more efficient to arrange the delivery of our products to the required delivery points, we plan to purchase three delivery trucks. As such, our Group intends to utilise approximately HK\$[REDACTED], representing [REDACTED]% of net [REDACTED] from the [REDACTED].

To increase our operational efficiency and enhance our quality of service

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

To enhance our information management systems

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

BUSINESS

BUSINESS MODEL

Our Group is principally engaged in:

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

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

(b) Sales of steel and metal products

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

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

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

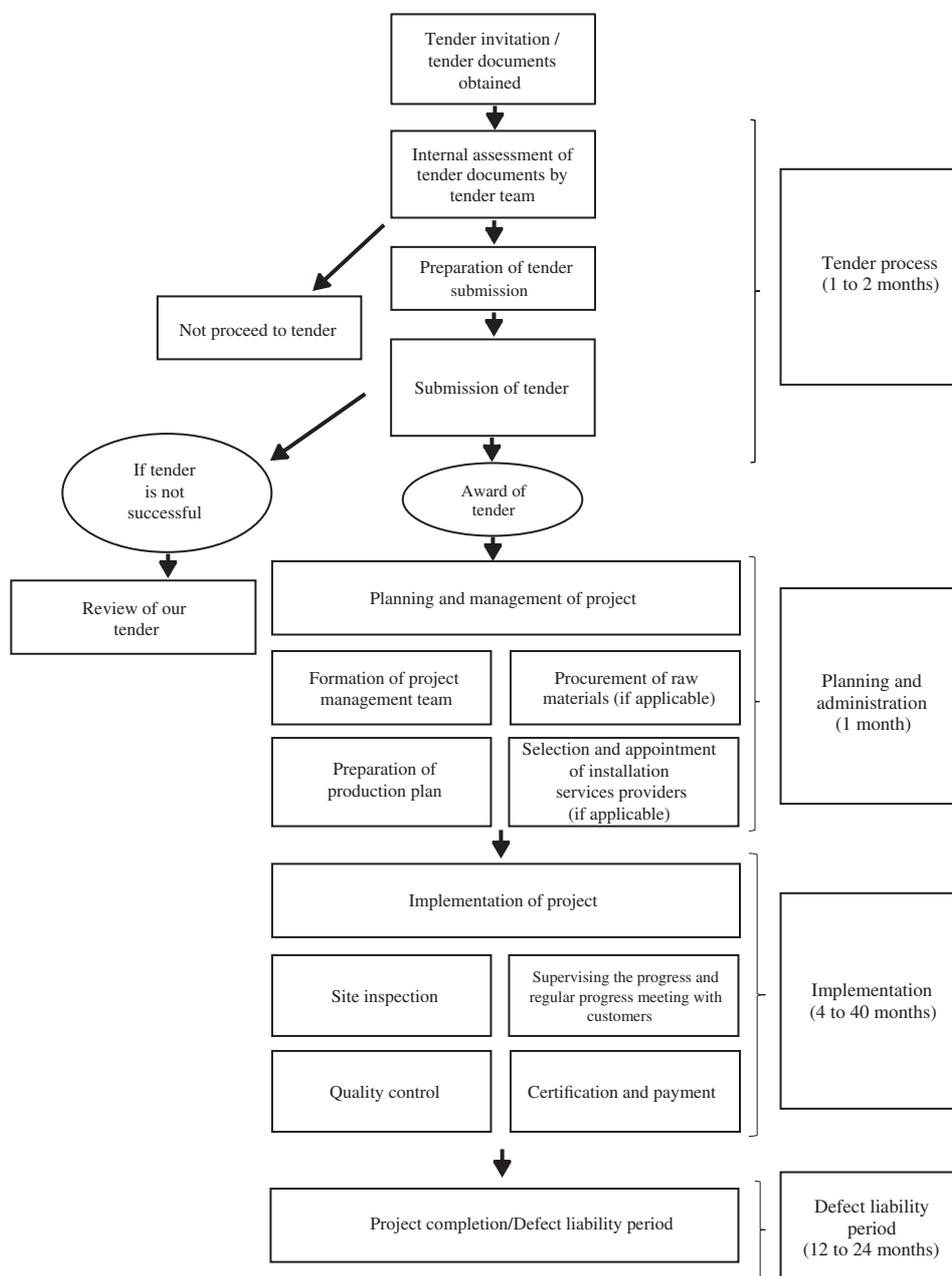
PROVISION OF STEEL AND METAL ENGINEERING SERVICES

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

BUSINESS

Operating procedures

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



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

BUSINESS

1. *Tender process*

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

Internal assessment of tender documents by tender team

Our tender team, which consists of Mr. PS Lee, our executive Director, and a tender manager, is responsible for assessing the viability of the potential projects according to the tender documents. In determining whether to proceed with the tender submission, our tender team will review and evaluate the potential projects with respect to the scope, complexity, technicality and particular specifications of the projects, site conditions, achievability of the specified timetable, prior experience, labour force and expertise, estimated costs of the project and financial conditions. When we decide that a potential project is commercially viable, our tender team will proceed to prepare the tender submission.

Preparation of tender submission, submission of tender and award of tender

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

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

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

BUSINESS

Tender submission made during the Track Record Period-

	For the year ended 31 March		
	2016	2017	2018
Number of tenders submitted	54	61	53
Number of successful tenders	12	15	19
Success rate	22.2%	24.6%	35.8%

Note: In calculating the tender success rate, we did not count the projects awarded by quotations which we were not required to prepare the tender submission and go through the tender process. Such quotations were generally prepared by our chief project manager and approved by Mr. PS Lee, our executive Director.

Generally, our tender team would submit the tenders after assessing the viability of the projects and the likelihood of being awarded. During the Track Record Period, the number of tenders submitted and number of successful tenders increased from approximately 20.4% for the year ended 31 March 2016 to approximately 35.7% for the year ended 31 March 2018. Our historical success rates may not be reflective to our future success. See “Risk Factors — Risks relating to our business” for further details of our risks in relation to our historical success rates. Up to the Latest Practicable Date, we had submitted 17 tenders for the engineering services which we were yet to be notified of the tender results.

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

2. *Planning and management of project*

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

Formation of project management team

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

BUSINESS

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

Position	Responsibilities
Project manager	Assurance of project works quality and operation in accordance with quality management system, staff training, monitor and control works progress, liaise with customers, provide supervision, attend progress meeting and prepare progress report
Designer	Responsible for the design matters, providing technical supports, approving on design preparation and submission, coordinating with customer’s consultants in preparation of design submission
Safety supervisor	Responsible for initiating, coordinating and managing all safety related tasks and duties, conducting full training and induction procedures, to ensure our Group’s policies and safety guidelines are issued and adhered to and all documentation is up to date
Foreman	Responsible for the operations at construction site, supervising and reporting daily operations

Preparation of production plan

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

Procurement of raw materials

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

Selection and appointment of installation service providers

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

BUSINESS

3. *Implementation of project*

Supervising the progress and regular progress meetings with customers

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

We review and monitor the budget plan for each of our projects with actual incurred costs. To mitigate the risk of delay in completing our projects, our project manager will review on the progress of the projects and discuss with our customers regularly on project progress and identify any issues found. To ensure the progress of work, our customers usually prepare a master programme for us as a reference of project timetable for the purpose of monitoring the progress and cost control. They discuss about any sites that fall behind the construction schedule to seek possible remedial actions such as allocating more manpower and machinery.

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

Site inspection and quality control

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

Certification and payment

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

BUSINESS

4. *Project completion/defect liability period*

Generally, once we have substantially completed the works under the construction contracts, and we permanently retreat our site workers from the construction sites, we consider our construction contracts with our customers are completed. As our steel and metal works only form part of the construction project, according to the construction contracts, generally, our customer will prepare and agree on the final account with us and the final account will set out the final outstanding balance due to us when the construction project as a whole is practically completed and certificate is issued by the person(s) authorised by our customers. During the Track Record Period, we did not encounter any material delay in our projects and there was no material liquidated damages claims against us by our customers. In order to ensure due completion of the entire works under our construction contracts, our customers usually give the right to withhold ranges from 5% to 10% of each progress payment due to us as retention monies. Generally, the construction contracts will specify that the total amount of retention monies shall not exceed 5% of the total contract sum of the construction contracts. The retention monies are generally released to us in two instalments but the retention period could vary. The first half of the retention monies is generally released after the practical completion or the issuance of completion of certificate under the main contract, while the second half is generally released from 12 to 24 months after the expiry of defect liability period (usually being 12 months to 24 months from completion date as set out in the main contract) respectively. As at 31 March 2018, the retention monies withheld by our customers for completed works presented as retention receivables in the consolidated statements of financial position amounted to approximately HK\$18.2 million.

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

OUR PROJECTS

Public and private sectors

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

BUSINESS

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

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

Completed projects during Track Record Period

During the Track Record Period, we had completed 31 projects which were awarded by tender. For the years ended 31 March 2016, 2017 and 2018, we completed 11, ten and five public sector projects and one, two and two private sector projects, respectively. The duration of these projects ranged from four months to 40 months

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

No.	Type of building development	Location	Contract date	Completion date (Note 1)	Contract sum (Note 2) HK\$'000	Revenue recognised (Note 3)		
						Year ended 31 March		
						2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
A1	Steel and metal works for public rental housing	Tung Chung	28 November 2014	October 2017	47,047	16,510	26,231	11,576
A2	Steel and metal works for public rental housing	Tsing Yi	5 June 2013	September 2015	40,706	1,659	Nil	Nil
A3	Steel and metal works for public rental housing	Yuen Long	21 January 2014	October 2015	36,573	7,346	220	Nil
A4	Steel and metal works for public rental housing	Kwun Tong	2 September 2013	October 2016	27,083	18,918	14,390	Nil
A5	Steel and metal works for public housing	Tseung Kwan O	12 October 2011	September 2015	15,851	1,479	Nil	Nil

BUSINESS

No.	Type of building development	Location	Contract date	Completion date (Note 1)	Contract sum (Note 2) HK\$'000	Revenue recognised (Note 3)		
						Year ended 31 March	2016 HK\$'000	2017 HK\$'000
A6	Design, supply and installation of metal gates for public rental housing	Tuen Mun	2 June 2015	July 2017	11,858	Nil	10,781	1,055
A7	Steel and metal works for public rental housing	Chai Wan	17 March 2015	August 2016	11,499	7,716	1,993	Nil
A8	Design, supply and installation of metal gates for public rental housing	Kwun Tong	5 August 2013	May 2016	11,091	8,491	216	Nil
A9	Steel and metal works for public rental housing	Sheung Shui	27 May 2013	May 2015	10,215	1,705	Nil	Nil

Note:

1. Completion date means the date when we substantially completed our works under the construction contracts and we permanently retreat our site works from the construction sites before the completion of the entire construction project under the main contract.
2. The aggregate contract sum is based on a total of all contract sums stated in the initial contracts between our customers and us and may not include additions and modifications.
3. The amounts show the aggregate amounts of contract sum recognised during the Track Record Period and/or the amounts of variation orders, which may be different from the contract sum.

BUSINESS

On-going projects

As at 31 March 2018, we had 36 on-going projects with an aggregate contract sum of approximately HK\$354.7 million, and approximately HK\$6.8 million, HK\$20.3 million and HK\$103.4 million had been recognised as revenue for the years ended 31 March 2016, 2017 and 2018, respectively. Of these 36 on-going projects the remaining balance of approximately HK\$199.2 million is expected to be recognised as our revenue for the year ending 31 March 2019.

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

No.	Type of building development	Location	Contract date	Expected completion date	Contract sum	Revenue recognised (Note)			Estimated revenue to be recognised after Track Record Period
						Year ended 31 March			
					2016	2017	2018		
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	
B1	Steel and metal works for public rental housing	Tung Chung	17 June 2016	September 2018	65,010	Nil	6,530	41,950	16,530
B3	Steel and metal works for public rental housing	Shatin	4 February 2016	September 2018	37,379	Nil	2,697	14,507	20,174
B4	Steel and metal works for public rental housing	Kwun Tong	22 November 2016	December 2018	36,601	Nil	Nil	1,050	35,551
B5	Steel and metal works for public rental housing	North West Kowloon Reclamation Site	20 September 2017	September 2019	32,548	Nil	Nil	Nil	32,548
B6	Steel and metal works for public rental housing	Sham Shui Po	18 December 2017	March 2020	22,097	Nil	Nil	Nil	22,097
B7	Steel and metal works for public rental housing	Tin Shui Wai	2 March 2017	December 2018	19,552	Nil	Nil	10,208	9,344
B8	Steel and metal works for public housing	Shatin	13 July 2015	September 2018	18,802	1,258.4	8,719	6,684	2,141

BUSINESS

No.	Type of building development	Location	Contract date	Expected completion date	Contract sum	Revenue recognised (Note)			Estimated revenue to be recognised after Track Record Period
						Year ended 31 March			
						2016	2017	2018	
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
B9	Steel and metal works for public rental housing	Tseung Kwan O	19 March 2018	March 2020	18,317	Nil	Nil	Nil	18,317
B10	Design, supply and installation of metal gates for public rental housing	Kwun Tong	6 August 2013	August 2018	13,518	Nil	2,242	9,516.8	1,760
B11	Supply and installation of metal gates for public rental housing	Tung Chung	6 April 2016	June 2018	11,018	Nil	Nil	9,605.1	1,413
B12	Supply and installation of metal gates for public rental housing	Lai Chi Kok	30 May 2016	December 2018	10,782	Nil	Nil	Nil	10,782

Note: The amounts show the revenue recognised during the Track Record Period and/or variation orders.

Newly awarded projects

From 1 April 2018 and up to the Latest Practicable Date, we had been awarded with one new project in public sector which located at North West Kowloon Reclamation Site with an aggregate contract sum of approximately HK\$35.1 million.

BUSINESS

Our project backlog

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

	Number of contracts	Aggregate contract sum ^(Note) HK\$ million
As at 1 April 2015		
Opening backlog contracts	21	252.1
During the year ended 31 March 2016		
New contracts awarded	12	97.0
Contracts completed	12	124.1
As at 1 April 2016		
Closing / opening backlog contracts	21	225.0
During the year ended 31 March 2017		
New contracts awarded	15	165.8
Contracts completed	12	65.0
As at 1 April 2017		
Closing / opening backlog contracts	24	325.8
During the year ended 31 March 2018		
New contracts awarded	19	117.4
Contracts completed	7	88.5
As at 31 March 2018		
Closing/opening backlog contracts	36	354.7
From 1 April 2018 up to the Latest Practicable Date		
New contracts awarded	1	35.1
Contracts completed	0	Nil
As at the Latest Practicable Date		
Closing backlog contracts	37	389.8

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

BUSINESS

Key contract terms with our customers

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

Scope and specification of works	:	Description of types of works, specification of steel and metal works to be carried out.
Duration	:	We are required to follow the main contractor’s program of works on site as set out in the main contract. Such schedule may be varied pursuant to the actual construction progress and our customers will usually notify us the time to commence work.
Payment terms	:	The total contract sum is stated, which is generally a fixed amount. Based on the amount of work completed, we make progress payment application to the customer which sets out the amount of work done and its corresponding value, which is normally on a monthly basis. The application is subject to examination by the architects, surveyors or other representatives appointed by our customers and the issuing of a certification based on such examination approving the amount of works eligible for payment under the application.
Retention monies	:	A portion of the contract value, normally ranges from 5% to 10% of progress payment, with a maximum of not more than 5% of the contract sum, is withheld by our customers as retention monies, of which half will be released after practical completion or issuance of the certificate of completion under the main contract, with the remaining to be released after the defect liability period (usually being 12 months — 24 months from completion date as set out in the main contract) or upon issuance of final completion certificate. The substantial and final completion certificates are certificates issued by the customer’s architect to us to acknowledge that the projects are completed.

BUSINESS

- Defect liability period : Our contracts will include a defect liability period, during which we are responsible to rectify works defects at no extra cost to our customers. The defect liability period is usually from 12 to 24 months from the completion date as set out in the main contract. If the materials used are defective, we will replace them during the defect liability period. There was no material claim which was brought against our Group by our customers during the Track Record Period. The cost incurred to rectify defective works or products during the Track Record Period was immaterial.
- Insurance : Insurance in relation to on-site activities will be purchased by our customers who are usually the main contractors of the projects, which cover all risks insurance and work injury compensation insurance.
- Liquidated damages : The contracts usually include a liquidated damages clause stipulating that in the event we fail to complete the work set out in the contracts within the allowed timeframe while no prior approval for any extension of time has been given by our customers and/or causes unnecessary delay to project completion that result in loss incurred by our customer, we shall compensate the customers by way of liquidated damages based on a daily fixed sum set out in the contract. Our Directors confirmed that there were no material liquidated damages paid by our Group during the Track Record Period.
- Variation order(s) : Depending on the terms and conditions of individual contracts, our customers may give instructions to us to vary the contract works which we are generally obliged to follow. Such variation orders could be addition, modification or cancellation of the contract works. The value of the variations is generally ascertained with reference to the rates and prices already specified in the contract, and the total contract sum of the relevant project is adjusted accordingly.

BUSINESS

Termination : Our contracts can typically be terminated by the customer if, among others, (i) we have abandoned the contract or suspended the contract works; (ii) we have failed to proceed with the contracted works diligently; (iii) we have failed to execute the contract works or to perform or comply with other obligations or duties under and in accordance with the contract; (iv) we have refused to rectify defective works; (v) we have failed to carry out the contracted works as per the specified schedule; (vi) we become bankrupt or insolvent; or (vii) our customer’s contract has been terminated. During the Track Record Period, none of our contracts were terminated.

SALES OF STEEL AND METAL PRODUCTS

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

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

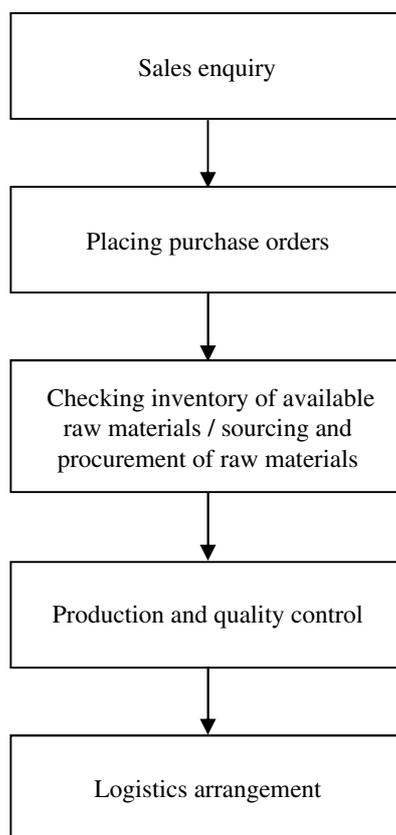
In 2015, the Hong Kong Housing Authority has implemented the policy in respect of replacing the old-type collapsible gates at public rental housing estates and unsold flats at the Tenants Purchase Scheme estates, which involved 101 estates in Hong Kong. By the first quarter of 2016, we commenced to manufacture and supply standardised collapsible gates to our customers which were the contractors undertaking the gate replacement project. Our revenue generated from selling standardised collapsible gates amounted to HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, respectively, for the years ended 31 March 2016, 2017 and 2018. According to the Frost & Sullivan Report, the Hong Kong Government has also adopted a housing supply target of approximately 480,000 units for the ten-year period from 2015 to 2025, and the demand for metal gates, shutters and doors is expected

BUSINESS

to increase as steel and metal engineering services are generally required for newly built housing units. Our Directors believe that with our good reputation in the construction industry and our capacity in designing and producing at our production facilities, we are capable of capturing the demand of steel and metal gates in the future.

Operating procedures

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



Sales enquiry

The potential customers generally make enquiry and provide us with the specifications and requirements for steel and metal products, including the use of steel and metal products, measurements and delivery timeline. Upon receipt of such sales enquires, our sales personnel will liaise with our production team on the feasibility of handling the order based on the specifications and requirements provided by the potential customers as well as costs of production. Upon the internal discussion, our sales will provide the quotation, and negotiate with the potential customers on the terms, such as payment terms and delivery time. It generally takes less than two days to provide the quotation after receipt of the sales enquiry.

BUSINESS

Placing purchase orders

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

During the Track Record Period, our customers had placed bulk purchase orders of collapsible gates for replacements project launched by the Hong Kong Government. The revenue generated from sales of collapsible gates was approximately HK\$5.2 million, HK\$34.0 million and HK\$42.8 million, representing approximately 4.3%, 21.1% and 21.5% of our total revenue, respectively, for the years ended 31 March 2016, 2017 and 2018.

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

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

Production and quality control

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

We have established stringent quality control procedures throughout the total supply chain from procurement of raw materials to the inspection of finished products so as to ensure the quality of the our products are of industry standard consistently. We conduct a general assessment of potential suppliers before approving them as our suppliers, and we also assess the performance of our approved suppliers on an on-going basis. For some of our products, such as fire-insulated shutters, we arrange independent testing and certification companies to conduct tests on our products in order to ensure the industry standard is fulfilled.

BUSINESS

Logistics arrangement

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

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

Salient terms of a sales transaction

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

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

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

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

BUSINESS

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

SEASONALITY

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

CUSTOMERS

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

Five largest customers

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

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

For the year ended 31 March 2016

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

BUSINESS

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

For the year ended 31 March 2017

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

BUSINESS

Rank	Customer	Scope of services provided by our Group	Business relationship since	Credit terms	Aggregate amount of revenue contribution (HK\$'000)	% of revenue of our Group
4	Customer G	Sales of steel and metal products	2016	30 days	10,902	6.8
5	Customer H	Provision of steel and metal engineering services	2006	30 days	9,615	6.0
Total:					93,719	58.2

For the year ended 31 March 2018

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

BUSINESS

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

Notes:

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

BUSINESS

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

7. Customer G is a private company with limited liability in Hong Kong with a paid up share capital of HK\$5,000, and was incorporated in 2001. Customer G is a trading company of brick, stone and related construction materials.
8. Customer H is a private company with limited liability in Hong Kong with a paid-up share capital of approximately HK\$50 million, and was incorporated in 1960. Customer H is a building construction general contractor and operative builder, and is a registered subcontractor at the Construction Industry Council, an approved contractor for public works at the Development Bureau, and also a contractor under the categories of general building contractor. The holding company of Customer H is listed in Hong Kong and had a total of 1,808 employees as at 31 March 2017 and recorded approximately HK\$6,127.1 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.
9. Customer I is principally engaged in building construction business and is also registered as decoration contractor under the Hong Kong Housing Authority. The holding company of Customer I is listed in Hong Kong and had a total of 344 employees as at 31 March 2017 and recorded approximately HK\$2,318.3 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.
10. Customer J is principally engaged in building construction business and is also registered as general building contractor at the Buildings Department. The holding company of Customer J is listed in Hong Kong and had 982 employees as at 31 March 2017 and recorded approximately HK\$3,216.0 million of revenue for the year ended 31 March 2017 according to its annual report for the year ended 31 March 2017.

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

Customer concentration

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

1. Our Group is a leading and well-established steel and metal engineering company in Hong Kong with an operating history since 1993. We believe that we have earned a good reputation over the years in the construction industry and established stable relationship

BUSINESS

with our customers, and further our track record allows us to consolidate our reputation and secure projects from different main contractors. For details of our competitive strengths, see “Competitive strengths” in this section. Our Directors further believe that if any of our major customers reduces the number of contracts with us or terminates its business relationship with us, we would be able to utilise our spare operational and production resources to serve other existing customers and new customers in a timely manner.

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

BUSINESS

5. We have regularly supported our major customers in the tender process due to our capability to take pragmatic approach in construction and submitting economical quotation for potential projects. We are able to provide full range services from design, production, installation and maintenance, which can demonstrate our Group’s capabilities in steel and metal works and strengthen the tender proposition. This relationship allows our Group to enjoy a steady stream of steel and metal engineering projects. As a result, we believe the cooperation between our Group and each of our major customers mutually benefited the respective parties in capturing economic benefits and business growth.

6. Our Directors consider that our customer concentration is in part due to the fact that we are encountering our maximum capacity in both production and workforce. During the Track Record Period, our utilisation rates at our production facilities in Huizhou reached over 80%. Due to the limit on our production capacity, we could be restricted to undertaking a limited number of sizeable steel and metal engineering services projects and sales of steel and metal products, hence giving rise to the customer concentration during the Track Record Period. As such, we are planning to expand our capacity to undertake more projects for different customers by strengthening our production fleet. We intend to use part the [REDACTED] [REDACTED] from the [REDACTED] to acquire additional machines and equipment for our projects. We also plan to expand our market share by strengthening our financial capability in undertaking more large scale projects. See “Business Strategies” above and “Future Plans and [REDACTED]” for further details.

Credit control

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

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

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

BUSINESS

PRICING

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

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

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

SALES AND MARKETING

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

BUSINESS

PRODUCTION FACILITIES

Our production facilities are located in Huizhou, the PRC, with the aggregate gross floor area of approximately 17,273.7 sq.m.. Our Group leased the existing production facilities from an independent third party in December 2000, and Huizhou Hengyi purchased the production facilities from the independent third party in September 2010. We produce variety of steel and metal products at our production facilities operating for provision of engineering services and sales of steel and metal products.

Principal products

Our major products consist of the followings:

(i) *Steel/metal gates and shutters*

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

(ii) *Other steel/metal products*

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

Production process

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

Below sets out our general production process:

Steps	Description
Step 1: Material inspection	When raw materials are delivered to our production facilities, we will inspect the quality and quantity of raw materials to fit our customers' requirements.

BUSINESS

Steps	Description
Step 2: Cutting and forming	<p>We will cut steel or metal plates into parts of predetermined sizes and lengths and also cut holes on them through hydraulic cutting, plasma cutting and water jet cutting.</p> <p>The steel or metal parts will then undergo the forming process, through which the parts will be trimmed, levelled, milled and/or bent into three-dimensional shapes that fit our customers’ specifications.</p>
Step 3: Dimension inspection and assembling	<p>We will inspect the sizes, shapes, angles, weld joints, root gaps, groove angles and other relevant dimensions of the steel or metal parts and other components, such as anchors and lock accessories. Only after the parts and components pass our strict dimension inspection and checking, they will be assembled according to our customers’ specifications.</p>
Step 4: Welding	<p>Welding is a process of joining the steel or metal parts and other components by heating. Through the welding process, the steel or metal parts and other components are joined together to form the semi-finished products in accordance with our customers’ specifications. We will carry out inspection on the semi-finished products again to confirm whether the welding process has been properly conducted.</p>
Step 5: Surface polishing	<p>The surface of the semi-finished products will become uneven after undergoing the above production process. Through the surface polishing process, imperfections on the surface of the semi-finished products such as creases and scratches will be removed.</p>
Step 6: Hot-dip galvanisation	<p>The semi-finished products will also go through the hot-dip galvanisation process. The semi-finished steel or metal products will be immersed in a bath of molten zinc so that a layer of zinc will form on the surface of the semi-finished products upon cooling. This can protect the steel or metal underneath from corrosion. During the Track Record Period, due to the shortage of our labour resources and significant utilisation rate, we engaged our approved service providers for hot-dip galvanizing process. For details, see “Suppliers and Service Providers Hot-dip galvanising service provider” below.</p>
Step 7: Packing and delivery	<p>The final steel or metal products will be packaged and wrapped by protective materials to prevent development of cracks, scratches and/or other imperfections on the products. We generally provide delivery services to our customers.</p>

BUSINESS

Machines

As at 31 March 2018, our Group had various machines, including cutting machines, notching machines and CNC planers. Some of the machines are second-hand machines and most of the machines have been used for more than ten years although the expected useful life is around five to ten years. We adopt a straight-line depreciation policy on our machinery for five to ten years. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material work interruption due to malfunction of our production machines and equipment.

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

Production capacity

We produce various steel and metal products and we generally prepare the production plan based on the construction contracts and purchase orders from our customers. Our Group reviews the production plan regularly in order to ensure that there is sufficient production capacity to handle customers’ orders and that finished products can be delivered in a timely manner. The majority of our products are not standardised products, which depends on our customers’ demand and requirements. In addition, unlike production process of products that has standard production requirements and production times, the production requirements and production times for our steel and metal products vary significantly due to a number of factors such as different structure, styles and complexity for different products. As a result, our estimated annual production capacity and utilisation rate may not be an accurate indication of the use of our production capacity or meaningful in evaluating our profitability. Nevertheless, the bottleneck of our production is cutting capacity, as most of raw materials, such as steel or metal plates, are required to be cut and form before they can proceed to next production steps. For illustration purpose, we select the cutting process and our key components of major products for calculating the utilisation rate.

BUSINESS

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

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

Notes:

1. The estimated maximum capacity represents the estimated number of units of key components of major products produced by our key production facilities, mainly include certain types of cutting machines, notching machines and CNC planers. The maximum capacity is estimated based on the assumption that our key production facilities operate for 302 days for each of the year ended 31 March 2016, 31 March 2017 and 31 March 2018 and 12 hours per day taking into account public holidays and rest time of our workers.

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

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

SUPPLIERS AND SERVICE PROVIDERS

Suppliers

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

BUSINESS

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

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

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

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

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

Selection of our suppliers

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

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

BUSINESS

Five largest suppliers

During the Track Record Period, our five largest suppliers mainly are suppliers of raw materials for our steel and metal products. For the years ended 31 March 2016, 2017 and 2018, our purchases attributable to our five largest suppliers amounted to approximately HK\$15.2 million, HK\$37.3 million and HK\$19.2 million, representing approximately 27.4%, 54.4% and 44.9% of our total purchases, respectively. Our purchases attributable to our largest supplier during the year ended 31 March 2016, 2017 and 2018, amounted to approximately HK\$7.0 million, HK\$20.1 million and HK\$5.7 million, representing approximately 12.5%, 29.3% and 13.3% of our total purchases, respectively.

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

For the year ended 31 March 2016

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
1	Supplier A	Based in Hong Kong and a supplier of stainless steel products	2001	Stainless steel	60 days	6,954	12.5
2	Supplier B	Based in the PRC and a manufacturer of steel products, including pickled steel, cold rolled steel and galvanised coils	2015	Galvanised coils	Nil	2,719	4.9
3	Supplier C	Based in Hong Kong and a supplier of metal materials for manufacturing and construction industries	1995	Metal	60 days	1,966	3.5
4	Supplier D	Based in Hong Kong and a supplier of steel products	1997	Stainless steel	30 days	1,947	3.5

BUSINESS

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
5	Supplier E	Based in the PRC and a company specialising in production and processing of stainless steel	2012	Stainless steel	Nil	1,662	3.0
Total:						<u>15,248</u>	<u>27.4</u>

For the year ended 31 March 2017

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

BUSINESS

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

For the year ended 31 March 2018

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
1	Supplier H	Based in the PRC and a distributor of metal products	2017	Stainless steel	Nil	5,692	13.3
2	Supplier C	Based in Hong Kong and a supplier of metal materials for manufacturing and construction industries	1995	Metal	60 days	3,742	8.8
3	Supplier B	Based in the PRC and a manufacturer of steel products, including pickled steel, cold rolled steel and galvanised coils	2015	Galvanised coils	Nil	3,646	8.5
4	Supplier A	Based in Hong Kong and a supplier of stainless steel products	2001	Stainless steel	60 days	3,052	7.2

BUSINESS

Rank	Supplier	Background and scope of business	Business relationship since	Types of goods provided by supplier	Credit terms	Aggregate amount of purchases (HK\$'000)	Approximate % of our total purchases
5	Supplier I	Based in the PRC and a company producing and processing metal products	2017	Galvanised coils	Nil	3,046	7.1
Total						19,178	44.9

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

General terms of engagement with suppliers and service providers

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

Raw materials

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

We monitor our inventory monthly with an established internal inventory management system and also carry out an annual audit of our inventory. Our inventory levels are not high as we place separate procurement orders to our suppliers based on the project progress and/or the placement of purchase orders from our customers. We monitor the market prices and trends of raw materials such as steel and metal on a regular basis, and may occasionally make pre-purchases of raw materials, parts

BUSINESS

or components if their market prices are relatively low. We do not undertake hedging activities against the price of raw materials. The production team is responsible for the overall scheduling of orders and deliveries of the raw materials, so as to match material deliveries with the project’s requirements. Purchase orders issued to suppliers would indicate the different tentative delivery dates that match with the relevant project schedule steel and metal products delivery schedule. For further details, see “Inventory management” below.

Installation service providers

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

Hot-dip galvanising service provider

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

QUALITY CONTROL

We closely monitor the quality of purchased raw materials. To ensure the quality of supplies, we ensure that the materials are sourced from our approved suppliers list to ensure overall quality of supplies. During the inspection, we will check (i) whether the quantity is correct; and (ii) whether there are any observable defects. In addition, our Group may also engages independent professionals to perform inspection and quality tests on certain materials such as steel and concrete. Any defective materials or materials that fall short of the product specifications would be returned to the suppliers for replacement.

BUSINESS

During the production stage, we have quality checking by our production team at various stages of the production process, including interim inspection on semi-finished products and final inspection on the finished products before delivery. Once our steel and metal products are delivered to the construction sites, our foremen will inspect the products.

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

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

INVENTORY MANAGEMENT

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

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

Our Group checks the available raw materials when the tenders are success or our customers placed their purchase orders, and we will place purchase orders if necessary. We prefer to procure raw materials in bulk and it allows us to negotiate with a better price from our suppliers. For some unutilised or leftover raw materials such as stainless steel, metal, galvanised coils and accessories, given that they are durable in nature we can utilise them after long period of storage. We mainly procure the raw materials and accessories from the suppliers located in the PRC and Hong Kong to minimise the delivery time. Our inventories are stored in our production facilities in Huizhou.

As at 31 March 2016, 31 March 2017 and 31 March 2018, the total value of our inventory were approximately HK\$20.7 million, HK\$26.4 million and HK\$18.7 million, respectively. For the years ended 31 March 2016, 2017 and 2018, our inventory turnover days were 91.5 days, 79.8 days and 65.9

BUSINESS

days, respectively. For details of inventory analysis, see “Financial Information — Inventories — Analysis of various items from the Consolidated Statement of Financial Information”. Our Directors, having considered the nature of the raw materials and the likelihood to utilise the raw materials inventory, are satisfied that, save as disclosed above, there was no obsolete stock as at the respective years.

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

COMPETITION

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

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

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

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

BUSINESS

PROPERTY

Owned properties

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

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

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

Leased properties

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

Address	Use of property	Monthly rental	Tenure
Unit A and all Unit D Upper Ground Floor Yau Tong Industrial Building Block 4, No 18 & 20 Sze Shan Street Kowloon, Hong Kong	Office	HK\$16,000	Term of three years commencing from 1 April 2018 to 31 March 2021
Unit B, Upper Ground Floor Yau Tong Industrial Building Block 4, 18 and 20 Sze Shan Street Kowloon, Hong Kong	Office	HK\$14,000	Term of three years commencing from 1 April 2018 to 31 March 2021

BUSINESS

Address	Use of property	Monthly rental	Tenure
Ground Floor Kar Wun Court 18 Ivy Street Kowloon, Hong Kong	Showroom	HK\$23,000	Term of three years commencing from 1 April 2018 to 31 March 2021
Xilong Factory, Lilin Village Lilin Town Zhongkai District, Huizhou, the PRC	Factory	RMB40,000	Term of three years commencing from 1 January 2018 to 31 December 2020

Also see “Connected Transactions” for details.

INTELLECTUAL PROPERTY RIGHTS

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

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

RESEARCH AND DEVELOPMENT

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

ENVIRONMENTAL MATTERS

In providing our engineering services, we aim to ensure that all works done are conducted in an environmentally responsible manner. Our Group has established an environmental management system and also formulated an environmental policy to provide guidance, support and adequate resources for effective implementation of our environmental protection measures. Our environmental management system currently in place involves, among others, the following environmental protection measures:

- ensuring that we are committed to regulatory compliance and comply with customer requirements and industry best practices from an environmental perspective in undertaking our activities;

BUSINESS

- evaluating the environmental impact of our business activities, products and services and the associated risks, and devising targets and plans for managing such risks; and
- effectively conserving the use of resources and minimizing waste generation.

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

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

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

OCCUPATIONAL HEALTH AND WORK SAFETY

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

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

At our production facilities, we are also required to abide by work safety laws and regulations imposed by the relevant PRC government authorities and maintain a safe working environment. We have adopted and implemented occupational health and safety procedures and measures for our production operations, and ensure that all our production employees are aware of our safety

BUSINESS

procedures, protective equipment procedures and social and environmental responsibility. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedures, and social and environmental responsibility. Our employees involved in the production of our steel and metal products are required to attend training courses on production and workplace safety, and certain employees with unique skill sets are required to attain special post quality control certifications. We provide, and require our employees to wear, regularly tested protective devices to ensure their safety. In addition, we provide general health and safety education and training to our employees and conduct periodical emergency drills. We also carry out workplace security inspections from time to time.

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

Hong Kong

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

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

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

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

BUSINESS

	From 1 January 2017 to 31 December 2017	For the year ended 31 March 2018
Accident rate per 1,000 workers	NA	Nil
Fatality rate per 1,000 workers	NA	Nil

Notes:

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

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

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

Notes:

1. LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFR is calculated as multiplying the number of lost time injuries of our Group happened in the financial year by 1,000,000 and then dividing by the number of hours worked by the workers over that financial year.
2. The number of working days of site workers for each of the years ended 31 March 2016, 2017 and 2018, were approximately 296 days, 303 days and 342 days respectively. It is assumed that the number of working days of site workers is computed based on the assumption that the workers do not work on a statutory holiday and the working hour of each worker is eight hours per day.

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

The PRC

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

BUSINESS

INSURANCE

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

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

In addition, as at the Latest Practicable Date, we maintained insurance policies to protect us risks insurance for our property, plant and equipment, vehicle insurance and medical insurance for our employees who are working at our office in Hong Kong or our production facilities in Huizhou, the PRC. Our Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect us from any potential loss or damage and are in line with the industry norm.

During the Track Record Period and up to the Latest Practicable Date, we had not made and did not make or had not been the subject of any material insurance claim.

EMPLOYEES

As at 31 March 2018, our Group had 335 staff (including our executive Directors), of which 174 full-time employees were located in Hong Kong and 161 full-time employees were located in the PRC.

BUSINESS

The following sets forth the number of our employees in the respective functions (including our executive Directors but not our non-executive Director and independent non-executive Directors) as at 31 March 2018:

	As at 31 March 2018
Hong Kong	
Executive Directors and senior management	6
Project management and supervision	14
Finance and accounting	2
Administration and human resources	6
Site workers	142
Logistics	<u>4</u>
Sub-total:	<u><u>174</u></u>
PRC	
Production workers	134
Procurement	4
Warehouse	4
Accounting	4
Administration and human resources	15
Sub-total:	<u><u>161</u></u>
Total:	<u><u><u>335</u></u></u>

Recruitment policies and training

We recruit our employees based on a number of factors such as their work experience, educational background, qualifications or certifications possessed and vacancies. We entered into separate labour contracts with each of our employees in accordance with the applicable labour laws of Hong Kong or the PRC, depending on where the employees are located. The remuneration offered to employees generally includes salaries and bonuses. In general, we determine salaries of our employees based on their qualifications, position and seniority.

An induction training will be provided to our new employees before commencing onsite work and on-the-job training will be provided to our employees, in order to enhance their technical and product knowledge, as well as safety standards, quality control and job related skills.

BUSINESS

Welfare benefits

Hong Kong

We maintain employees' compensation insurance as required under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) for our employees in Hong Kong for all of our employees. We also participate in the Mandatory Provident Fund Scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. As required under the ordinance, 5% of our employees' relevant income per month is contributed to the provident fund, subject to a maximum of HK\$1,500 per employee per month.

PRC

Pursuant to the applicable PRC laws and regulations, we are required to contribute to various social security insurance including pension contributing plans, medical insurance, work related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC. The salary level of the production workers has been steadily increasing in recent years owing to changes in labour law and the local labour market trends.

Relationship with staff

We have not set up any trade union for our employees. We have not had any strikes or other material labour disputes that have materially disrupted our operations, during the Track Record Period and up to the Latest Practicable Date. Also, we have not experienced any significant problems with the recruitment and retention of experienced employees. Our Directors believe that we have maintained a good working relationship with our employees, and our working environment and benefits offered to our employees have contributed to building good staff relationship and maintain a stable retention rate.

QUALIFICATIONS AND CERTIFICATIONS

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that our Group has obtained all requisite licences, permits, certifications and qualifications that are material for our business operations in Hong Kong and the PRC.

BUSINESS

Hang Yick is a registered subcontractor under the Subcontractors Registration Scheme of the Construction Industry Council in Hong Kong, and the details are as follows:

Type of registration	Issuing authority	Trade Groups	Types of works	Date of Expiry
Registered Subcontractor	Construction Industry Council	Structural and civil, and finishing	Structural steelwork, shutters/doors fabrication and installation, and metal works	29 April 2023

Our Directors further confirm that our Group had not experienced any material difficulties in obtaining and/or renewing the abovementioned licenses, permits, consents and approvals. Our Directors are not aware of any circumstances that would significantly hinder or delay the renewal of such licenses, permits, consents and approvals.

In recognition of our quality control system, during the Track Record Period, our Group had received the major certifications as follows:

Certification	Description	Award organisation or authority	Recipient	Period of validity/Date of issue
Quality Management System Certificate of Approval — GB/T19001-2008/ISO9001:2008	Production and service of steel gate, iron gate, volume gate, al-alloy door and window, all kinds of stents, hardware door lock etc., hardware products (excluding products need national qualification permits)	Shanghai DAS Certificate Co. Ltd.	Hang Yick	29 June 2015 to 28 June 2018
Authorised Economic Operator (AEO) Certificate	AEO status is an internationally recognised quality mark indicating that the role in the international supply chain is secure, and that the customs controls and procedures are efficient and complaint.	Shenzhen Customs District People’s Republic of China	Huizhou Hengyi	14 December 2015

BUSINESS

Certification	Description	Award organisation or authority	Recipient	Period of validity/Date of issue
Environmental Management System Certificate of Approval — GB/T24001-2004/ISO14001:2004	Production and service of steel gate, iron gate, volume gate, al-alloy door and window, all kinds of stents, hardware door lock etc., hardware products (excluding products need national qualification permits)	Shanghai DAS Certificate Co. Ltd.	Hang Yick	31 May 2016 to 30 May 2019

AWARDS AND RECOGNITIONS

Furthermore, our Group has received awards and recognitions from various organisations. Table below sets forth the significant awards and recognitions which we received:

Award/recognition	Year of award/ recognition	Issuer of award/ recognition
Certificate of Commendation for the outstanding achievements in the Completion Contract for the Construction of Fanling Area 36 Phase 1	2009	Hong Kong Housing Authority
Quality public housing — Construction and maintenance awards — New works projects — Outstanding building project (special mention) for conversion of Chai Wan Factory Estate to public rental housing and demolition of Blocks 1, 2, 3, 12 and a school in Pak Tin Estate — Domestic sub-contractor — Metal works	2017	Hong Kong Housing Authority

LITIGATION AND CLAIMS

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

BUSINESS

Civil litigation

As at the Latest Practicable Date, there were two civil litigations against our Group which we had received the relevant summons and legal proceedings had been commenced. These accidents were caused during the usual and ordinary business of our Group and did not cause material disruption to our Group’s business.

Nature of claim	Date of incident	Status
An employee suffered an injury to his left knee and back as a result of certain stacks of wire meshes falling upon him and pushing him to the ground against a pile of metal materials placed nearby.	21 December 2016	The insurer has taken over conduct of the proceedings. Checklist review hearing is scheduled to be heard in August 2018. The amount claimed by the injured person was approximately HK\$2.5 million but the quantum is to be assessed by the court. As the contract between our customer and us includes the insurance maintained over the works performed by us under the contract, the compensation amount as assessed by the court will be fully covered by the insurer.
An employee suffered injuries to his right knee when the employee was instructed to install a louver board at the works site. As the drill he used was one without safety device, the drill bounced causing it to hit on the employee’s knee.	25 February 2014	The insurer has taken over conduct of the proceedings. As at the Latest Practicable Date, the case was settled by a consent order dated 29 March 2017 at a settlement sum of HK\$250,000. The compensation payment was covered by the insurer.

NON-COMPLIANCE

Housing provident Fund contribution

Non-compliance incidents and reasons

Huizhou Hengyi did not set up housing provident fund accounts and contribute to the housing provident fund for all of our eligible employees since our establishment and up to September 2017. Since October 2017, we have contributed to the housing provident fund for all employees. For the years ended 31 March 2016, 2017 and 2018, the outstanding housing provident fund contributions are immaterial to our Group.

Such non-compliance incident was mainly caused by our designated staff’s unintended and inadvertent oversight of the relevant PRC laws and regulations.

BUSINESS

Relevant laws and regulations

According to the Housing Provident Fund Management Regulations* (住房公積金管理條例), employers failing to (i) register housing provident fund accounts after employment may be subject to a fine ranging from RMB10,000 to RMB50,000; and (ii) pay housing provident fund contributions after employment may be ordered to make outstanding contributions. The relevant housing provident fund authority may apply to the PRC courts for enforcement of such payments for any further failure to make such payments.

Therefore, in addition to the payment of outstanding contributions, we may be subject to a potential maximum fine of RMB50,000 (equivalent to approximately HK\$62,500).

Remedial actions and status of the Latest Practicable Date

Since October 2017, we have been in full compliance with relevant requirements under the Housing Provident Fund Management Regulations and have made contribution to the housing provident fund for all our eligible employees. As at the Latest Practicable Date, Haizhou Hengyi did not received any complaints in relation to housing provident fund, any notice of repayment nor any administrative penalties imposed by the relevant housing provident fund authority.

As advised by our legal advisers as to PRC laws, as we have voluntarily registered housing provident fund account for our employees and our Group did not receive notice or order from the relevant housing provident fund authority demanding repayment of housing provident fund contribution, there will not be any administrative penalty or liability due to late registration of housing provident fund account. Based on the view of our legal advisers as to PRC laws and the indemnity given by our Controlling Shareholders, our Directors confirmed that such non-compliance incident would not have an adverse and material effect on our business operations and financial condition. As a result, we have not made any provision for fines. However, we have made a provision amount for the shortfall of the contributions during the relevant period.

Enhanced internal control measures

To prevent recurrence of the non-compliance, from October 2017 onwards, Huizhou Hengyi has been paying contributions to the housing provident fund for all our eligible employees in accordance with the relevant laws and requirements in the PRC. Since March 2018, we have adopted the following measures: (i) adopting internal polices to ensure compliance with all regulatory requirements in the PRC in relation to housing provident fund contribution, including the procedures to require our administrative staff to review periodically that all our existing and incoming employees have made housing provident fund contributions and report to our Board should any material non-compliance occur; (ii) enhancing the awareness of our employees with respect to the importance of participation in housing provident fund by regularly reminding them to make their part of contributions; and (iii) seeking advice from external legal advisers on the latest requirements of applicable laws and regulations of the PRC when necessary.

BUSINESS

Incorrect information filed in Customs Declaration

Non-compliance incidents and reasons

During the Track Record Period, there was one occasion where Huizhou Hengyi provided incorrect information for customs declaration. The misstatement involved an understatement of the value of the goods and Huizhou Hengyi was fined for the amount of RMB14,100 and was ordered to repay the outstanding customer duties of RMB34,906.06.

Such non-compliance was mainly caused by an inadvertent mistake of our warehouse staff who is responsible for stocktaking and customs declaration.

Relevant laws and regulations

According to clause 18(3) of the Implementation of Customs Administrative Penalties Regulations of the PRC* (《中華人民共和國海關行政處罰實施條例》), if there is any understatement or inaccurate record for goods that are under the supervision of the customs department, a penalty amounting to approximately 5% to 30% of the value of the subject goods may be imposed.

According to the Customs Supervision Laws of the PRC* (《中華人民共和國海關稽查條例》), the relevant customs department may also order the person to repay the undercharged or unpaid customs duties.

Remedial actions and status as of the Latest Practicable Date

On 19 June 2017, Huizhou Hengyi was fined for the amount of RMB14,100 and was ordered to repay the outstanding custom duties of RMB34,906.06.

Pursuant to the confirmation letter issued by the relevant customs department in Huizhou, for the period between 1 January 2015 and 2 May 2018, save for the aforesaid fine, no material contravention of the customs law or intrusion of intellectual property was identified.

Our PRC legal adviser has conducted an enquiry at the Enterprise and Export and Import Creditability and Information Platform of the PRC Customs* (中國海關企業進出口信用信息公示平臺) on 17 May 2018, save for the aforesaid fine, no other violation or administrative penalty record in relation to PRC customs laws and regulations was identified.

Enhanced internal control measures

Since the non-compliance incident, we have adjusted our internal control policies for our production and warehouse management to ensure the accuracy of the information provided to the relevant customs department.

BUSINESS

Failure to complete design examination and acceptance procedures in respect of our production facilities in Huizhou

Non-compliance incidents and reasons

Such non-compliance incident was mainly caused by our staff’s inadvertent failure to renew the design examination and acceptance procedures for the fire prevention inspection.

Relevant laws and regulations

According to the Fire Prevention Law of the PRC* (中華人民共和國消防法), we may be imposed a fine ranging from RMB30,000 to RMB300,000 for our failure to complete the design examination and acceptance procedures for fire prevention inspection.

Remedial actions and status as of the Latest Practicable Date

On 28 November 2016, Huizhou Hengyi was fined for the amount of RMB35,000 and was ordered to make rectifications. As confirmed by our Directors, after the non-compliance incident, we have removed certain irregular parts, adjusted the distances between each fire insulative walls and the fire cistern and made such changes in accordance with the certificate of fire safety inspection* (消防驗收合格證).

Pursuant to a confirmation letter dated 2 May 2018 issued by Zhongkai Fire Safety Bureau, save for the aforesaid non-compliance incident, since 1 January 2015, (i) we have been able to comply with Fire Prevention Law of the PRC* (中華人民共和國消防法), (ii) our production facilities have been in compliance with the relevant fire safety and safe production regulations, (iii) we have completed the design examination and acceptance procedures, and (iv) there was no accident in relation to fire safety.

Enhanced internal control measures

To prevent recurrence of such non-compliance, we have set out internal control procedures in place and instructed a designated personnel to ensure that relevant fire safety requirements have been fulfilled in respect of fire prevention measures of our production facilities.

The designated personnel is also responsible for ensuring effective communication with relevant authorities to conduct design examination and acceptance procedures required for fire prevention measures of our production facilities in a timely manner.

Notice of commencement of employment

Non-compliance incidents and reasons

Hang Yick failed to submit the notice (Form 56E) regarding the commencement of employment of the employees within three months from such commencement during the Track Record Period. The omission was not willful and was due to inadvertent oversight of our administrative staff responsible for employee records at the relevant time.

BUSINESS

Hang Yick subsequently submitted Form 56E for those employees on 25 April 2018.

Relevant laws and regulations

Pursuant to section 80 of Inland Revenue Ordinance, the company in default of section 52(4) is liable to a level 3 fine, which is fixed at the rate of HK\$10,000 and the court may order the person convicted within a time specified in the order to do the act which he has failed to do. Section 80(3) of Inland Revenue Ordinance further stipulates that the time limit of prosecution of this kind of default is either in the year of assessment in respect of or during which the offence was committed or within six years after the expiration thereof.

Remedial actions and status as of the Latest Practicable Date

Hang Yick submitted the Employer’s Returns of Remuneration & Pensions (Form 56B) in respect of the relevant employees for each of the years of assessment ended 31 March 2016 and 31 March 2017, which advised the taxable salaries of those employees.

Having considered that there appears to be no taxative repercussions arising from the non-compliance and we had duly filed the Employer’s Return on Remuneration and Pensions (Form 56B) which have fully reported the annual salaries of the employees to the IRD and duly paid their respective salaries taxes, our legal advisers as to Hong Kong laws are of the view that the likelihood of the IRD instituting prosecution against Hang Yick for the non-compliance would be slim.

Enhanced internal control measures

Our company secretary is responsible for supervising and will remind the staff responsible for the preparation of fillings with IRD. The relevant staff is required to keep a register in respect of, among other things, the preparation and filing status of all relevant documents required under the Inland Revenue Ordinance.

Employees’ compensation insurance

Non-compliance incidents and reasons

During the Track Record Period, Hang Yick had failed to secure sufficient employees’ compensation insurance for certain of our employees in breach of section 40 of the Employees’ Compensation Ordinance. The non-compliance was due to the inadvertent omission by an employee of our Group who was responsible for handling employees’ insurance at the relevant time.

Relevant laws and regulations

A person who commits an offence under section 40 of the Employees’ Compensation Ordinance shall be liable to a maximum penalty of a fine of HK\$100,000 and imprisonment of one year on conviction. On conviction of indictment, the maximum penalty is a fine of HK\$100,000 and imprisonment of two years.

BUSINESS

Remedial actions and status as of the Latest Practicable Date

Since April 2017, our Group has already secured sufficient employees’ compensation insurance to cover our employees. Our legal advisers as to Hong Kong laws opined that Hang Yick did not intentionally put our members or staff at risk by failing to take out insurance policy and there was no workplace accident resulting in the injuries of our staff who were not subject to insurance coverage. Hence, the risk of prosecution against our Group is remote.

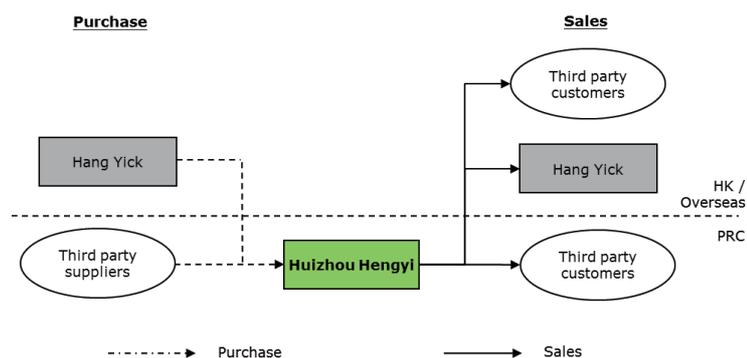
Enhanced internal control measures

To prevent recurrence of the non-compliance, our responsible administrative staff who is responsible for monitoring the changes in the number or the positions of the employees will report to our executive Directors regularly in respect of the employees’ compensation insurance.

INTRA-GROUP TRANSACTIONS

Our Group is primarily engaged in design, manufacture, supply and installation of steel and metal products (“**Products**”) for construction projects to unrelated customers. During the Track Record Period, Huizhou Hengyi was the manufacturing arm of our Group with Hang Yick being the key trading entity of our Group. Upon receipt of purchase orders from Hang Yick, Huizhou Hengyi would manufacture the Products using raw materials purchased from Hang Yick as well as unrelated suppliers in the PRC. Upon production, most of the manufactured Products were sold by Huizhou Hengyi to Hang Yick, which in turn would sell to third party customers located in Hong Kong.

The abovementioned intra-group transactions between Huizhou Hengyi to Hang Yick are set forth in the following diagram.



We have engaged an independent tax consultant, an international professional accounting firm in Hong Kong (the “**Tax Consultant**”), to conduct transfer pricing analyses (“**Analysis**”) on the intra-group transactions between Huizhou Hengyi and Hang Yick for the years ended 31 March 2016, 2017 and 2018 based on the relevant transfer pricing regulations. See “Regulatory Overview — Hong Kong laws and regulations — Transfer pricing” and “Regulatory Overview - PRC laws and regulations

BUSINESS

— Taxation — Transfer pricing” for details of the relevant transfer pricing regulations. According to the results of the Analysis, our Group is considered to be in compliance with the applicable transfer pricing laws and regulations in Hong Kong and the PRC.

As at the Latest Practicable Date, our Directors were not aware of any inquiry, audit or investigation raised by any tax authority in the PRC and Hong Kong with respect to the subject transactions.

Our Group has established internal control systems covering the principal operational aspects and key business decision making process. These aspects include sourcing and selection of steel and metal projects, approval and preparation of documents, revenue estimation and project management, and human resources management. It is the responsibility of our Board to ensure that we maintain an effective internal control and risk management systems to safeguard our Shareholders’ [REDACTED] at all times and to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. In order to prevent future recurrence of the non-compliance incidents and improve our corporate governance, we have adopted the following measures:

- (a) An audit committee has been established upon the [REDACTED] to (i) review our risk management policies; (ii) monitor the risk to which our Group would be exposed during our course of provision of fire safety services; and (iii) review the internal control systems and procedures for compliance with the requirements of the Listing Rules.
- (b) We engaged an independent internal control consultant to review our Group’s internal control systems and procedures in December 2017 and to further review the remedial internal controls implemented related to previous non-compliance incidents in May 2016. We have adopted measures and policies to enhance our internal control and risk management systems and to ensure that our operations will be in full compliance with the applicable laws and regulations.
- (c) Our Directors and senior management had attended a training session conducted by our legal advisers as to Hong Kong law in May 2018 on the on-going obligations and duties of directors of a publicly [REDACTED] company, including among others, sessions on connected transactions, codes of corporate governance, dealing in securities, disclosure of inside information and notifiable transactions.
- (d) Our Company has appointed Fortune Financial Capital as our compliance adviser to advise on compliance matters in accordance with the Listing Rules.

Our Directors are of the view that the internal control measures adopted by our Group are adequate and effective in reducing the risk of future non-compliance with legal and regulatory requirements in Hong Kong.

BUSINESS

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Our Group has in place policies and procedures in relation to corporate governance and risk management. Our Board is primarily responsible for overseeing the corporate governance and risk management system and monitoring the effectiveness.

Below sets out the key measures under our corporate governance and risk management system for managing specific operational and financial risks relating to our business operations:

Risk management

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process are committed to managing and minimising risks by identifying, analysing, evaluating and mitigating risk exposures that may impact the continued efficiency and effectiveness of our operations or prevent it from achieving its business objective. We therefore implement the risk management process which will involve, *inter alia*, (i) an annual risk identification exercise which involves assessment of the consequence and likelihood of risks (including documenting those of potentially high impact) and the development and/or review of risk management plans for mitigating such risks; (ii) testing of documented risk management procedures at approval intervals; and (iii) ensuring that our staff and other stakeholders have access to appropriate information and training in the area of risk management. Our Board oversees and manages the overall risks associated with our operations, while our audit committee will review and supervise our risk management process, as well as financial reporting process and internal control system.

Corporate governance measures

Our Company will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. We have established four board committees, namely, the audit committee, the nomination committee and the remuneration committee with respective terms of reference in compliance with the Corporate Governance Code. For details, see “Directors and Senior Management — Board committees”. In particular one of the primary duties of our audit committee is to review the effectiveness of our Company’s internal audit activities, internal controls and risk management systems. Our audit committee consists of all three of our independent non-executive Directors, whose backgrounds and profiles are set out in “Directors and Senior Management”.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately following completion of the [REDACTED] and [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] or the exercise of the options to be granted under the Share Option Scheme), HY Steel (an investment holding company owned as to 70% and 30% by Mr. PS Lee and Ms. LC Lau, respectively which has not commenced any substantive business activities as at the Latest Practicable Date) will control [REDACTED]% of our Company’s issued share capital. For the purpose of the Listing Rules, Mr. PS Lee, Ms. LC Lau, and HY Steel are our Controlling Shareholders.

Each of Mr. PS Lee, Ms. LC Lau, and HY Steel confirms that he, she or it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

In the opinion of our Directors, our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

(i) Financial independence

During the Track Record Period, our Group had certain amount due to Mr. PS Lee and Ms. LC Lau and received guarantees from Mr. PS Lee. All loans, advances and balances due from our Controlling Shareholders and their respective close associates and all loans, advances and balances due to our Controlling Shareholders will be fully settled upon [REDACTED]. All guarantees provided by our Controlling Shareholders and their respective close associates for our Group’s borrowing will also be fully released upon [REDACTED].

Having taking into account (i) the release of the above guarantees (before [REDACTED]); (ii) the present financial status (including the cash flow and available facilities) of our Group; and (iii) our Group has an independent financial system and makes financial decisions according to our business needs, our Directors are of the view that our Group has sufficient capital to operate our business independently, and has adequate internal resources and a strong credit profile to support our daily operations.

(ii) Operational independence

Our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their associates. Our Directors are of the view that there is no operational dependence on our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(iii) Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group’s business. The main functions of our Board include the approval of its overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. Our Company has an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group’s policies and strategies.

Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. PS Lee is our executive Director, Chairman and chief executive officer. Ms. LC Lau is our executive Director. Mr. PS Lee and Ms. LC Lau are also the directors of HY Steel. Save for Mr. PS Lee and Ms. LC Lau, no other Directors nor members of senior management of our Group hold any directorship or position in HY Steel.

We consider that our Board and senior management are capable of managing our Group’s business independently from our Controlling Shareholders because:

- each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest to exist;
- the three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements of the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions;
- in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transactions and shall not be counted in the quorum present at the particular Board meeting; and
- connected transactions between our Group and our Controlling Shareholders or their respective associates are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement and independent Shareholders’ approval (where applicable).

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders, our Directors and their respective associates do not have any interest in a business apart from our Group’s business which competes and is likely to compete, directly or indirectly, with our Group’s business and would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

LOCK-UP UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders, namely Mr. PS Lee, Ms. LC Lau and HY Steel, have given an undertaking to the Stock Exchange pursuant to Rule 10.07(1) of the Listing Rules which specifies that, except for the circumstances permitted pursuant to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders shall not and shall procure that his/her/its associates or companies controlled by him/it or our nominees or trustees holding the Shares in trust for him/her/it (as the case may be) shall not:

- (a) within the period commencing on the date by reference to which disclose the shareholding of our Controlling Shareholders is made in this document and ending on the date which is six months from the [REDACTED] (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is or they are shown by this document to be the beneficial owner(s); or
- (b) within the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in the preceding paragraph if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that person or group of persons would cease to be a Controlling Shareholder.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and our Controlling Shareholders, HY Steel, Mr. PS Lee and Ms. LC Lau (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the Deed of Non-competition with our Company (for itself and for the benefit of each other member of our Group) on [●]. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and as trustee for its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/she/it shall not, and shall procure that his/her/its associates (other than any member of our Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of our Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of our Group is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/she/it shall (and he/she/it shall procure his/its associates to) notify our Group in writing and our Group shall have a right of first refusal to take up such business opportunity. Our Group shall, within six months after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether our Group will exercise the right of first refusal or not.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Group shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of our Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Division granting approval for the [REDACTED] of and permission to [REDACTED] [REDACTED] and all conditions precedent under the [REDACTED] having been fulfilled (or where applicable, waived) and the [REDACTED] not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date falling 30 days after the date of this document (or if such date is not a Business Day, the immediate preceding Business Day), the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on (i) in relation to any Covenantor, the date on which he/she/it together with his/her/its associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) the date on which the Shares shall cease to be [REDACTED] and [REDACTED] on the Stock Exchange (except for temporary [REDACTED] halt or suspension of [REDACTED] of the Shares on the Stock Exchange due to any reason).

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that he/she/it fully comprehends his/her/its obligations to act in the best interests of our Company and our Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

- (i) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors (or their associates), the interested Directors shall abstain from voting at the relevant Board meeting and shall not be counted in the quorum;
- (ii) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or his/her associates has/have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (iii) the Covenantors will make an annual confirmation as to compliance with his/her/its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) our Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (v) our independent non-executive Directors will, based on the information available to them, review on an annual basis (a) the compliance with the Deed of Non-competition; and (b) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition. Findings of such review will be disclosed in our Company’s annual report after [REDACTED]; and
- (vi) we have appointed Fortune Financial Capital as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance. See “Directors and Senior Management — Compliance adviser” for further details in relation to the appointment of compliance adviser.

CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period, we entered into certain transactions with the connected persons of our Company. Several transactions are expected to continue after the [REDACTED] and will constitute continuing connected transactions (as defined under Chapter 14A of the Listing Rules) of our Company upon the [REDACTED].

RELATIONSHIP BETWEEN OUR GROUP AND THE CONNECTED PERSONS

The following entities will be connected persons of our Company under the Listing Rules upon [REDACTED].

Mr. PS Lee

Mr. PS Lee is our Chairman, chief executive officer, executive Director and Controlling Shareholder, and is therefore a connected person of our Company under Chapter 14A of the Listing Rules.

Ms. LC Lau

Ms. LC Lau is our executive Director and Controlling Shareholder, and is therefore a connected person of our Company under Chapter 14A of the Listing Rules.

Mr. Lee Ka Kit

Mr. Lee Ka Kit is the son of Mr. PS Lee and Ms. LC Lau aged 18 or above, and is therefore an associate of a connected person of our Company under Chapter 14A of the Listing Rules.

Huizhou Jiantai

Huizhou Jiantai is a limited liability company established in the PRC, which is wholly owned by Biopower Co., ultimately held as to 100% by Mr. PS Lee. Therefore, Huizhou Jiantai is an associate of our Company under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The following transactions are entered into in the ordinary and usual course of our business and on normal commercial terms where each of the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, not exceed 5% and the total consideration will be less than HK\$3,000,000 on an annual basis.

1. Yau Tong Lease Agreements

Parties:

- (i) Mr. PS Lee
- (ii) Ms. LC Lau
- (iii) Hang Yick

Principal terms:

On 7 May 2018, Hang Yick entered into two tenancy agreements (the “**Yau Tong Lease Agreements**”) with Mr. PS Lee and Ms. LC Lau, pursuant to which Mr. PS Lee and Ms. LC Lau (as landlords) agreed to lease to Hang Yick (as tenant) the premises with a gross floor area of 2,136 square feet, situated at Units A, B and D, Upper G/F, Yau Tong Industrial Building Block 4, Nos. 18 & 20 Sze Shan Street, Kowloon, Hong Kong (the “**Yau Tong Premises**”) for use as our office in Hong Kong for a term of approximately two years and 11 months commencing from 7 May 2018 to 31 March 2021. The parties agreed to fix the aggregate monthly rent at HK\$30,000 (excluding government rates and management fees).

Our Directors confirmed that the aggregate monthly rent of HK\$30,000 was determined after arm length’s negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity. In this connection, we have engaged an independent property valuer to assess the fairness of the rent and the terms of the Yau Tong Lease Agreements. Our Directors are of the opinion that the terms of the Yau Tong Lease Agreements (including the rental and duration) are fair and reasonable and the rents payable thereunder reflect the prevailing market rate.

Historical amounts:

For the three years ended 31 March 2018, the Yau Tong Premises was used by our Group at nil consideration.

Annual caps and basis of caps:

The Yau Tong Lease Agreements will continue after the [REDACTED]. It is proposed that the annual caps for the rents payable under the Yau Tong Lease Agreements will be approximately HK\$330,000, HK\$360,000 and HK\$360,000, respectively, for each of the years ended 31 March 2019, 2020 and 2021. The annual caps were arrived at with reference to the rents payable by our Group under the Yau Tong Lease Agreements.

CONNECTED TRANSACTIONS

2. Tai Kok Tsui Lease Agreement

Parties: (i) Ms. LC Lau
(ii) Hang Yick

Principal terms:

On 7 May 2018, Hang Yick entered into a tenancy agreement (the “**Tai Kok Tsui Lease Agreement**”) with Ms. LC Lau, pursuant to which Ms. LC Lau (as landlord) agreed to lease to Hang Yick (as tenant) the showroom with a gross floor area of 2,451 square feet, situated on G/F, Kar Wun Court, Nos. 18 Ivy Street, Kowloon, Hong Kong (the “**Tai Kok Tsui Premises**”) for use as our shop in Hong Kong for a term of approximately two years and 11 months commencing from 7 May 2018 to 31 March 2021. The parties agreed to fix the monthly rent at HK\$23,000 (excluding government rates and management fees).

Our Directors confirmed that the monthly rent of HK\$23,000 was determined after arm length’s negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity. In this connection, we have engaged an independent property valuer to assess the fairness of the rent and the terms of the Tai Kok Tsui Lease Agreement. Our Directors are of the opinion that the terms of the Tai Kok Tsui Lease Agreement (including the rental and duration) are fair and reasonable and the rents payable thereunder reflect the prevailing market rate.

Historical amounts:

For the three years ended 31 March 2018, the Tai Kok Tsui Premises was used by our Group at nil consideration.

Annual caps and basis of caps:

The Tai Kok Tsui Lease Agreement will continue after the [REDACTED]. It is proposed that the annual caps for the rents payable under the Tai Kok Tsui Lease Agreement will be approximately HK\$253,000, HK\$276,000 and HK\$276,000, respectively, for each of the years ended 31 March 2019, 2020 and 2021. The annual caps were arrived at with reference to the rents payable by our Group under the Tai Kok Tsui Lease Agreement.

3. PRC Lease Agreement

Parties: (i) Huizhou Jiantai
(ii) Huizhou Hengyi

Principal terms:

On 1 January 2018, Huizhou Hengyi entered into a tenancy agreement (the “**PRC Lease Agreement**”) with Huizhou Jiantai, pursuant to which Huizhou Jiantai (as landlord) agreed to lease to Huizhou Hengyi as tenant the premises at Xilong Factory, Lilin Village, Lilin Town, Zhongkai

CONNECTED TRANSACTIONS

District, Huizhou, the PRC (the “**PRC Premises**”) for use as our factory in the PRC for a term of three years commencing from 1 January 2018 to 31 December 2020. The parties agreed to fix the monthly rent at RMB40,000 (excluding government rates and management fees).

Our Directors confirmed that the monthly rent of RMB40,000 (equivalent to approximately HK\$50,000) was determined after arm length’s negotiations between the parties with reference to the then prevailing market conditions and the rental rate of similar properties in the vicinity. In this connection, we have engaged an independent property valuer to assess the fairness of the rent and the terms of the PRC Lease Agreement. Our Directors are of the opinion that the terms of the PRC Lease Agreement (including the rental and duration) are fair and reasonable and the rents payable thereunder reflect the prevailing market rate.

Historical amounts:

The rental of the PRC Premises commenced after the Track Record Period.

Annual caps and basis of caps:

The PRC Lease Agreement will continue after the [REDACTED]. It is proposed that the annual caps for the rents payable under the PRC Lease Agreement will be approximately RMB480,000, RMB480,000 and RMB480,000, respectively (equivalent to approximately HK\$600,000, HK\$600,000 and HK\$600,000, respectively), for each of the years ended 31 March 2019, 2020 and 2021. The annual caps were arrived at with reference to the rents payable by our Group under the PRC Lease Agreement.

ONE-OFF CONNECTED TRANSACTION

On 29 March 2018, our Group disposed a property to a connected person, Mr. Lee Ka Kit. On 28 February 2018 Hang Yick (as vendor) entered into a sale and purchase agreement with Mr. Lee Ka Kit (as purchaser) (the “**Sale and Purchase Agreement**”) for the sale of Flat D, 3rd Floor, Block 30 Grand Dynasty View Classical Gardens, Phase IV, No. 9 Ma Wo Road, Tai Po, New Territories, Hong Kong and Car Parking Space No. 83, 2nd Basement of Grand Dynasty View Classical Gardens, Phase IV, No. 9 Ma Wo Road, Tai Po, New Territories, Hong Kong (the “**Disposed Premises**”) in the consideration of HK\$10,600,000. We have engaged an independent property valuer to assess the market value of the Disposed Premises. Our Directors are of the opinion that the consideration paid under the Sale and Purchase Agreement reflects the prevailing market rate as at the date of the Sale and Purchase Agreement. The disposal was completed on 29 March 2018.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our Group’s business. Our Board currently consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

The following table sets out information regarding our Directors:

Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Director(s) and senior management
<i>Executive Directors</i>						
Lee Pui Sun (李沛新)	60	Chairman, chief executive officer and executive Director	20 January 1993	6 March 2018	Overall strategic management and development of our Group’s business operations	Spouse of Ms. LC Lau, father of Mr. Benny Lee
Lau Lai Ching (劉麗菁)	60	Executive Director	20 January 1993	6 March 2018	Overseeing our Group’s finance and administration	Spouse of Mr. PS Lee, mother of Mr. Benny Lee
<i>Non-executive Director</i>						
Lee Ka Chun Benny (李嘉俊)	32	Non-executive Director	27 December 2017	14 May 2018	Providing strategic advices to our Group	Son of Mr. PS Lee and Ms. LC Lau
<i>Independent non-executive Directors</i>						
Au Yeung Wai Key (歐陽偉基)	59	Independent non-executive Director	[●]	[●]	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Director(s) and senior management
Hon Cheung Kwok Kwan, JP (張國鈞, 太平紳士)	43	Independent non-executive Director	[●]	[●]	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group	N/A
Tse Ka Ching Justin (謝嘉政)	31	Independent non-executive Director	[●]	[●]	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group	N/A

EXECUTIVE DIRECTORS

Lee Pui Sun (李沛新) (“**Mr. PS Lee**”), aged 60, spouse of Ms. LC Lau, is our Chairman, chief executive officer and our Controlling Shareholder. Mr. PS Lee was appointed as a Director of our Company on 6 March 2018 and was re-designated as an executive Director of our Company on 14 May 2018. He is primarily responsible for the overall strategic management and development of our Group’s business operations.

DIRECTORS AND SENIOR MANAGEMENT

Mr. PS Lee has more than 35 years' experience in the gate engineering industry. In June 1982, Mr. PS Lee established Hang Yick Co, a sole proprietorship in Hong Kong, which is principally engaged in the business of gate engineering. Hang Yick Co ceased its business in March 2018. In January 1993, Mr. PS Lee founded Hang Yick with Ms. LC Lau and he has been handling our Group's overall business operation since then.

Mr. PS Lee was a director of the following companies/businesses which was incorporated in Hong Kong and dissolved:

Company name	Nature of company/business	Nature of proceeding	Date of dissolution
Sparkful Enterprise Limited	Limited company	Dissolved by striking off	18 March 2005
Hang Yick Co	Sole proprietorship	Dissolved by deregistration	23 March 2018

As confirmed by Mr. PS Lee, the companies/businesses aforementioned in this paragraph were solvent at the time of dissolution. Mr. PS Lee further confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Mr. PS Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this document.

Our Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code. Except for the deviation from Corporate Governance Code provision A.2.1 as set out below, our Company's corporate governance practices have complied with the Corporate Governance Code.

Corporate Governance Code provision A.2.1 stipulates that the roles of chairman of the board and chief executive officer should be separate and should not be performed by the same individual. Mr. PS Lee is the Chairman of the Board and the chief executive officer of our Group. In view of Mr. PS Lee has been operating and managing our Group since 1993, our Board believes that it is in the best interest of our Group to have Mr. PS Lee taking up both roles for effective management and business development. Therefore, our Directors consider that the deviation from Corporate Governance Code provision A.2.1 is appropriate in such circumstance.

Lau Lai Ching (劉麗菁) (“Ms. LC Lau”), aged 60, spouse of Mr. PS Lee, is our Controlling Shareholder. Ms. LC Lau was appointed as a Director of our Company on 6 March 2018 and was re-designated as an executive Director of our Company on 14 May 2018. She is primarily responsible for overseeing our Group's finance and administration.

Ms. LC Lau has more than 25 years' experience in the gate engineering industry. In January 1993, Ms. LC Lau founded Hang Yick with Mr. PS Lee and has been handling the group's overall administration since then. In 2003, Ms. LC Lau established Hang Yick Metal Products, a sole proprietorship in Hong Kong, which is principally engaged in the business of wholesales, retail sales and engineering. Hang Yick Metal Products ceased its business in March 2018.

DIRECTORS AND SENIOR MANAGEMENT

Ms. LC Lau was a director of the following company/business which was incorporated in Hong Kong and dissolved:

Company name	Nature of company/business	Nature of proceeding	Date of dissolution
Hang Yick Metal Products	Sole proprietorship	Dissolved by deregistration	23 March 2018

As confirmed by Ms. LC Lau, the company/business aforementioned in this paragraph was solvent at the time of dissolution. Ms. LC Lau further confirmed that there was no wrongful act on her part leading to the dissolution and she is not aware of any actual or potential claim that has been or will be made against her as a result of such dissolution.

Ms. LC Lau has not held any directorship in any public listed company during the three years immediately preceding the date of this document.

NON-EXECUTIVE DIRECTOR

Lee Ka Chun Benny (李嘉俊) (“**Mr. Benny Lee**”), aged 32, was appointed as a non-executive Director of our Company on 14 May 2018. He is primarily responsible for providing strategic advices to our Group.

Mr. Benny Lee has more than five years’ experience in accounting, and was admitted as member of CPA Australia in November 2016. He obtained a bachelor’s degree of commerce, major in accounting from the University of Adelaide in Australia in December 2008, and a master’s degree in management from the University of South Australia in August 2010.

Mr. Benny Lee was appointed as director of Hang Yick in December 2017. Prior to joining our Group, Mr. Benny Lee worked as accounts assistant of accountant department in Dimerco Express Singapore Pte Ltd, a shipping and logistics services provider, from August 2012 to September 2014. He has been appointed with the position of accounts of finance department at Fitness First Singapore Pte Ltd since October 2014.

Mr. Benny Lee has not held any directorship in any public listed company during the three years immediately preceding the date of this document.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Au Yeung Wai Key (歐陽偉基) (“**Mr. Au Yeung**”), aged 59, was appointed as our independent non-executive Director on [●]. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. Mr. Au Yeung is responsible for providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Au Yeung obtained a bachelor’s degree in civil engineering from the University of Westminster in the United Kingdom in July 1991 and a degree of master of science in engineering from the University of Hong Kong in December 1998. He has been a member of The Institute of Structural Engineers since October 1995, a member of The Hong Kong Institution of Engineers since September 1996, a member of The Institution of Engineers, Australia since March 1996 and a member of The Institution of Civil Engineer since July 1999. He worked as a part-time lecturer in Vocational Training Council Technical Institutes (currently known as Hong Kong Institute of Vocational Education) from March 1994 to July 2007 and from September 2016 to August 2017.

Mr. Au Yeung has more than 25 years’ experience in handling various construction projects in Hong Kong, Macau and the PRC. He previously worked as a graduate engineer at Mott Connell Limited from October 1991 to June 1992. From July 1992 to July 1995, he worked as a structural engineering graduate at the Architectural Service Department. Mr. Au Yeung worked as engineer at Maunsell Consultants Asia Ltd from June 1995 to February 1997. He worked as a senior structural engineer in Ove Arup & Partners Hong Kong Ltd. from March 1997 to January 2002 and December 2007 to October 2017. From March 2002 to September 2005, he worked as a project engineer at Greg Wong and Associates Ltd. He worked as a project manager at Yau Lee Construction Co., Ltd from September 2005 to December 2007. He has worked as a senior project engineer at the Airport Authority Hong Kong since October 2017.

Mr. Au Yeung was a director of the following company which was incorporated in Hong Kong and dissolved:

Company name	Nature of company	Nature of proceeding	Date of dissolution
Newell Engineering Limited Limited	Limited company	Dissolved by striking off	28 November 2014

As confirmed by Mr. Au Yeung, the company aforementioned in this paragraph was solvent at the time of dissolution. Mr. Au Yeung further confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Mr. Au Yeung has not held any directorship in any public listed company during the three years immediately preceding the date of this document.

Hon Cheung Kwok Kwan, JP (張國鈞, 太平紳士) (“**Hon Cheung**”), aged 43, was appointed as our independent non-executive Director on [●]. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. Hon Cheung is responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Group.

Hon Cheung obtained a bachelor’s degree of laws and a postgraduate certificate in laws from the City University of Hong Kong in November 1997 and August 1998 respectively. Hon Cheung was admitted as a solicitor in Hong Kong in September 2000 and is a partner of Cheung & Yeung, Solicitors. He has been an Elected Member of Central and Western District Council since January 2012

DIRECTORS AND SENIOR MANAGEMENT

and was appointed as a Justice of the Peace in July 2014. He was then elected as a Legislative Council member of Hong Kong since October 2016. He was also appointed as a non-official member of the Executive Council since July 2017, a member of the Hong Kong Housing Authority since 2015 and China-Appointed Attesting Officer since December 2015.

Hon Cheung was a director of the following company which was incorporated in Hong Kong and dissolved:

Company name	Nature of company	Nature of proceeding	Date of dissolution
Smart IP Consultancy Limited	Limited company	Dissolved by deregistration	7 December 2007

As confirmed by Hon Cheung, the company aforementioned in this paragraph was solvent at the time of dissolution. Hon Cheung further confirmed that there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Hon Cheung has not held any directorship in any public listed company during the three years immediately preceding the date of this document.

Tse Ka Ching Justin (謝嘉政) (“**Mr. Tse**”), aged 31, was appointed as our independent non-executive Director on [●]. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee. Mr. Tse is responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Group.

Mr. Tse obtained a bachelor of science degree with honours in human biology in the University of Toronto in Canada in June 2009. He has been a member of the Hong Kong Institute of Certified Public Accountants since January 2014. Mr. Tse has been working in KPMG as an audit manager since August 2010 to April 2018. Mr. Tse has worked as senior finance manager at Pacific Tiger Group Limited since April 2018.

Mr. Tse has not held any directorship in any public listed company during the three years immediately preceding the date of this document.

DIRECTORS’ INTEREST

Save as disclosed in “Statutory and general information — C. Further information about substantial shareholders, Directors and experts”, each of our Directors (i) had no interest in the Shares within the meaning of part XV of the SFO as at the Latest Practicable Date; (ii) is independent from, and not related to, any Directors, substantial shareholders, Controlling Shareholders (as defined under the Listing Rules), or senior management of our Company; and (iii) had not held any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding to the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in this document, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets forth certain information of the senior management of our Group:

Name	Age	Present Position	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Leung Wing Lun (梁穎麟)	36	Chief financial officer	1 July 2017	Formulation of our Company’s financial strategies and management, internal control, and implementation of the corporate financial plan of our Group	N/A
Sin Kwok Chi Stephen (冼國持)	47	Chief project manager	7 February 2004	Management of the engineering department	N/A
Ho Wang Shun (何宏信)	45	Project manager (design)	1 March 2004	Project design, safety check and fulfilment of products	N/A
Yeung Leung Yu Water (楊琅儒)	45	Project manager	16 March 2000	Project management, quality control and construction in sites	N/A

Leung Wing Lun (梁穎麟) (“Mr. Leung”), aged 36, was appointed as the chief financial officer in July 2017 and company secretary of our Group on 14 May 2018. He is primarily responsible for formulation of our Company’s financial strategies and management, internal control, and implementation of the corporate financial plan of our Group.

Mr. Leung obtained a bachelor’s degree in business administration major in accounting from City University of Hong Kong in November 2004. Mr. Leung has been a Hong Kong Certified Public Accountant since February 2010.

Mr. Leung has more than 13 years’ experience in providing professional corporate services. Prior to joining our Group, Mr. Leung worked in Hop Fung Group Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code:2320) from July 2004 to August 2005. He served in the IRD as contracted assistant taxation officer in Hong Kong from September 2005 to March 2006. From March 2006 to July 2011, Mr. Leung worked as tax consultant at Thomas Lee & Partners Ltd. In November 2010, Mr. Leung founded Superior Alliance Group Company Limited and he has been acting as director since then.

DIRECTORS AND SENIOR MANAGEMENT

Sin Kwok Chi Stephen (冼國持) (“**Mr. Sin**”), aged 47, joined our Group in February 2004 and is the chief project manager of our Group. He is primarily responsible for management of the engineering department.

Mr. Sin obtained a diploma in mechanical engineering from Haking Wong Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Haking Wong)) in August 1991. He also obtained a higher certificate in mechanical engineering and a bachelor’s degree in building services engineering, from Hong Kong Polytechnic (currently known as Hong Kong Polytechnic University) and Hong Kong Polytechnic University in November 1993 and November 2002, respectively.

Mr. Sin has more than 20 years’ experience in the gate engineering industry. Prior to joining our Group, Mr. Sin was employed by Sanwa Shutter (HK) Limited from November 1993 to June 2003 with his last position as senior engineer manager.

Ho Wang Shun (何宏信) (“**Mr. Ho**”), aged 45, joined our Group in March 2004 and is the project manager (design) of our Group. He is primarily responsible for product design, safety check and fulfilment of products.

Mr. Ho obtained a bachelor’s degree in mechanical engineering from Ryerson Polytechnic University (currently known as Ryerson University) in Canada in June 1996.

Mr. Ho has more than 20 years’ experience in the gate engineering industry. Prior to joining our Group, Mr. Ho was employed by Sanwa Shutter (HK) Limited from October 1996 to December 2003 with his last position as design manager.

Yeung Leung Yu Water (楊琅儒) (“**Mr. Yeung**”), aged 45, joined our Group in March 2000 and is as the project manager of our Group. He is primarily responsible for project management, quality control and construction in sites.

Mr. Yeung completed his secondary education in July 1989.

Mr. Yeung has around 18 years’ experience in the gate engineering industry. Prior to joining our Group, Mr. Yeung was employed by Sanwa Shutter (HK) Limited from December 1995 to January 2000 with his last position as engineer.

COMPANY SECRETARY

Mr. Leung was appointed as our company secretary of our Company on 14 May 2018. For details of Mr. Leung, see “Senior management” above.

COMPLIANCE ADVISER

We have appointed Fortune Financial Capital as our compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Listing Rules and Fortune Financial Capital assumes

DIRECTORS AND SENIOR MANAGEMENT

responsibility for acting as our Compliance Adviser. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise our Company in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this document; and
- (iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the [REDACTED] and end on the date on which our Company distributes the annual report of its financial results for the second full financial year commencing after the [REDACTED] and such appointment may be subject to extension by mutual agreement.

Except for (i) Fortune Financial Capital’s role as the Sole Sponsor in relation to the [REDACTED]; (ii) the compliance adviser agreement entered into between our Company and Fortune Financial Capital; and (iii) the [REDACTED], Fortune Financial Capital does not have any other contractual arrangement with our Group as at the Latest Practicable Date.

BOARD COMMITTEES

Audit Committee

Our Company established the Audit Committee on [●] 2018 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise our financial reporting process and internal control and risk management system, nominate and monitor external auditors, provide advice and comments to the Board on matters related to corporate governance and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of three members, being Mr. Tse, Mr. Au Yeung and Hon Cheung. Mr. Tse currently serves as the chairman of the Audit Committee.

Remuneration Committee

Our Company established the Remuneration Committee on [●] 2018 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report

DIRECTORS AND SENIOR MANAGEMENT

as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are, among other things, to make recommendations to the Board on our Company’s policy for human resource management as well as establish and review policies and structure in relation to remuneration for our directors and senior management.

The Remuneration Committee consists of three members, being Mr. Au Yeung, Hon Cheung and Mr. Tse. Mr. Au Yeung currently serves as the chairman of the Remuneration Committee.

Nomination Committee

Our Company established the Nomination Committee on [●] 2018 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are, among other things, to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee consists of three members, being Hon Cheung, Mr. Au Yeung and Mr. Tse. Hon Cheung currently serves as the chairman of the Nomination Committee.

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company will comply with the Corporate Governance Code and the associated Listing Rules. In order to comply with the requirements under the Listing Rules, in particular, the Corporate Governance Code, we have adopted the following measures as at the Latest Practicable Date:

- (i) we have established the Audit Committee, Remuneration Committee and Nomination Committee on [●] with respective written terms of reference in accordance with the code provisions contained in the Corporate Governance Code. Further information is set out in “Board Committees” above;
- (ii) our Board has adopted the terms of reference with regard to corporate governance and a shareholders’ communication policy in accordance with the Corporate Governance Code.
- (iii) we will arrange appropriate insurance cover on our Directors’ liabilities in respect of legal actions against our Directors arising out of corporate activities before [REDACTED];
- (iv) we have appointed three independent non-executive Directors representing more than one-third of the Board and at least one of them has accounting expertise;
- (v) our Directors will operate in accordance with the Articles which require the interested Director not to vote or be vaunted in the quorum on any resolution of our Board approving any contract or arrangement or other proposal in which he/ she or any of his/her associates is materially interested;

DIRECTORS AND SENIOR MANAGEMENT

- (vi) our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our cost;
- (vii) our Company has adopted a comprehensive compliance manual covering legal and regulatory compliance with reference to the Corporate Governance Code;
- (viii) our Company will consider engaging an independent internal control consultant to perform regular review on corporate governance to ensure on-going compliance after [REDACTED]; and
- (ix) our Directors will attend professional development seminar including but not limited to the corporate governance to ensure on-going compliance after [REDACTED].

Our Company is expected to comply with the Corporate Governance Code which sets out the principles of good corporate governance in relation to, among others, our Directors, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Board will review our Company’s policies and practices on corporate governance from time to time. Our Company will state in our interim and annual reports whether we have complied with the Corporate Governance Code, and will provide details of, and reasons for, any deviations from it in the corporate governance report which will be included in our annual reports.

REMUNERATIONS OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors receive, in their capacity as our employees, compensation in the form of salaries, bonus, other allowances and benefits in kind, including our contribution to the pension scheme for our executive Directors, in their capacity as employees, according to the laws of the relevant jurisdiction.

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to our Directors for the three years ended 31 March 2018 was approximately HK\$189,000, HK\$189,000 and HK\$425,000, respectively.

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to the above senior management of our Group for each of the three years ended 31 March 2018 was approximately HK\$0.7 million, HK\$0.7 million and HK\$2.1 million, respectively.

The aggregate amount of contributions to retirement benefits scheme paid by our Group to our Directors for the three years ended 31 March 2018 was approximately HK\$9,000, HK\$9,000 and HK\$20,000, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Our Company’s policy concerning the remuneration of our Directors is that the amount of remuneration is determined by reference to the relevant Director’s experience, responsibilities, workload, performance and the time devoted to our Group. For further details of the remuneration of our Directors, see “Statutory and General Information — C. Further information about substantial Shareholders, Directors and experts — 3. Remuneration of Directors”.

The emoluments paid to our Group’s five highest paid individuals (including Directors) in aggregate for the three years ended 31 March 2018 was approximately HK\$2.1 million, HK\$2.3 million and HK\$2.7 million, respectively. During the Track Record Period, no emolument was paid by our Group to any of our Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining our Group or as compensation for loss of office. None of our Directors has waived any emoluments during the Track Record Period.

Except as disclosed above, no other payments of remuneration have been made, or are payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on Directors’ remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to note 6 in the Accountants’ Report set out in Appendix I to this document.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted pursuant to the written resolutions of our Shareholders passed on [●]. The purpose of the Share Option Scheme is to enable our Company to grant options to selected participants as incentives or rewards for their contribution to it. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. This will be in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations. For further details of the Share Option Scheme, see “Statutory and General Information — D. Share Option Scheme”.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following completion of the [REDACTED] and [REDACTED] (without taking into account any Shares that may be issued upon the exercise of the [REDACTED] or the exercise of options to be granted under the Share Option Scheme), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group or any other members of our Group:

Long position in the Shares

Name of Shareholder	Capacity/ Nature of interest	Number of fully paid Shares held/ interested as at the date of this Application Proof	Percentage of shareholding as at the date of the Application Proof	Number of Shares held/ interested immediately following completion of the [REDACTED] and [REDACTED]	Percentage of shareholding immediately following the completion of the [REDACTED] and [REDACTED]
Mr. PS Lee (<i>Note 1</i>)	Interest in controlled corporation/ Interest of spouse	100	100%	[REDACTED]	[REDACTED]%
Ms. LC Lau (<i>Note 2</i>)	Interest in controlled corporation/ Interest of spouse	100	100%	[REDACTED]	[REDACTED]%
HY Steel	Beneficial owner	100	100%	[REDACTED]	[REDACTED]%

Notes:

- Mr. PS Lee beneficially owns 70% of the issued share capital of HY Steel. Mr. PS Lee is the spouse of Ms. LC Lau and is deemed to be interested in 30% of the issued share capital of HY Steel. Therefore, Mr. PS Lee is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Mr. PS Lee is also a director of HY Steel.
- Ms. LC Lau beneficially owns 30% of the issued share capital of HY Steel. Ms. LC Lau is the spouse of Mr. PS Lee and is deemed to be interested in 70% of the issued share capital of HY Steel. Therefore, Ms. LC Lau is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Ms. LC Lau is also a director of HY Steel.

SUBSTANTIAL SHAREHOLDERS

All interests stated are long positions.

Save as disclosed herein, our Directors are not aware of any person (who are not Directors or chief executive of our Company) who will, immediately following completion of the [REDACTED] and [REDACTED] (without taking into account any Shares which may be issued upon the exercise of [REDACTED] or the exercise of options to be granted under the Share Option Scheme), have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than our Company.

SHARE CAPITAL

SHARE CAPITAL

The share capital of our Company immediately following completion of the [REDACTED] and the [REDACTED] is set out in the table below. The table is prepared on the basis of the [REDACTED] becoming unconditional and the Shares are issued pursuant thereto is made as described herein. It takes no account of any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

<i>Authorised share capital</i>	<i>HK\$</i>
[3,800,000,000] Shares of HK\$0.01 each	[38,000,000]

Issued and to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and [REDACTED] (assuming the [REDACTED] is not exercised):

100 Shares in issue as at the date of this document	1
[REDACTED] Shares to be issued pursuant to the [REDACTED]	[REDACTED]
<u>[REDACTED]</u> Shares to be issued pursuant to the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u> Total	<u>[REDACTED]</u>

Issued or to be issued, fully paid or credited as fully paid upon completion of the [REDACTED] and [REDACTED], assuming the [REDACTED] is exercised in full:

	<i>HK\$</i>
100 Shares in issue as the date of this document	1
[REDACTED] Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED] Shares to be issued under the [REDACTED]	[REDACTED]
[REDACTED] Shares to be issued upon the exercise of the [REDACTED] in full	[REDACTED]
<u>[REDACTED]</u> Total	<u>[REDACTED]</u>

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at least [REDACTED]% of the total issued share capital of our Company must at all times be held by the public. The [REDACTED] [REDACTED] represent [REDACTED]% of the issued share capital of our Company upon [REDACTED].

SHARE CAPITAL

RANKING

The [REDACTED] will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this document, and, in particular, will be entitled to all dividends or other distributions hereafter declared, made or paid on the Shares after the date of this document save for the entitlements under the [REDACTED].

[REDACTED]

Pursuant to the resolutions of our Shareholders passed on [●] 2018, subject to the share premium account of our Company being credited as a result of the [REDACTED], our Directors are authorised to allot and issue a total of [REDACTED] Shares credited as fully paid at par to the holder(s) of Shares on the register of members of our Company at the close of business on [●] 2018 (or as they may direct) in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of [REDACTED] of the sum of HK\$[REDACTED] standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on [●]. Details of the principal terms of the Share Option Scheme are summarised in “Statutory and General Information — D. Share Option Scheme”.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into the Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or such securities convertible into Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the [REDACTED] (not including Shares which may be issued upon the exercise of the [REDACTED] or the exercise of options to be granted under the Share Option Scheme); and
- (ii) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors referred to in “General mandate to repurchase Shares” below.

SHARE CAPITAL

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, see “Statutory and General Information — A. Further information about our Company — 3. Written resolutions of our existing Shareholders passed on [●]”.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be [REDACTED] on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following completion of the [REDACTED] (excluding Shares which may be issued upon the exercise of the [REDACTED] or the exercise of options to be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be [REDACTED] (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and General Information — A. Further information about Our Company — 6. Repurchase of our Shares by our Company”.

The general mandate to issue and repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders in general meeting,

SHARE CAPITAL

For further details of this general mandate, see “Statutory and General Information — A. Further information about Our Company — 3. Written resolutions of our existing Shareholders passed on [●]” and “Statutory and General Information — A. Further information about our Company — 6. Repurchase of our Shares by our Company”.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in “Summary of the Constitution of the Company and the Cayman Islands Companies Law”.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group’s audited consolidated financial information, including the notes thereto, as set forth in the Accountants’ Report in Appendix I to this document. The Accountants’ Report has been prepared in accordance with the HKFRSs. You should read the entire Accountants’ Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect of future events and financial performance.

These statements are based on assumptions and analyses made by our Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group’s expectations and projections depends on a number of risks and uncertainties over which our Group does not have control. For further information, See “Risk Factors”.

OVERVIEW

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

During the Track Record Period, our revenue represented income derived from (i) provision of steel and metal engineering services in Hong Kong and (ii) sales of steel and metal products. See “Business — Our projects — Projects on hand” for details of some of our projects.

Our Group has generated revenue of approximately HK\$122.7 million, HK\$161.5 million and HK\$199.2 million for the years ended 31 March 2016, 2017 and 2018, respectively. Such increase was mainly attributable to the increase in size of projects in terms of contract sum undertaken by us during the Track Record Period. Our net profit was approximately HK\$29.4 million, HK\$38.1 million and HK\$52.2 million for the corresponding period.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION AND FINANCIAL CONDITION

Market conditions and trends in the construction industry and in the overall economy

We carry out our projects principally in Hong Kong. The future growth and level of profitability of the construction industry in Hong Kong depend primarily upon the continued availability of construction projects. The nature, extent and timing of such projects will, however, be determined by the interplay of a variety of factors. These factors may affect the availability of construction projects from the public sector, private sector or institutional bodies. Apart from the public spending of the Hong Kong Government, other factors also affect the construction industry. These other factors include cyclical trends in the economy as a whole, fluctuations in interest rates and the availability of new projects in both public and private sectors.

Our success rate on project tendering

Our majority of revenue was generated from the provision of steel and metal engineering services, which accounted for approximately 78.3%, 64.0% and 70.6% of our revenue for the year ended 31 March 2016, 2017 and 2018, respectively. Our engineering services on steel and metal works for construction projects in Hong Kong are provided on contract basis and non-recurring in nature, and we secure these contracts through competitive tendering process. While some main-contractors may invite us for tender, whether we can successfully secure any tender still depends on our bid. Our future growth and success will then depend on our ability to secure contracts continuously. During the Track Record Period, our success rate was approximately 22.2%, 24.6% and 35.8% for the year ended 31 March 2016, 2017 and 2018, respectively, with the total number of projects remained very stable at 12, 15, 19 projects awarded for each of the period. Our results of operations will be adversely affected if we are unable to secure sufficient number and sizeable contracts in the future.

Government’s level of spending on public works

During the Track Record Period, approximately 74.3%, 62.5% and 66.8% of our Group’s revenue in provision of steel and metal engineering services was generated from the public sector. Public work projects are non-recurring in nature, and thus the level of Hong Kong Government’s spending budget may change from year to year. Accordingly, any change or significant delay in the level of spending on public works by the Hong Kong Government may affect the business and operation results of our Group. In the event that the Government reduces its level of spending on public works and our Group fails to secure business from other sectors, the business and profitability of our Group could be adversely affected.

Fluctuations in costs directly attributable to our projects

Our costs mainly include material costs and labour costs. They represent a significant portion of our direct costs. Major materials used include stainless steel, metals, galvanised coils and accessories which are generally sourced by our Group through suppliers in Hong Kong and the PRC. For the years ended 31 March 2016, 2017 and 2018, we incurred material costs of approximately HK\$44.9 million, HK\$65.4 million and HK\$67.8 million, representing approximately 54.4%, 60.8%, and 54.4%, of our

FINANCIAL INFORMATION

total direct costs, respectively. Any significant material price fluctuations that we may experience may cause fluctuations in our material costs. Any increase in our material costs may have a negative impact on our results of operations and financial condition if we are unable to factor in these potential fluctuations into each of our tenders or quotations and pass on a part or the whole of any additional costs to our customers or reduce other costs.

For the year ended 31 March 2016, 2017 and 2018, our direct labour costs amounted to approximately HK\$23.5 million, HK\$30.1 million and HK\$45.4 million, representing approximately 28.5%, 28.0%, and 36.3% of our total direct costs, respectively. According to the Frost & Sullivan Report, the average daily wage of metal workers in Hong Kong recorded a CAGR of approximately 6.5% and the average annual usage of employed persons in urban areas in manufacturing industry in the PRC recorded a CAGR of approximately 9.1% during the period between 2012 and 2017. Taken into account the increase in salary levels in keeping pace with the metal workers market in Hong Kong and the probable future economic conditions, the percentage change figures used in the sensitivity analysis in this section are commensurate with the historical changes in direct labour costs.

Pricing for our services including that under variation orders

We generally fix our service fee when we submit our tender or quotation. Once the tender or quotation is agreed with our customers, we can only adjust our service fee in certain circumstances as stipulated in the contracts, such as customers request for additional services or changes in specifications under variation orders. If the work relating to the variation order is of similar conditions and does not substantially change its work quantity, same rates as the original contract are applied for such work. Otherwise, if it involves an increase in the scope of work, or where the work is not the same, or not of similar nature to any work under the contract, such work is valued at fair rates. Under all circumstances, the final fee for the variation orders is determined upon negotiations with our customers in accordance with our contract terms.

Revenue for variation orders is then recognised based on the percentage of completion and the mutually agreed certified amount of work done indicated in the payment certificate with progress billing. Variation orders may require additional material purchases or extra costs, which lead to our negotiations with our suppliers. During our preparation of tender or quotation and before accepting a variation order, our management prepares a cost budget based on the quotations from our suppliers. During the process of cost budget preparation, our management has been cautious in selecting our suppliers to ensure the cost budget matches the quotation or cost of the variation order, thereby arriving at the desired profit margin. Our management also reviews the cost budget and compares it with the actual amount incurred.

BASIS OF PREPARATION AND PRESENTATION

Throughout the Track Record Period, Mr. PS Lee and Ms. LC Lau collectively controlled 100% equity interests in Hang Yick. Our Group was under the control of Mr. PS Lee and Ms. LC Lau prior to and after the Reorganisation. Our Group comprising our Company and our subsidiaries resulting from the Reorganisation is regarded as a continuing entity. See “History, Reorganisation and

FINANCIAL INFORMATION

Corporate Structure” for details. Accordingly, for the purpose of preparation of the financial information of our Group, our Company has been considered as the holding company of the companies now comprising our Group throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. The financial information of our Group has been prepared using the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting For Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period. The consolidated statements of financial position of our Group as at 31 March 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

The financial information is presented in Hong Kong dollars, which is also the functional currency of our Company and its subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared on the historical cost basis and in accordance with the accounting policies which conform to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, and also complies with the applicable requirements of the Companies Ordinance and the applicable disclosure requirement of the Listing Rules. The significant accounting policies adopted by our Group are set forth in note 3 of the Accountants’ Report in Appendix I to this document.

Revenue recognition

For details of our accounting policies regarding revenue recognition, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Revenue recognition” in Appendix I to this document.

Property, plant and equipment

For details of our accounting policies regarding property, plant and equipment, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Property, plant and equipment” in Appendix I to this document.

Inventories

For details of our accounting policies regarding inventories, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Inventories” in Appendix I to this document.

FINANCIAL INFORMATION

Impairment of financial assets

For details of our accounting policies regarding impairment of financial assets, please refer to the section headed “Accountants’ Report - Notes to the Historical Financial Information - 3. Significant accounting policies - Financial instruments — Financial assets — Impairment of financial assets” in Appendix I to this document.

Other significant accounting policies, estimates and judgements

Please refer to note 3 of the Accountants’ Report in Appendix I to this document for other significant accounting policies and estimates applied in preparation of our consolidated financial information.

SUMMARY OF RESULTS OF OPERATION

The following financial information summarises our financial results for the Track Record Period which is extracted from the Accountants’ Report in Appendix I to this document:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	122,698	161,483	199,199
Direct costs	<u>(82,606)</u>	<u>(107,712)</u>	<u>(124,840)</u>
Gross profit	40,092	53,771	74,359
Other income and other gains and losses	720	524	7,784
Administrative expenses	(5,265)	(7,675)	(13,091)
Finance costs	(116)	(132)	(121)
[REDACTED]	<u>—</u>	<u>—</u>	<u>[REDACTED]</u>
Profit before taxation	35,431	46,488	62,534
Income tax expense	<u>(6,025)</u>	<u>(8,395)</u>	<u>(10,310)</u>
Profit for the year	29,406	38,093	52,224
Other comprehensive income (expense) for the year			
Item that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of foreign operation	<u>250</u>	<u>(293)</u>	<u>429</u>
Total comprehensive income for the year	<u><u>29,656</u></u>	<u><u>37,800</u></u>	<u><u>52,653</u></u>

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN LINE ITEMS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

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

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

	Year ended 31 March					
	2016		2017		2018	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Provision of steel and metal engineering services						
- Public sector ⁽¹⁾	91,230	74.3	100,944	62.5	133,129	66.8
- Private sector ⁽²⁾	<u>4,900</u>	<u>4.0</u>	<u>2,347</u>	<u>1.5</u>	<u>7,491</u>	<u>3.8</u>
	<u>96,130</u>	<u>78.3</u>	<u>103,291</u>	<u>64.0</u>	<u>140,620</u>	<u>70.6</u>
Sales of steel and metal products						
- Standardised collapsible gates	5,240	4.3	34,022	21.1	42,821	21.5
- Other steel and metal products	<u>21,328</u>	<u>17.4</u>	<u>24,170</u>	<u>15.0</u>	<u>15,758</u>	<u>7.9</u>
	<u>26,568</u>	<u>21.7</u>	<u>58,192</u>	<u>36.0</u>	<u>58,579</u>	<u>29.4</u>
	<u><u>122,698</u></u>	<u><u>100.0</u></u>	<u><u>161,483</u></u>	<u><u>100.0</u></u>	<u><u>199,199</u></u>	<u><u>100.0</u></u>

Notes:

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

Provision of steel and metal engineering services

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

FINANCIAL INFORMATION

Sales of steel and metal products

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

Direct costs

Our direct costs mainly represents direct material costs, installation service fees, direct labour costs and other costs.

Table belows sets out our direct costs breakdown by nature for the years indicated:

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

Direct material costs

Direct material costs includes expenses relating to our purchases of raw materials, such as stainless steel, metal, galvanised coils and other accessories which were sourced in Hong Kong and the PRC. Our direct material costs amounted to approximately HK\$44.9 million, HK\$65.4 million and HK\$67.8 million, representing approximately 54.4%, 60.8% and 54.4% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively.

Direct labour costs

Direct labour costs represents salaries and related costs for our site workers and production workers and project managers who are directly involved in the provision of engineering services. Direct labour costs amounted to approximately HK\$23.5 million, HK\$30.1 million and HK\$45.4 million, representing approximately 28.5%, 28.0% and 36.3% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively. Due to increasing size of projects in terms of contract sum during the Track Record Period, we had deployed more labour resources to carry out project works and project management.

FINANCIAL INFORMATION

Installation service fees

Installation service fees represents the costs charged by our service providers engaged for the installation of steel and metal products at our construction projects in the private sector. Our installation service fees amounted to approximately HK\$4.6 million, HK\$3.5 million and HK\$3.0 million, representing approximately 5.6%, 3.2% and 2.4% of our direct costs for the years ended 31 March 2016, 2017 and 2018, respectively.

Other costs

Other costs mainly consists of manufacturing overheads, including depreciation of plant and machinery, utility expenses, other miscellaneous production costs and transportation costs. The amounts in aggregate were approximately HK\$9.5 million, HK\$8.6 million and HK\$8.6 million, representing approximately 11.5%, 8.0% and 6.9% for the years ended 31 March 2016, 2017 and 2018, respectively.

Sensitivity analysis

For both the provision of steel and metal engineering services and the sales of steel and metal products, our pricing is usually determined based on cost-plus basis. Accordingly, any fluctuation in direct material costs, direct labour costs and installation service fees, could generally shift to our customers. Fluctuations are hypothetically assumed to range between 10.0% and 40.0% for each of the years ended 31 March 2018, which corresponds to the range of historical price fluctuations of the major items in our direct costs during the Track Record Period.

Below table illustrates the sensitivity analysis of the estimated increase/(decrease) of our gross profit in relation to general percentage changes to direct material costs with all variables being constant.

	Impact on gross profit for the year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct material costs			
Increase/(decrease) by:			
40%	(17,976)	(26,173)	(27,140)
30%	(13,482)	(19,630)	(20,355)
20%	(8,988)	(13,087)	(13,570)
10%	(4,494)	(6,534)	(6,785)
(10%)	4,494	6,534	6,785
(20%)	8,988	13,087	13,570
(30%)	13,482	19,630	20,355
(40%)	17,976	26,173	27,140

FINANCIAL INFORMATION

Below table illustrates the sensitivity analysis of the estimated increase/(decrease) of our gross profit in relation to general percentage changes to direct labour costs with all other variables being constant.

	Impact on gross profit for the year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct labour costs			
Increase/(decrease) by:			
40%	(9,407)	(12,054)	(18,149)
30%	(7,055)	(9,041)	(13,612)
20%	(4,704)	(6,027)	(9,075)
(20%)	4,704	6,027	9,075
(30%)	7,055	9,041	13,612
(40%)	9,407	12,054	18,149

Below table illustrates the sensitivity analysis of the estimated increase/(decrease) of our gross profit in relation to general percentage changes to installation service fees with all other variables being constant.

	Impact on gross profit for the year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Installation service fees			
Increase/(decrease) by:			
20%	(923)	(701)	(604)
10%	(462)	(350)	(302)
(10%)	462	350	302
(20%)	923	701	604

FINANCIAL INFORMATION

Gross profit and gross profit margin

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

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

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

Our gross profit for the provision of steel and metal engineering services amounted to approximately HK\$32.6 million, HK\$37.7 million and HK\$57.1 million for the years ended 31 March 2016, 2017 and 2018, respectively, and our gross profit margin was approximately 33.9%, 36.5% and 40.6% for the years ended 31 March 2016, 2017 and 2018, respectively. The increase in gross profit margin from 33.9% for the year ended 31 March 2016 to 36.5% for the year ended 31 March 2017 was due to higher gross profit margins achieved in two projects, namely supply and installation of metal gates for public rental housing development project in Tung Chung with contract sum of approximately HK\$47.0 million and a design, supply and installation of metal gates for public rental housing development project in Kwun Tong with contract sum of approximately HK\$27.1 million, whereas the increase in gross profit margin from 36.5% for the year ended 31 March 2017 to 40.6% for the year ended 31 March 2018 was attributable to supply and installation of metal gate for public rental housing development project in Tung Chung with contract sum of approximately HK\$65.0 million. Such increase was attributable to (i) the abovementioned development projects which required higher capacity, and therefore setting a high entry barrier for smaller scale subcontractors to participate in tender, thus we had higher bargaining power to secure a better price margin in tendering process; and (ii) the increase in gross profit due to a result of better allocation of resources we achieved in larger scale projects.

FINANCIAL INFORMATION

Our gross profit for the sales of steel and metal products amounted to approximately HK\$7.5 million, HK\$16.1 million and HK\$17.3 million for the years ended 31 March 2016, 2017 and 2018, respectively, and our gross profit margin for the sales of steel and metal products was approximately 28.2%, 27.6% and 29.5% for the years ended 31 March 2016, 2017 and 2018, respectively. As our customers normally require mass production for the standardised collapsible gates which requires less modification to the production procedures as compared to other steel and metal products, a lower gross profit margin for our standardised collapsible gates was charged when compared to the gross profit margin for the other steel and metal products.

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

Other income and other gains and losses

Our other income and other gains and losses mainly consists of rental income from investment properties, gain on disposal of property, plant and equipment, gain on disposal of investment properties and sales of scrap materials, and accounted for approximately HK\$0.7 million, HK\$0.5 million and HK\$7.8 million for the years ended 31 March 2016, 2017 and 2018, respectively.

FINANCIAL INFORMATION

The following table sets out the breakdown of our other income for the years indicated:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income			
Interest income from bank deposits	1	4	10
Rental income from investment properties	376	341	395
Sales of scrap materials	209	127	771
Others	47	11	161
	<u>633</u>	<u>483</u>	<u>1,337</u>
Other gains and losses			
Net exchange (losses) gains	(5)	(7)	77
Gain on disposal of property, plant and equipment	92	48	50
Gain on disposal of investment properties	—	—	6,320
	<u>87</u>	<u>41</u>	<u>6,447</u>
	<u><u>720</u></u>	<u><u>524</u></u>	<u><u>7,784</u></u>

Administrative expenses

Our administrative expenses primarily consists of staff cost, transportation costs, depreciation expenses, legal and professional fee, insurance expenses, office administrative and other expenses. The following table sets out the breakdown of administrative expenses by nature for the years indicated:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff cost	1,942	2,642	5,538
Transportation	903	1,081	1,920
Depreciation	806	1,103	1,254
Legal and professional fee	128	980	1,107
Insurance	188	332	324
Office administrative and others	1,298	1,537	2,948
	<u>5,265</u>	<u>7,675</u>	<u>13,091</u>

FINANCIAL INFORMATION

Staff cost represents compensation and benefits payable to the directors and administrative staff of our Group. Transportation costs comprises mainly fuel charges, toll fees and vehicle parking fees. Legal and professional fee represents fees for certain professional services, such as audit, internal control review and business contract review. Office administrative and other expenses represents expenses incurred for building management fee, repair and maintenance, insurance, telecommunication fees and sundry expenses.

Finance costs

Our finance costs represents interest expenses incurred from bank borrowings, and finance leases. Interest on finance leases was incurred for some of our motor vehicles that were acquired under hire purchase arrangements with financial institutions in Hong Kong with lease terms ranging from 24 to 36 months. Interest rates on finance leases were fixed at respective contract dates ranging from 2.0% to 2.5% per annum, 2.0% to 2.5% per annum and 2.0% to 2.3% per annum as at 31 March 2016, 2017 and 2018. The bank borrowings are at floating rate which carry interest at Hong Kong dollar prime rate minus 1.5% or 1.75% per annum.

Income tax expense

Our revenue during the Track Record Period was mainly derived in Hong Kong, and we are subject to profits tax in Hong Kong. Provision of Hong Kong profits tax was calculated at statutory tax rate of 16.5% on the estimated assessable profits of our subsidiaries in Hong Kong. The effective tax rates of our Group for each of the years ended 31 March 2016, 2017 and 2018 was approximately 17.0%, 18.1% and 16.5%, respectively.

Huizhou Hengyi, our operating subsidiary is incorporated in Huizhou, the PRC and is subject to Enterprise Income Tax in the PRC. Provision for Enterprise Income Tax was calculated at statutory tax rate of 25% on taxable profit.

Pursuant to the relevant applicable laws, rules and regulations of the Cayman Islands and the BVI, our Group and our intermediate subsidiary are not subject to any profits tax in the Cayman Islands and the BVI.

Tax re-filing

We had appointed a chief financial officer in July 2017 to oversee and closely monitor the accounting and financial matters of Hang Yick, and also to revisit the accounting policy and application of the relevant accounting principles in the financial statements of Hang Yick. During the review of financial statements of Hang Yick for the years ended 31 March 2015 and 2016, it was noted that there were accounting errors in the financial statements in prior years, particularly in respect of revenue and expenses recognition. To rectify these inadvertent accounting errors, Hang Yick appointed a new local accounting firm to perform the audit on Hang Yick’s financial statements for the year ended 31 March 2017 and to restate the financial statements for the years ended 31 March 2015 and 2016 (as comparative figures in the financial statements for the year ended 31 March 2017). Hang Yick further engaged an international accounting firm to act as its tax representatives to prepare and submit the revised tax computations for the years of assessment 2014/15 and 2015/16 (“**2017 Filings**”) so as

FINANCIAL INFORMATION

to inform the IRD voluntarily about the revised profits for these two years. The 2017 Filings were submitted to the IRD in November 2017. Subsequently, the IRD issued additional profits tax assessments to Hang Yick for the years of assessment 2014/15 and 2015/16 in accordance with the 2017 Filings and the additional tax demanded was settled before the payment due date.

According to the legal opinion from our Hong Kong legal counsel in relation to Inland Revenue Ordinance, Ms. Sabrina S.Y. Ho, the likelihood that the IRD to impose penalty actions on Hang Yick in respect of the 2017 Filings would be remote. As at the Latest Practicable Date, no penalty or surcharge was imposed on us in respect of the 2017 Filings.

Our Controlling Shareholders have agreed to indemnify our Group in respect of any further tax liability and/or the resulting penalty or surcharge as assessed by the IRD in relation to the tax undercharged for the years of assessment 2014/2015 and 2015/2016 for which our Group may be liable. For details in relation to the indemnity, see “E. Other information — 1. Tax and other indemnities” in Appendix IV to this document.

Our Group has engaged an independent internal control adviser to review our internal control systems and has taken the following remedial action and enhanced internal control measure in order to prevent re-occurrence of the incident in the future:

1. we have appointed a chief financial officer who are competent to review our Group’s account, and he is responsible to review the policy of revenue recognition of our Group, and also check and review all accounting entries of our Group;
2. internal training related to accounting knowledge and Hong Kong Financial Reporting Standards update will be provided to all accounting staff periodically; and
3. our Group has engaged an international accounting firm as its tax representative, who is responsible for handling all Hong Kong tax issues of our Group.

View of our Directors and the Sole Sponsor

Our Directors are of the view, and the Sole Sponsor concurs, that such accounting errors leading to the incorrect tax returns should not cast doubt or have material negative impact on the competence and integrity of our Directors under Rule 3.9 of the Listing Rules due to the following reasons:

1. Mr. PS Lee and Ms. LC Lau, being the directors of Hang Yick during the relevant period, and the other executive Director are not professional accountants with extensive and technical knowledge about the relevant accounting standards and had exercised reasonable care and diligence in handling the above matters by seeking professional advice from the local auditors;

FINANCIAL INFORMATION

2. our Directors had been responsive and had taken immediate remedial actions and our Group had refiled the revised tax computations with the IRD voluntarily and will duly settle the reassessed income tax balance in accordance with the requirement of the IRD;
3. the accounting errors did not involve any dishonesty or fraudulent act of our Directors; and
4. our Directors’ commitment to implement remedial action and enhanced internal control measure demonstrates that their integrity is not at risk.

Year-to-year comparison of results of operations

Year ended 31 March 2018 compared to year ended 31 March 2017

Revenue

Our revenue increased by approximately HK\$37.7 million, or 23.3%, from approximately HK\$161.5 million for the year ended 31 March 2017 to approximately HK\$199.2 million for the year ended 31 March 2018.

Revenue from the provision of steel and metal engineering services increased by approximately HK\$37.3 million, or 36.1%, from approximately HK\$103.3 million for the year ended 31 March 2017 to approximately HK\$140.6 million for the year ended 31 March 2018. The increase in revenue was primarily due to the increase in size of projects in terms of contract sum.

Revenue from the sales of steel and metal products remained relatively stable at approximately HK\$58.2 million for the year ended 31 March 2017 and HK\$58.6 million for the year ended 31 March 2018. There was a shift of product mix to increase in the number of standardised collapsible gates sold as a result of the policy implemented by the Hong Kong Housing Authority.

Direct costs

Our direct costs increased by approximately HK\$17.1 million, or 15.9%, from approximately HK\$107.7 million for the year ended 31 March 2017 to approximately HK\$124.8 million for the year ended 31 March 2018. The increase was primarily attributable to the increase in direct material costs and direct labour costs, which was generally in line with the increase in revenue.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$20.6 million, or 38.3%, from approximately HK\$53.8 million for the year ended 31 March 2017 to approximately HK\$74.4 million for the year ended 31 March 2018. The increase in gross profit margin from approximately 33.3% for 31 March 2017 to approximately 37.3% for 31 March 2018 was primarily due to (i) supply and installation of

FINANCIAL INFORMATION

metal gates for public rental housing development project in Tung Chung with contract sum of approximately HK\$65.0 million which required a higher requirement of capacity which limited smaller scale subcontractors to participate in tendering, thus we had higher bargaining power to secure a better price margin in tendering process; and (ii) better cost control in mass production of our standardised collapsible gates.

Other income and other gains and losses

Our Group recorded other income and other gains and losses of approximately HK\$0.5 million for the year ended 31 March 2017 and approximately HK\$7.8 million for the year ended 31 March 2018. Such increase was mainly attributable to a gain on disposal of investment properties of approximately HK\$6.3 million for the year ended 31 March 2018. For further details, see “Analysis of various items from the statements of financial position — Investment properties” in this section.

Administrative expenses

Our administrative expenses increased by approximately HK\$5.4 million, or 70.1%, from approximately HK\$7.7 million for the year ended 31 March 2017 to approximately HK\$13.1 million for the year ended 31 March 2018. The increase was primarily attributable to the increase in staff headcounts.

Finance costs

Our finance costs remained relatively stable at approximately HK\$0.1 million for both years ended 31 March 2017 and 2018.

[REDACTED]

Our [REDACTED] of approximately HK\$[REDACTED] was incurred in relation to the [REDACTED] for the year ended 31 March 2018.

Income tax expense

Our income tax expense increased by approximately HK\$1.9 million, or 22.6%, from approximately HK\$8.4 million for the year ended 31 March 2017 to approximately HK\$10.3 million for the year ended 31 March 2018, which was generally in line with the increase in our profit before taxation. The effective tax rates for the year ended 31 March 2017 and 2018 was 18.1% and 16.5%, respectively.

Profit for the year

Our profit for the year increased by approximately HK\$14.1 million, or 37.0%, from approximately HK\$38.1 million for the year ended 31 March 2017 to approximately HK\$52.2 million for the year ended 31 March 2018. Such increase was mainly attributable to (i) the increase in our gross profit; (ii) a gain on disposal of investment properties; and (iii) partially offset by the incurrence of [REDACTED].

FINANCIAL INFORMATION

Year ended 31 March 2017 compared to year ended 31 March 2016

Revenue

Our Group's revenue increased by approximately HK\$38.8 million, or 31.6%, from approximately HK\$122.7 million for the year ended 31 March 2016 to approximately HK\$161.5 million for the year ended 31 March 2017.

Revenue from the provision of steel and metal engineering services increased slightly by approximately HK\$7.2 million or 7.5%, from approximately HK\$96.1 million for the year ended 31 March 2016 to approximately HK\$103.3 million for the year ended 31 March 2017. The increase in revenue was primary due to the increase in the size of projects in terms of contract sum.

Revenue from the sales of steel and metal products increased by approximately HK\$31.6 million or 118.8%, from approximately HK\$26.6 million for the year ended 31 March 2016 to approximately HK\$58.2 million for the year ended 31 March 2017. The increase was primarily driven by the revenue of our standardised collapsible gates as a result of policy implemented by the Hong Kong Housing Authority.

Direct costs

Our direct costs increased by approximately HK\$25.1 million, or 30.4%, from approximately HK\$82.6 million for the year ended 31 March 2016 to approximately HK\$107.7 million for the year ended 31 March 2017. The increase was generally in line with the increase in revenue.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$13.7 million or 34.2%, from approximately HK\$40.1 million for the year ended 31 March 2016 to approximately HK\$53.8 million for the year ended 31 March 2017. The increase in gross profit margin from approximately 32.7% for 31 March 2016 to approximately 33.3% for 31 March 2017 due to lower gross margin for our standardised collapsible gates was charged when compared to our steel and metal products.

Other income and other gains and losses

Our other income and other gains and losses remained relatively stable at HK\$0.7 million and HK\$0.5 million for the year ended 31 March 2016 and 2017, respectively.

Administrative expenses

Our administrative expenses increased by approximately HK\$2.4 million, or 45.3%, from approximately HK\$5.3 million for the year ended 31 March 2016 to approximately HK\$7.7 million for the year ended 31 March 2017. Such increase was mainly due to (i) general legal and consultancy fees to supporting business operation; (ii) the increase in staff costs due to a discretionary bonus payment to our staff.

FINANCIAL INFORMATION

Finance costs

Our finance costs remained relatively stable at HK\$0.1 million for the years ended 31 March 2016 and 2017.

Income tax expense

Our income tax expense increased by HK\$2.4 million, or 40.0%, from HK\$6.0 million for the year ended 31 March 2016 to HK\$8.4 million for the year ended 31 March 2017, which was generally in line with the increase in our profit before taxation. The effective tax rates for the year ended 31 March 2016 and 2017 was approximately 17.0% and 18.1%, respectively.

Profit for the year

Our profit for the year increased by approximately HK\$8.7 million, or 29.6%, from approximately HK\$29.4 million for the year ended 31 March 2016 to approximately HK\$38.1 million for the year ended 31 March 2017. Such increase was mainly attributable to the increase in our gross profit for the year.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash is to pay for our purchases of raw materials for production, staff costs and purchase of equipment, and to fund our working capital and other operating expenses. We have historically financed our operations primarily through cash flow from our operating activities.

We expect that there will not be any material change in the sources and uses of the cash of our Group upon completion of the [REDACTED] and in the future, except that we will have additional funds from the [REDACTED] of the [REDACTED] for implementing our future plans as detailed in “Future Plans and [REDACTED]”.

FINANCIAL INFORMATION

Cash flows

The following table sets forth a summary of our cash flow from our consolidated statements of cash flows for the years indicated:

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

Net cash from operating activities

Our cash inflow from operating activities is principally derived from the provision of steel and metal engineering services and sales of steel and metal products. Our cash outflow from operating activities comprises mainly direct costs, administrative expenses and [REDACTED]. During the Track Record Period, our net cash generated from operating activities represented profit before taxation for the year adjusted for depreciation on property, plant and equipment, depreciation on investment properties, amortisation of prepaid lease payments, finance costs, bank interest income, gain on disposal of property, plant and equipment and gain on disposal of investment properties and changes in working capital.

For the year ended 31 March 2018, we had net cash from operating activities of approximately HK\$60.4 million, primarily attributable to (i) profit before taxation of approximately HK\$62.5 million, as adjusted to reflect non-cash item which principally included depreciation of property, plant and equipment of approximately HK\$2.7 million and gain on disposal of investment properties of approximately HK\$6.3 million; (ii) the decrease in trade receivables of approximately HK\$9.4 million due to prompt settlement of payments from our customers; (iii) the decrease in inventories of approximately HK\$9.6 million due to better inventory level management; (iv) the settlement of amounts due from related companies of approximately HK\$9.6 million; and offset by (v) the increase in retention receivables of approximately HK\$1.9 million, (vi) the increase in other receivables, deposits and prepayments of approximately HK\$2.4 million; and (vii) the decrease in trade and other payables and accruals of approximately HK\$3.8 million due to the increased purchase of galvanised coils from one of our top five suppliers in the first quarter of 2017.

FINANCIAL INFORMATION

For the year ended 31 March 2017, our net cash from operating activities amounted to approximately HK\$39.0 million, primarily attributable to (i) profit before taxation of approximately HK\$46.5 million, as adjusted to reflect depreciation on property, plant and equipment of approximately HK\$2.0 million; (ii) the decrease in contract assets of approximately HK\$1.2 million; (iii) the increase in trade and other payables and accruals of approximately HK\$10.1 million due to the increased purchase of galvanised coils from one of our top five suppliers in the first quarter of 2017; and offset by (iv) the increase in trade and other receivables of approximately HK\$7.1 million due to significant progress made and works certified by our customer for a public rental housing project in Tuen Mun before year end; (v) the increase in inventories of approximately HK\$7.7 million due to the purchase of galvanised coils to cope with the increase in sales orders which was then delivered during April to June 2017; and (vi) the increase in amount due from related companies of approximately HK\$2.3 million.

For the year ended 31 March 2016, our net cash from operating activities amounted to approximately HK\$12.2 million, primarily attributable to (i) profit before taxation of approximately HK\$35.4 million, as adjusted to reflect depreciation on property, plant and equipment of approximately HK\$1.9 million; and offset by (ii) the increase in trade and other receivables of approximately HK\$9.6 million; (iii) the increase in contract assets of approximately HK\$6.6 million; and (iv) the increase in amount due from related companies of approximately HK\$3.6 million.

Net cash (used in) from investing activities

Our cash outflow for investing activities was purchase of property, plant and equipment. Our cash inflow from investing activities was principally derived from the disposal of investment properties.

For the year ended 31 March 2018, our net cash from investing activities amounted to approximately HK\$7.4 million, which was mainly attributable to the disposal of a residential property and a car park space to a connected person at a cash consideration of HK\$10.6 million.

For the year ended 31 March 2017, our net cash used in investing activities was approximately HK\$1.1 million, which was mainly attributable to the purchase of property, plant and equipment of approximately HK\$1.3 million.

For the year ended 31 March 2016, our net cash used in investing activities was approximately HK\$2.9 million, which was mainly attributable to the purchase of items of property, plant and equipment of approximately HK\$2.9 million.

FINANCIAL INFORMATION

Net cash used in financing activities

Our cash outflow for financing activities primarily consisted of repayments to Controlling Shareholders, repayments of bank borrowings and obligations under finance lease, and payment of dividend.

For the year ended 31 March 2018, our net cash used in financing activities amounted to approximately HK\$70.9 million. Cash outflow for financing activities included net repayment to Controlling Shareholders of approximately HK\$44.6 million, repayments of bank borrowings of approximately HK\$0.6 million, repayments of finance lease obligation of approximately HK\$1.3 million and payment of dividend of approximately HK\$24.0 million.

For the year ended 31 March 2017, our net cash used in financing activities was approximately HK\$31.7 million. Cash outflow for financing activities included net repayments to Controlling Shareholders of approximately HK\$6.4 million, repayments of bank borrowings of approximately HK\$0.6 million, repayments of obligations under finance lease of approximately HK\$0.6 million, payment of dividend of approximately HK\$24.0 million.

For the year ended 31 March 2016, our net cash used in financing activities amounted to approximately HK\$5.5 million. Cash outflow for financing activities mainly consisted of repayments of bank borrowings of approximately HK\$0.5 million; and net repayments to Controlling Shareholders of approximately HK\$4.6 million.

FINANCIAL INFORMATION

NET CURRENT ASSETS

The following table sets forth the breakdown of our Group’s current assets and liabilities as at 31 March 2016, 2017 and 2018:

	As at 31 March			As at
	2016	2017	2018	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Current assets				
Inventories	20,678	26,415	18,674	[●]
Prepaid lease payments	201	183	201	[●]
Trade receivables	20,579	27,178	17,850	[●]
Retention receivables	14,586	16,299	18,152	[●]
Other receivables, deposits and prepayments	1,449	1,759	4,333	[●]
Contract assets	9,230	8,036	8,938	[●]
Amounts due from related companies	7,292	9,603	—	[●]
Bank balances and cash	<u>25,384</u>	<u>31,387</u>	<u>28,603</u>	<u>[●]</u>
	99,399	120,860	96,751	[●]
Assets classified as held for sale	<u>—</u>	<u>—</u>	<u>3,410</u>	<u>[●]</u>
	<u>99,399</u>	<u>120,860</u>	<u>100,161</u>	<u>[●]</u>
Current liabilities				
Trade and other payables and accruals	5,157	14,916	11,658	[●]
Amount due to a related company	273	273	—	[●]
Amounts due to Controlling Shareholders	51,221	42,058	—	[●]
Tax payable	6,900	12,626	4,721	[●]
Obligations under finance leases	475	974	661	[●]
Bank borrowings	<u>2,497</u>	<u>1,936</u>	<u>1,357</u>	<u>[●]</u>
	<u>66,523</u>	<u>72,783</u>	<u>18,397</u>	<u>[●]</u>
Net current assets	<u>32,876</u>	<u>48,077</u>	<u>81,764</u>	<u>[●]</u>

Our net current assets increased by approximately HK\$15.2 million, or 46.2%, from approximately HK\$32.9 million as at 31 March 2016 to approximately HK\$48.1 million as at 31 March 2017. Such increase was attributable to the increase in inventories of approximately HK\$5.7 million, trade receivables of approximately HK\$6.6 million and bank balances and cash of

FINANCIAL INFORMATION

approximately HK\$6.0 million which was in line with the increase in revenue. Our net current assets increased by approximately HK\$33.7 million, or 70.1%, from HK\$48.1 million as at 31 March 2017 to HK\$81.8 million as at 31 March 2018. Such increase was primarily due to the increase in our net working capital resulting from the operating profits earned and partially in offset by dividends paid.

WORKING CAPITAL

Our Directors confirm that taking into account the financial resources available to our Group, including the internally generated funds and the estimated net [REDACTED] of the [REDACTED], we are of the opinion that our Group has sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this document.

ANALYSIS OF VARIOUS ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	11,460	11,420	13,153
Investment properties	8,208	7,943	—
Prepaid lease payments	<u>4,770</u>	<u>4,167</u>	<u>4,368</u>
	<u>24,438</u>	<u>23,530</u>	<u>17,521</u>
Current assets			
Inventories	20,678	26,415	18,674
Prepaid lease payments	201	183	201
Trade receivables	20,579	27,178	17,850
Retention receivables	14,586	16,299	18,152
Other receivables, deposits and prepayments	1,449	1,759	4,333
Contract assets	9,230	8,036	8,938
Amount due from related companies	7,292	9,603	—
Bank balances and cash	<u>25,384</u>	<u>31,387</u>	<u>28,603</u>
	99,399	120,860	96,751
Assets classified as held for sale	<u>—</u>	<u>—</u>	<u>3,410</u>
	<u>99,399</u>	<u>120,860</u>	<u>100,161</u>

FINANCIAL INFORMATION

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Trade and other payables and accruals	5,157	14,916	11,658
Amount due to a related company	273	273	—
Amounts due to Controlling Shareholders	51,221	42,058	—
Tax payable	6,900	12,626	4,721
Obligations under finance leases	475	974	661
Bank borrowings	<u>2,497</u>	<u>1,936</u>	<u>1,357</u>
	<u>66,523</u>	<u>72,783</u>	<u>18,397</u>
Net current assets	<u>32,876</u>	<u>48,077</u>	<u>81,764</u>
Total assets less current liabilities	<u>57,314</u>	<u>71,607</u>	<u>99,285</u>
Non-current liabilities			
Provisions	348	327	254
Deferred tax liabilities	232	358	122
Obligations under finance leases	<u>630</u>	<u>1,018</u>	<u>352</u>
	<u>1,210</u>	<u>1,703</u>	<u>728</u>
Net assets	<u><u>56,104</u></u>	<u><u>69,904</u></u>	<u><u>98,557</u></u>

Property, plant and equipment

Our property, plant and equipment comprises mainly buildings, plant and machinery and motor vehicles. We had property, plant and equipment of approximately HK\$11.5 million, HK\$11.4 million and HK\$13.2 million as at 31 March 2016, 2017 and 2018, respectively.

FINANCIAL INFORMATION

The following table sets forth the breakdown of our property, plant and equipment as at the respective dates indicated:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Buildings	5,841	4,845	4,784
Motor vehicles	1,557	2,659	1,950
Plant and machinery	4,018	3,891	6,320
Office equipment, furniture and fixtures	<u>44</u>	<u>25</u>	<u>99</u>
	<u>11,460</u>	<u>11,420</u>	<u>13,153</u>

Our property, plant and equipment remained relatively stable at approximately HK\$11.5 million as at 31 March 2016 and approximately HK\$11.4 million as at 31 March 2017.

Our property, plant and equipment increased from HK\$11.4 million as at 31 March 2017 to approximately HK\$13.2 million as at 31 March 2018 mainly due to the purchase of machinery of approximately HK\$2.9 million to cope with the increase in sales, offset by the provision of depreciation expenses.

See note 13 to the Accountants' Report in Appendix I to this document for details.

Investment properties and assets classified as held for sales

Our investment properties comprises mainly a residential property, a car park space and a commercial property. All investment properties are stated at costs less accumulated depreciation. The carrying amounts of our investments properties were approximately HK\$8.2 million, HK\$7.9 million and nil as at 31 March 2016, 2017 and 2018, respectively. Our Group did not hold any investment properties as at 31 March 2018 as (i) we sold the residential property and the car park space to Mr. Lee Ka Kit, a connected person of the Group during the year ended 31 March 2018 at a total cash consideration of approximately HK\$10.6 million, resulting in a gain on disposal of investment properties of approximately HK\$6.3 million recorded for the year ended 31 March 2018; and (ii) our Group entered into a provisional sales and purchase agreement with an independent third party for the disposal of the remaining commercial property at a cash consideration of approximately HK\$4.8 million in March 2018. The disposal is expected to be completed in May 2018, thus the carrying amount of the commercial property has been reclassified as assets held for sales as at 31 March 2018. See “Connected Transactions” for further details of the disposal.

FINANCIAL INFORMATION

Inventories

The following table sets forth the breakdown of our inventories as at the respective dates indicated:

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

Our inventories comprises raw materials, work-in-progress and finished goods. The net carrying amount of our inventories increased from approximately HK\$20.7 million as at 31 March 2016 to approximately HK\$26.4 million as at 31 March 2017. Such increase was primarily due to the purchase of galvanised coils amounted HK\$5.4 million to cope with increase in the sales orders which was then delivered during April to June 2017. The net carrying amount of our inventories decreased to approximately HK\$18.7 million as at 31 March 2018 which was attributable to better inventory level management.

The following table sets forth our average inventories turnover days for the periods indicated:

	Year ended 31 March		
	2016	2017	2018
Average turnover days of our inventories ⁽¹⁾	91.5	79.8	65.9

(1) Our inventories turnover days were calculated based on the average of the opening and closing inventory divided by total direct costs for the relevant years and multiplied by 365.

Our inventories turnover days for the year ended 31 March 2016, 2017 and 2018 was approximately 91.5 days, 79.8 days and 65.9 days, respectively. The decrease in inventories turnover days across the years was primarily due to better inventory level management.

As at 30 April 2018, approximately HK\$7.6 million, or 40.9%, of inventories as at 31 March 2018 had been subsequently used or sold.

Trade receivables

For the provision of steel and metal engineering services, our trade receivables are non-interest bearing and the normal credit terms granted by our Group are 30 days from the date of invoice on progress payments of contract works. We normally make application to our customers for progress

FINANCIAL INFORMATION

payment on a monthly basis with reference to the value of works done by us. A payment certificate is issued by the architects, surveyors or other representatives authorised by our customers to us upon completion of works. Upon issuance of such certificates, the progress revenue is billed to our customers and the progress revenue is accounted for as trade receivables.

For the sales of steel and metal products, except for certain major customers of which our Group grants a credit period of up to 60 days from the delivery of goods, our Group generally grants no credit terms to our other customers where they are expected to settle payment in full upon delivery of goods.

Our trade receivables increased from approximately HK\$20.6 million as at 31 March 2016 to approximately HK\$27.2 million as at 31 March 2017 mainly due to significant progress made and works certified by our customer for a public rental housing project in Tuen Mun before year end, then decreased to approximately HK\$17.9 million as at 31 March 2018 mainly due to prompt settlement of payments from our customers.

The following table illustrates the ageing analysis of our trade receivables based on invoice date as at the end of each period:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	15,043	19,666	15,407
31 to 60 days	1,078	3,624	543
61 to 90 days	1,940	1,237	325
Over 90 days	<u>2,518</u>	<u>2,651</u>	<u>1,575</u>
	<u><u>20,579</u></u>	<u><u>27,178</u></u>	<u><u>17,850</u></u>

We recorded trade receivables with aggregate carrying amount of approximately HK\$5.3 million, HK\$7.2 million and HK\$2.3 million as at 31 March 2016, 2017 and 2018, respectively, was past due but not considered to be impaired as there has not been a significant change in credit quality of trade receivables and the amounts are still considered recoverable.

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year ended 31 March		
	2016	2017	2018
Average turnover days of our trade receivables ⁽¹⁾	49.0	54.0	41.3

(1) Our trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by total revenue for the relevant years and multiplied by 365.

FINANCIAL INFORMATION

Our trade receivables turnover days increased from approximately 49.0 days for the year ended 31 March 2016 to approximately 54.0 days for the year ended 31 March 2017 due to a slower repayment from our top customer, of which approximately HK\$2.5 million out of approximately HK\$8.0 million receivables was past due. The entire amount of receivable was settled subsequently during the year ended 31 March 2017. It decreased to approximately 41.3 days for the year ended 31 March 2018 due to better credit control.

As at 30 April 2018, approximately HK\$9.6 million, or 53.6%, of our trade receivables as at 31 March 2018 were subsequently settled.

Retention receivables

Our retention receivables represents the monies withheld by customers of contract works and are unsecured, interest-free and recoverable after the completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from one to two years from the date of completion of respective engineering service projects.

Our retention receivables are to be settled, based on the expiring of the defect liability period, at the end of each reporting period as follows:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	2,192	5,310	5,355
After one year	<u>12,394</u>	<u>10,989</u>	<u>12,797</u>
	<u><u>14,586</u></u>	<u><u>16,299</u></u>	<u><u>18,152</u></u>

Other receivables, deposits and prepayments

The following table sets forth the breakdown of our other receivables, deposits and prepayments as at the respective dates indicated:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables	702	1,198	907
Deposits	152	59	443
Prepayments	595	502	851
Deferred [REDACTED]	<u>—</u>	<u>—</u>	<u>[REDACTED]</u>
	<u><u>1,449</u></u>	<u><u>1,759</u></u>	<u><u>4,333</u></u>

FINANCIAL INFORMATION

Our other receivables increased from approximately HK\$0.7 million as at 31 March 2016 to approximately HK\$1.2 million as at 31 March 2017 due to the increase in value-added tax refund receivables for export. Prepayments mainly represents payment in advance for purchase of raw materials to suppliers prepaid insurance expenses.

Contract assets

Our contract assets refers to our Group’s rights to considerations from customers for the provision of steel and metal engineering services, which arise when our Group completed the steel and metal work under such contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. Our contract assets was approximately HK\$9.2 million, HK\$8.0 million and HK\$8.9 million as at 31 March 2016, 2017 and 2018, respectively.

Trade and other payables and accruals

The following table sets out the breakdown of our trade and other payables and accruals as at the respective dates indicated:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	2,043	6,624	2,170
Accrued staff costs	2,188	5,328	5,709
Accrued [REDACTED]	—	—	[REDACTED]
Receipts in advance	109	926	676
Accruals and others	817	2,038	463
	<u>5,157</u>	<u>14,916</u>	<u>11,658</u>

Our trade payables mainly consists of payables for purchases of materials from suppliers and installation services provided by service providers.

Our trade payables increased from approximately HK\$2.0 million as at 31 March 2016 to approximately HK\$6.6 million as at 31 March 2017 and decreased to approximately HK\$2.2 million as at 31 March 2018. The increase as at 31 March 2017 was due to our purchase of galvanised coils from one of our top five suppliers in the first quarter of 2017.

FINANCIAL INFORMATION

The following table illustrates the ageing analysis of the trade payables based on invoice date as at the end of each period:

	As at 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	1,923	1,069	1,740
31 to 60 days	3	171	430
61 to 90 days	—	5,384	—
Over 90 days	117	—	—
	<u>2,043</u>	<u>6,624</u>	<u>2,170</u>

The following table sets forth our average trade payables turnover days for the periods indicated:

	Year ended 31 March		
	2016	2017	2018
Average turnover days of our trade payables ⁽¹⁾	9.0	14.7	12.9

(1) Our trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by total direct costs for the relevant years and multiplied by 365.

Our trade payables turnover days increased from 9.0 days for the year ended 31 March 2016 to approximately 14.7 days for the year ended 31 March 2017. Such increase was mainly attributable to the purchase of galvanised coils from one of our top five suppliers amounted to approximately HK\$5.4 million. Our trade payables turnover days remained relatively stable at approximately 12.9 days for the year ended 31 March 2018.

As at 30 April 2018, approximately HK\$0.3 million or 11.5%, of trade payables as at 31 March 2018 had been subsequently settled.

Accrued staff costs increased from approximately HK\$2.2 million as at 31 March 2016 to approximately HK\$5.3 million as at 31 March 2017, and further increased to approximately HK\$5.7 million as at 31 March 2018, which was in line with the increase in headcounts and salary increment.

Amounts due from/to related companies/Controlling Shareholders

As at 31 March 2016 and 2017, the amounts due from our related companies was approximately HK\$7.3 million and HK\$9.6 million, respectively. The amounts were trade in nature with no fixed credit period and were unsecured, non-interest bearing and repayable on demand. As at 31 March 2018, all the amounts due from our related companies were fully settled.

FINANCIAL INFORMATION

As at 31 March 2016 and 2017, the amount due to a related company was approximately HK\$0.3 million and HK\$0.3 million, respectively, and the amounts due to Controlling Shareholders was approximately HK\$51.2 million and HK\$42.1 million, respectively. The amounts are non-trade in nature, unsecured, interest-free and repayable on demand. As at 31 March 2018, the amounts were fully settled.

See note 20 of the Accountants’ Report in Appendix I to this document for details.

KEY FINANCIAL RATIOS

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

Notes:

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year end.
2. Interest coverage is calculated by the profit before interest and tax divided by the interest expenses for the respective year.
3. Gearing ratio is calculated based on the total interest-bearing debts divided by the total equity as at the respective year and multiplied by 100%.
4. Return on assets is calculated by the profit for the year divided by the total assets for the respective year and multiplied by 100.0%.
5. Return on equity is calculated by the profit attributable to owners of the Company for the year divided by the total equity for the respective year and multiplied by 100.0%.
6. Net profit margin is calculated by the profit attributable to owners of the Company divided by the revenue for the respective year and multiplied by 100.0%.

Current ratio

Our current ratio remained relatively stable at approximately 1.5 times and 1.7 times as at 31 March 2016 and 2017, respectively. Our current ratio increased to approximately 5.4 times as at 31 March 2018 mainly due to the increase in (i) our net working capital resulting from the operating profits earned, (ii) reclassification of investment properties to assets classified as held for sale, (iii) disposal of investment properties and partially offset by (iv) dividends payable.

FINANCIAL INFORMATION

Interest coverage

Our interest coverage was approximately 306.4 times, 353.2 times and 517.8 times for the year ended 31 March 2016, 2017 and 2018, respectively. Our interest coverage increased over the Track Record Period mainly due to the increase in our profit before interest and tax from approximately HK\$35.5 million for the year ended 31 March 2016 to approximately HK\$46.6 million for the year ended 31 March 2017 and to approximately HK\$62.7 million for the year ended 31 March 2018.

Gearing ratio

Our gearing ratio was approximately 6.4%, 5.6% and 2.4% as at 31 March 2016, 2017 and 2018, respectively. Our gearing ratio remained relatively stable as at 31 March 2016 and 2017 and decreased as at 31 March 2018 mainly due to the repayments of bank borrowings.

Return on assets

Our return on assets remained relatively stable at approximately 23.7% and 26.4% for the year ended 31 March 2016 and 2017, respectively. Our return on assets increased to approximately 44.4% for the year ended 31 March 2018 mainly due to increased net profits recorded for the year ended 31 March 2018.

Return on equity

Our return on equity remained relatively stable at approximately 52.4%, 54.5% and 53.0% for the year ended 31 March 2016, 2017 and 2018, respectively.

Net profit margin

Our net profit margin was approximately 24.0%, 23.6% and 26.2% for the year ended 31 March 2016, 2017 and 2018, respectively. Our net profit margin remained relatively stable for the years ended 31 March 2016 and 2017. Our relatively higher net profit margin for the year ended 31 March 2018 was due to the increase in gross profit margin which was discussed in the paragraph headed “Year-to-year comparison of results of operations” in this section.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditure

During the Track Record Period, our capital expenditures was approximately HK\$4.2 million, HK\$2.8 million and HK\$3.6 million for the years ended 31 March 2016, 2017 and 2018, respectively, which represented the additions of property, plant and equipment, mainly for motor vehicles and machinery.

FINANCIAL INFORMATION

Capital commitments

We had no capital commitments as at 31 March 2016, 2017 and 2018, respectively.

Operating lease commitments

See notes 28 and 34(b) of the Accountants’ Report in Appendix I to this document for further details.

We anticipate that funds needed to finance our capital expenditures will be financed by cash generated from our operations as well as net [REDACTED] from the [REDACTED].

INDEBTEDNESS

Bank borrowings and finance lease obligations

The following table sets forth our indebtedness as at 31 March 2016, 2017 and 2018 and [●]:

	As at 31 March			As at
	2016	2017	2018	[●] 2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
				<i>(unaudited)</i>
Amounts due to Controlling Shareholders	51,221	42,058	—	[●]
Bank borrowings - secured and guaranteed	2,497	1,936	1,357	[●]
Obligations under finance leases - secured and unguaranteed	<u>1,105</u>	<u>1,992</u>	<u>1,013</u>	<u>[●]</u>
	<u>54,823</u>	<u>45,986</u>	<u>2,370</u>	<u>[●]</u>

As at the close of business on 31 March 2018, being the latest practicable date for the purpose of the indebtedness statement in this document, our Group had the outstanding bank borrowings of approximately HK\$1.4 million, which were secured by personal guarantees from our Directors, Mr. PS Lee and Ms. LC Lau with limited amount and secured by (i) the Group’s property classified as held for sale with carrying amount of approximately HK\$3.4 million; and (ii) certain properties of Mr. PS Lee and Ms. LC Lau. Our Group had obligations under finance lease which were secured by the lessors’ charge over the Group’s leased assets. Such personal guarantee and securities from our Directors will be released by our Group upon or before the [REDACTED].

As at 31 March 2018, being the latest practicable date for the purpose of indebtedness statement, we had unutilised banking facilities of approximately HK\$8.5 million.

FINANCIAL INFORMATION

Contingent liabilities

As at the Latest Practicable Date, we were not involved in any legal proceedings pending or, to our knowledge, threatened against our Group which could have a material adverse effect on our business operations. Our Directors confirm that as at the Latest Practicable Date, we did not have any significant contingent liabilities.

Save for the aforesaid and apart from intra-group balances, as at the close of business on 31 March 2018, being the latest practicable date for the preparation of the indebtedness statement in this document, our Group did not have any other outstanding loan capital issued or authorised to be issued but unissued, any debt securities issued and outstanding or authorised to be issued but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

Our Directors confirm that all transactions with related parties described in note 34 of the Accountants' Report set out in Appendix I to this document were conducted in the ordinary and usual course of business and on normal commercial terms, which are considered fair and reasonable and in the interest of the Shareholders of our Company as a whole and that all non-trade balances with related parties have been settled. All guarantees and securities with related parties will be released before [REDACTED]. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.

After [REDACTED], the related party transactions to be continued will be (i) lease of Yau Tong Lease Premises with Controlling Shareholders; (ii) lease of Tai Kok Tsui Premises with Ms. LC Lau; and (iii) lease of PRC Premises with Huizhou Jiantai; while the related party transactions to be discontinued will be all sales of goods to related parties.

CAPITAL RISK AND FINANCIAL RISK MANAGEMENT

Please refer to notes 30 and 31 of the Accountants' Report in Appendix I to this document.

DIVIDEND AND DIVIDEND POLICY

Hang Yick declared dividends of nil, HK\$24.0 million and HK\$24.0 million during the year ended 31 March 2016, 2017 and 2018, respectively. All such dividends had been fully paid and we financed the payment of such dividends by internal resources. We plan to further declare and pay a special dividend of HK\$24.0 million prior to the [REDACTED].

FINANCIAL INFORMATION

Our Group currently does not have a dividend policy and may distribute dividends by way of cash or by other means that our Directors consider appropriate. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to the laws applicable to our Group. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, our Company had no reserves available for distribution to our Shareholders.

[REDACTED]

Our Directors estimate that the total estimated [REDACTED] in connection with the [REDACTED] are approximately HK\$[REDACTED], based on the mid-point of the [REDACTED] of HK\$[REDACTED] per [REDACTED] and assuming no [REDACTED] will be exercised, of which approximately HK\$[REDACTED] has been charged to our consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2018, and approximately HK\$[REDACTED] is expected to be further charged to our consolidated statement of profit or loss and other comprehensive income for the year ending 31 March 2019, and approximately HK\$[REDACTED] is expected to be accounted for as a deduction from equity upon the [REDACTED].

PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our Group’s assets in land or buildings.

FINANCIAL INFORMATION

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following is a statement of the unaudited [REDACTED] adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the [REDACTED] on the audited consolidated net tangible assets of the Group attributable to owners of our Company as of the [REDACTED] had taken place at 31 March 2018.

The unaudited [REDACTED] adjusted net tangible assets of our Group have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 or any future date following the [REDACTED].

Audited consolidated net tangible assets of the Group attributable to owners of our Company as at 31 March 2018 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net [REDACTED] [REDACTED] from the <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the owners of our Company as at 31 March 2018 <i>HK\$'000</i>	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to owners of our Company as of 31 March 2018 per Share <i>HK\$'000</i> <i>(Note 3)</i>
Based on the [REDACTED] of HK\$[REDACTED] per Share	98,557 [REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per Share	98,557 [REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 is extracted from the Accountants' Report set out in Appendix I to this document.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on [REDACTED] new Shares at the [REDACTED] of lower limit and upper limit of HK\$[REDACTED] and HK\$[REDACTED] per Share, respectively, after taken into account the estimated [REDACTED] fees and other related expenses incurred or to be incurred by the Group (excluding [REDACTED] which have been charged to profit or loss up to 31 March 2018) assuming that the [REDACTED] is not exercised. The calculation of such estimated net [REDACTED] does not take into account any Shares (i) which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.

FINANCIAL INFORMATION

- (3) The unaudited [REDACTED] adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 March 2018 per Share is calculated based on that [REDACTED] Shares in issue assuming that the [REDACTED] and the [REDACTED] had been completed on 31 March 2018 and assuming the [REDACTED] is not exercised. It does not take into account any Shares (i) which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.
- (4) No adjustment has been made to the unaudited [REDACTED] adjusted consolidated net tangible assets of our Group attributable to owners of our Company to reflect any trading results or other transactions of our Group entered into subsequent to 31 March 2018.
- [(5) Assuming the dividends of HK\$[24,000,000] declared on [DATE] had been taken into account, the unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to owners of the Company would have been HK\$[REDACTED] and HK\$[REDACTED], whereas the unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share would have been HK\$[REDACTED] and HK\$[REDACTED], at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share, respectively. Such calculation is based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and the [REDACTED], taking into consideration the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2018 of HK\$98,557,000 adjusted for (i) the estimated net [REDACTED] from the [REDACTED], and (ii) the declaration of dividends of HK\$[24,000,000].]

DISCLOSURE UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial, operation or trading position since 31 March 2018, being the end of the period reported in the Accountants' Report in Appendix I to this document.

RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 37 on-going construction contracts (including contracts in progress and contracts which are yet to commence) with an aggregate contract sum of approximately HK\$389.8 million, including one contract with contract sum of approximately HK\$35.1 million awarded after the Track Record Period. See “Business — Our projects — On-going projects” for details of our on-going projects (with contract sum of more than HK\$10.0 million).

Furthermore, we have submitted 17 tenders for provision of steel and metal engineering services with an estimated contract sum of approximately HK\$64.3 million.

FUTURE PLANS AND [REDACTED]

FUTURE PLANS

Please refer to “Business — Business strategies” in this document for details of our business objectives and strategies.

[REDACTED]

The aggregate net [REDACTED] from the [REDACTED] (after deducting [REDACTED] fees and estimated expenses in connection with the [REDACTED] and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share, and assuming the [REDACTED] is not exercised) will be approximately HK\$[REDACTED]. Our Directors intend to apply the net [REDACTED] from the [REDACTED] as follows:

- approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED], will be used for acquiring machines to replace and enhance our production capacity;
- approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED], will be used for expanding our workforce in Hong Kong and the PRC;
- approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED], will be used for renovation and re-design of our existing production facilities;
- approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED], will be used for purchasing delivery trucks;
- approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED], will be used for upgrading our information technology system and equipment; and
- approximately HK\$[REDACTED], representing approximately [REDACTED]% of the net [REDACTED], will be used as our general working capital.

The above allocation of the net [REDACTED] from the [REDACTED] will be adjusted on a pro-rata basis. If the [REDACTED] is fixed at the high-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share, the net [REDACTED] to be received by us from the [REDACTED] will increase by approximately HK\$[REDACTED] as compared to the mid-point of the indicative [REDACTED] range. If the [REDACTED] is set at the low-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share, the [REDACTED] to be received by us from the [REDACTED] will decrease by approximately HK\$[REDACTED] as compared to the mid-point of the indicative [REDACTED] range. In such event, the [REDACTED] will be used in the same proportions as disclosed above irrespective of whether the [REDACTED] is determined at the highest or lowest of the indicative [REDACTED] range.

FUTURE PLANS AND [REDACTED]

If the [REDACTED] is exercised in full, we estimate that the additional net [REDACTED] from the [REDACTED] of these additional Shares to be received by us, after deducting [REDACTED] fees and estimated expenses payable by us, will be approximately (i) HK\$[REDACTED], assuming the [REDACTED] is fixed at the high-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share; (ii) HK\$[REDACTED], assuming the [REDACTED] is fixed at the mid-point of the indicative [REDACTED] range, being HK\$[REDACTED] per Share; and (iii) HK\$[REDACTED], assuming the [REDACTED] is fixed at the low-end of the indicative [REDACTED] range, being HK\$[REDACTED] per Share. Any additional [REDACTED] received by us from the exercise of the [REDACTED] will also be allocated to the above purposes and projects on a pro-rata basis.

To the extent that the net [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net [REDACTED] into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong.

REASONS FOR [REDACTED]

Our Directors consider that the [REDACTED] will benefit our Group in different aspects as discussed below:

(i) To enhance our corporate profile

Our Directors believe that by way of [REDACTED], we can elevate our corporate image and status, and the [REDACTED] status can enhance our credibility with our customers, suppliers and subcontractors. To distinguish our Group from other subcontractors or steel and metal engineering companies, we believe that pursuing the [REDACTED] is in the interest of our Group as it will enable us to enjoy several competitive advantages, such as transparent financial disclosures, enhanced internal control and corporate governance practices. We believe main contractors and customers would give weight to these competitive edges when they select and engage subcontractors or engineering companies for steel and metal services.

(ii) To facilitate the implementation of our business strategies

During the Track Record Period, our production facilities located in Huizhou, the PRC, supplied steel and metal products required by our customers. As at the Latest Practicable Date, we had 37 on-going projects with a total contract sum of approximately HK\$389.8 million and there was one newly awarded project with the estimated contract sum of approximately HK\$35.1 million. Up to the Latest Practicable Date, we had submitted 17 tenders for the engineering services which we were yet to be notified of the tenders results. To accommodate our customers' tight working schedule, our Directors consider that it is one of our competitive strengths in providing timely steel and metal engineering services. See “Business — On-going projects”. Our Directors believe, and as supported by the Frost & Sullivan Report, that the construction industry in Hong Kong will continue to grow due to the large number of current and upcoming infrastructure projects of various scale and nature. For potential construction projects relevant to our track records in particular, the Hong Kong Government has adopted the public housing supply target of 280,000 units for the ten-year period from 2017/18; whereas for the private sector, the Hong Kong Government is expected to provide 28 residential sites,

FUTURE PLANS AND [REDACTED]

approximately 200,000 units for the supply of private residential units. Our Directors consider that these projects will create stimulus for the steel and metal works industry in Hong Kong and therefore we plan to acquire machinery and equipment and to expend our labour readily available to meet the future market demand.

(iii) To strengthen our financial position

During the Track Record Period, our financing source was limited to cash generated from operations. While cash generated from operations alone cannot always support our operations and expansions, our Group may lose business opportunities and may face financial crisis. the [REDACTED] allows our Company to access the capital market for fund raising, through equity and/or debt financing, for our future growth and expansion plans. This platform allows us to access capital market to raise further funds for our expansion, which would improve our operating and financial performance in a maximum return for our Shareholders. Furthermore, our Directors believe that, with the [REDACTED] status and enlarged capital structure, our Group would be in a better position to negotiate with banks and financial institutions when we choose to obtain certain amount of banking facilities after the [REDACTED] alongside with equity financing.

(iv) To enhance the liquidity of our Shares

Our Directors consider that the [REDACTED] will enhance the liquidity of our Shares which will be [REDACTED] on the Stock Exchange when compared to the limited liquidity of the shares that are privately held before the [REDACTED]. Furthermore, [REDACTED] will enlarge and diversify our shareholder base and potentially lead to a more liquid market in the [REDACTED] of our Shares.

[REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

The following is the text of a report set out on pages I-1 to I-[58], received from the Company’s reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

Deloitte.

德勤

**ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION
TO THE DIRECTORS OF HANG YICK HOLDINGS COMPANY LIMITED AND FORTUNE
FINANCIAL CAPITAL LIMITED**

Introduction

We report on the historical financial information of Hang Yick Holdings Company Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-[58], which comprises consolidated statements of financial position of the Group as at 31 March 2016, 2017 and 2018, the statement of financial position of the Company as at 31 March 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 March 2018 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-[58] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX I

ACCOUNTANTS’ REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Company’s financial position as at 31 March 2018 and the Group’s financial position as at 31 March 2016, 2017 and 2018 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about the dividends paid by a subsidiary of the Company and states that no dividend has been paid by the Company in respect of the Track Record Period.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[Date]

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“Underlying Financial Statements”).

The Historical Financial Information is presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 March		
		2016	2017	2018
		HK\$'000	HK\$'000	HK\$'000
Revenue	4	122,698	161,483	199,199
Direct costs		<u>(82,606)</u>	<u>(107,712)</u>	<u>(124,840)</u>
Gross profit		40,092	53,771	74,359
Other income and other gains and losses	7	720	524	7,784
Administrative expenses		(5,265)	(7,675)	(13,091)
Finance costs	8	(116)	(132)	(121)
[REDACTED]		<u>—</u>	<u>—</u>	<u>[REDACTED]</u>
Profit before taxation	9	35,431	46,488	62,534
Income tax expense	10	<u>(6,025)</u>	<u>(8,395)</u>	<u>(10,310)</u>
Profit for the year		29,406	38,093	52,224
Other comprehensive income (expense) for the year				
Item that may be subsequently reclassified to profit or loss:				
Exchange difference arising on translation of foreign operation		<u>250</u>	<u>(293)</u>	<u>429</u>
Total comprehensive income for the year		<u>29,656</u>	<u>37,800</u>	<u>52,653</u>
Earnings per share				
Basic (HK cents)	12	<u>[5.2]</u>	<u>[6.7]</u>	<u>[9.2]</u>

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP			THE COMPANY
		As at 31 March			As at
		2016	2017	2018	31 March
		HK\$'000	HK\$'000	HK\$'000	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment	13	11,460	11,420	13,153	—
Investment properties	14	8,208	7,943	—	—
Prepaid lease payments	15	4,770	4,167	4,368	—
Unlisted investment in a subsidiary		—	—	—	—*
		<u>24,438</u>	<u>23,530</u>	<u>17,521</u>	<u>—</u>
Current assets					
Inventories	16	20,678	26,415	18,674	—
Prepaid lease payments	15	201	183	201	—
Trade receivables	17	20,579	27,178	17,850	—
Retention receivables	17	14,586	16,299	18,152	—
Other receivables, deposits and prepayments	18	1,449	1,759	4,333	2,132
Contract assets	19	9,230	8,036	8,938	—
Amounts due from related companies	20	7,292	9,603	—	—
Bank balances and cash	21	25,384	31,387	28,603	—
		<u>99,399</u>	<u>120,860</u>	<u>96,751</u>	<u>2,132</u>
Assets classified as held for sale	14	—	—	3,410	—
		<u>99,399</u>	<u>120,860</u>	<u>100,161</u>	<u>2,132</u>
Current liabilities					
Trade and other payables and accruals	22	5,157	14,916	11,658	2,640
Amount due to a subsidiary	20	—	—	—	5,889
Amount due to a related company	20	273	273	—	—
Amounts due to Controlling Shareholders	20	51,221	42,058	—	—
Tax payable		6,900	12,626	4,721	—
Obligations under finance leases	23	475	974	661	—
Bank borrowings	24	2,497	1,936	1,357	—
		<u>66,523</u>	<u>72,783</u>	<u>18,397</u>	<u>8,529</u>
Net current assets (liabilities)		<u>32,876</u>	<u>48,077</u>	<u>81,764</u>	<u>(6,397)</u>
Total assets less current liabilities		<u>57,314</u>	<u>71,607</u>	<u>99,285</u>	<u>(6,397)</u>

* Amount less than HK\$1,000

APPENDIX I

ACCOUNTANTS’ REPORT

	NOTES	THE GROUP			THE COMPANY
		As at 31 March			As at
		2016	2017	2018	31 March
		HK\$’000	HK\$’000	HK\$’000	2018
		HK\$’000	HK\$’000	HK\$’000	HK\$’000
Non-current liabilities					
Provisions	25	348	327	254	—
Deferred tax liabilities	26	232	358	122	—
Obligations under finance leases	23	630	1,018	352	—
		<u>1,210</u>	<u>1,703</u>	<u>728</u>	<u>—</u>
Net assets (liabilities)		<u>56,104</u>	<u>69,904</u>	<u>98,557</u>	<u>(6,397)</u>
Capital and reserves					
Share capital	27	10	10	—	—
Reserves		<u>56,094</u>	<u>69,894</u>	<u>98,557</u>	<u>(6,397)</u>
Equity attributable to owners of the Company		<u>56,104</u>	<u>69,904</u>	<u>98,557</u>	<u>(6,397)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2015	10	—	83	26,355	26,448
Profit for the year	—	—	—	29,406	29,406
Exchange differences arising on translation of foreign operation	—	—	250	—	250
Total comprehensive income for the year	—	—	250	29,406	29,656
At 31 March 2016	10	—	333	55,761	56,104
Profit for the year	—	—	—	38,093	38,093
Exchange differences arising on translation of foreign operation	—	—	(293)	—	(293)
Total comprehensive (expense) income for the year	—	—	(293)	38,093	37,800
Dividends paid (note 11)	—	—	—	(24,000)	(24,000)
At 31 March 2017	10	—	40	69,854	69,904
Profit for the year	—	—	—	52,224	52,224
Exchange differences arising on translation of foreign operation	—	—	429	—	429
Total comprehensive income for the year	—	—	429	52,224	52,653
Group reorganisation	(10)	10	—	—	—
Dividends paid (note 11)	—	—	—	(24,000)	(24,000)
At 31 March 2018	—*	10	469	98,078	98,557

* Amount less than HK\$1,000

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit before taxation	35,431	46,488	62,534
Adjustments for:			
Depreciation on property, plant and equipment	1,850	1,981	2,685
Depreciation on investment properties	265	265	253
Amortisation of prepaid lease payments	201	190	190
Finance costs	116	132	121
Bank interest income	(1)	(4)	(10)
Gain on disposal of property, plant and equipment	(92)	(48)	(50)
Gain on disposal of investment properties	—	—	(6,320)
Operating cash flows before movements in working capital	37,770	49,004	59,403
(Increase) decrease in trade receivables	(8,217)	(6,621)	9,358
Increase in retention receivables	(1,596)	(1,713)	(1,853)
Increase in other receivables, deposits and prepayments	(1,371)	(442)	(2,442)
Decrease (increase) in inventories	82	(7,670)	9,567
(Increase) decrease in contract assets	(6,648)	1,194	(902)
Increase (decrease) in trade and other payables and accruals	214	10,116	(3,756)
(Increase) decrease in amounts due from related companies	(3,562)	(2,311)	9,603
Increase (decrease) in provisions	5	(21)	(73)
Cash generated from operations	16,677	41,536	78,905
Income tax paid	(4,461)	(2,543)	(18,457)
NET CASH FROM OPERATING ACTIVITIES	12,216	38,993	60,448
INVESTING ACTIVITIES			
Bank interest received	1	4	10
Purchases of property and equipment	(2,949)	(1,297)	(3,294)
Proceeds from disposal of property, plant and equipment	92	200	50
Proceeds from disposal of investment properties	—	—	10,600
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(2,856)	(1,093)	7,366
FINANCING ACTIVITIES			
Interests paid	(116)	(132)	(121)
Dividends paid	—	(24,000)	(24,000)
Repayments to Controlling Shareholders	(5,014)	(7,003)	(45,014)
Advances from Controlling Shareholders	370	643	368
Repayment to a related company	—	—	(273)
Repayments of bank borrowings	(541)	(561)	(579)
Repayments of obligations under finance leases	(195)	(642)	(1,279)
NET CASH USED IN FINANCING ACTIVITIES	(5,496)	(31,695)	(70,898)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,864	6,205	(3,084)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	21,270	25,384	31,387
Effect of foreign exchange rate changes	250	(202)	300
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	25,384	31,387	28,603

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office and the principal place of business is disclosed in the section headed “Corporate Information” of the Document.

Prior to a group reorganisation as detailed below (the “Group Reorganisation”), Mr. Lee Pui Sun (“Mr. PS Lee”) and Ms. Lau Lai Ching, the spouse of Mr. PS Lee (“Ms. LC Lau”) (collectively referred to as the “Controlling Shareholders”) held 70% and 30% of the equity interests of Hang Yick Gate Engineering Limited (“Hang Yick”). Mr. PS Lee and Ms. LC Lau are acting in concert, throughout the Track Record Period and beyond, on their ownerships and exercise their control collectively over the companies now comprising the Group.

In preparation of the [REDACTED] of the Company’s shares on the Main Board of the Stock Exchange (the “[REDACTED]”), the companies now comprising the Group underwent the Group Reorganisation as described below.

(1) Incorporation of the Company

The Company is an exempted company incorporated in the Cayman Islands with limited liability and 1 nil-paid initial share was issued to the initial subscriber and transferred to Mr. PS Lee on 6 March 2018. The Company has an authorised share capital of HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each. On the same date, 1 nil-paid share of the Company was allocated and issued at par to Ms. LC Lau.

(2) Incorporation of HY Metal Company Limited (“HY Metal”)

HY Metal is a company limited by shares incorporated in the BVI on 15 March 2018. HY Metal is authorised to issue a maximum of 50,000 shares each with a par value of US\$1.00, of which 1 share (representing the entire issued capital of the HY Metal) was allotted and issued as fully paid to the Company at par. HY Metal became a directly wholly-owned subsidiary of the Company since then.

(3) Acquisition of the Company by HY Steel Company Limited (“HY Steel”)

On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of the Company to HY Steel at nominal consideration. The Company became a wholly-owned subsidiary of HY Steel.

(4) Acquisition of Hang Yick by HY Metal

On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of Hang Yick to HY Metal. In consideration of the acquisition, the Company created, allotted and issued 98 new shares, credited as fully paid, to HY Steel. Hang Yick became an indirectly wholly-owned subsidiary of the Company since then.

Pursuant to the Group Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group on 28 March 2018. The Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. Accordingly, the Historical Financial Information has been prepared under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting For Common Control Combinations” issued by the HKICPA.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 March 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

2. ADOPTION OF NEW AND REVISED HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA that are effective for the Group’s financial year beginning on 1 April 2017 throughout the Track Record Period. In addition, the Group has early applied HKFRS 15 “Revenue from Contracts with Customers” throughout the Track Record Period.

Upon application of HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. For further details, please refer to notes 3 and 4.

The Group has not early applied the following new and revised HKFRSs and interpretations which are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴

APPENDIX I**ACCOUNTANTS’ REPORT**

HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 “Financial Instruments”

HKFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are described below:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are

APPENDIX I**ACCOUNTANTS’ REPORT**

measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 March 2018, the management of the Group anticipates the following potential impact on initial application of HKFRS 9:

Classification and measurement:

Financial assets classified as loan and receivables carried at amortised cost as disclosed in notes 17, 18, 20 and 21: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment of the directors of the Company on the Group’s financial assets classified as loan and receivable as at 31 March 2018, the application of the expected credit loss model of HKFRS 9 has no material impact on the financial position of the Group as at 1 April 2018.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are currently presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 March 2018, the Group as lessee has non-cancellable operating lease commitments of approximately HK\$1,557,000 as disclosed in note 34(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group may result in recognising a significant right-of-use asset and a corresponding significant liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. However, the directors of the Company do not expect the adoption of HKFRS 16, as compared to the current accounting policy of the Group, would result in significant impact on the results and the net assets of the Group. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

In addition, the directors of the Company anticipate that the application of the other new and revised HKFRSs and interpretations will have no material impact on the financial statements of the Group in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if

APPENDIX I**ACCOUNTANTS’ REPORT**

market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

APPENDIX I**ACCOUNTANTS’ REPORT**

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under control of the controlling entity.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s prospective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where is a shorter period.

Investment in a subsidiary

Investment in a subsidiary included in the Company’s statement of financial position at cost less any identified impairment losses.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

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

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group recognises revenue from the following major sources: 1) provision of steel and metal engineering services and 2) sales of steel and metal products.

Provision of steel and metal engineering services

Recognition

The Group provides engineering services on steel and metal works under long-term contracts with customers. Such contracts are entered into before the engineering services begin. Under the terms of the contracts, the Group is contractually restricted from redirecting the steel and metal works to another customer and has an enforceable right to payment for work completed to date. Revenue from provision of steel and metal engineering services is therefore recognised over time using output method, i.e. based on surveys of steel and metal work completed by the Group to date as certified by architects, surveyors or other representatives appointed by the customer or estimated with reference to the progress payment application submitted by the Group to the customer in relation to the work completed by the Group. The directors of the Company consider that output method would faithfully depict the Group’s performance towards complete satisfaction of these performance obligations under HKFRS 15.

In determining the transaction price (i.e. consideration of an engineering service contract), the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

APPENDIX I**ACCOUNTANTS’ REPORT**

Contract assets

The Group has enforceable rights to considerations from customers for the provision of steel and metal engineering services. Contract assets arise when the Group completed the steel and metal work under such engineering services contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the progress payment exceeds the revenue recognised to date under the output method then the Group recognises a contract liability for the difference.

*Sales of steel and metal products**Recognition*

The Group sells steel and metal products to customers. Revenue is recognised when control of the goods has transferred according to respective agreed terms of delivery.

Other income

The Group also has the following sources of major other income.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of lease.

Revenue from the sales of scrap materials is recognised when control of the scrap materials has transferred to the customer, being at the point the scrap materials are delivered to the customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

APPENDIX I

ACCOUNTANTS’ REPORT

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Investments properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment loss on assets other than financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group’s financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that

APPENDIX I**ACCOUNTANTS’ REPORT**

exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, retention receivables, other receivables and deposits, amounts due from related companies and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for trade receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and retention receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or a retention receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group’s financial liabilities including trade and other payables and accruals, amount due to a related company, amounts due to Controlling Shareholders and bank borrowings and the Company’s financial liabilities including other payables and accruals and amount due to a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group and the Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

APPENDIX I**ACCOUNTANTS’ REPORT**

The Group and the Company derecognise financial liabilities when, and only when, the Group’s/the Company’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (“MPF Scheme”) in Hong Kong and state-managed retirement benefit schemes in the People’s Republic of China (the “PRC”) are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities’ carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

APPENDIX I**ACCOUNTANTS’ REPORT**

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs (see the accounting policy below).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those

APPENDIX I**ACCOUNTANTS’ REPORT**

deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investment in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Borrowing costs

All borrowing costs other than those directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

APPENDIX I

ACCOUNTANTS’ REPORT

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

4. REVENUE

Revenue represents the fair value of amounts received and receivable from the provision of engineering service or sales of goods by the Group to external customers. The Group’s revenue is mainly derived from provision of steel and metal engineering services and sales of steel and metal products in Hong Kong during the Track Record Period.

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<i>Timing of revenue recognition and category of revenue</i>			
Recognised over time and long-term contracts			
— provision of steel and metal engineering services	<u>96,130</u>	<u>103,291</u>	<u>140,620</u>
Recognised at a point in time and short-term contracts			
— sales of steel and metal products			
• standardised collapsible gates	5,240	34,022	42,821
• other steel and metal products	<u>21,328</u>	<u>24,170</u>	<u>15,758</u>
	<u>26,568</u>	<u>58,192</u>	<u>58,579</u>
	<u><u>122,698</u></u>	<u><u>161,483</u></u>	<u><u>199,199</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

The customers of the Group are mainly construction companies, contractors and engineering companies in Hong Kong. All of the Group’s provision of steel and metal engineering services and sales of steel and metal products are made directly with the customers. Contracts with the Group’s customers are mainly fixed-price contracts.

Transaction price allocated to the remaining performance obligations

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of each reporting period.

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Provision of steel and metal engineering services	<u>167,211</u>	<u>238,423</u>	<u>236,454</u>

Based on the information available to the Group at the end of each reporting period, the directors of the Company expect the transaction price allocated to the above unsatisfied (or partially unsatisfied) contracts in respect of provision of steel and metal engineering services as of 31 March 2016, 2017 and 2018 will be recognised as revenue during the years ended/ending 31 March 2017 to 2020.

5. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision makers (“CODM”) (being the executive directors of the Company) review the segment results of the Group. Specifically, the Group’s reportable segments are provision of steel and metal engineering services and sales of steel and metal products. However, no analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM of the Group on making decision for resources allocation and performance assessment.

APPENDIX I

ACCOUNTANTS’ REPORT

Segment revenue and profit

The following is an analysis of the Group’s revenue to external customers and results by operating and reportable segment.

Year ended 31 March 2016

	Provision of steel and metal engineering services <i>HK\$’000</i>	Sales of steel and metal products <i>HK\$’000</i>	Total <i>HK\$’000</i>
Segment revenue	<u>96,130</u>	<u>26,568</u>	<u>122,698</u>
Segment results	<u>32,599</u>	<u>7,493</u>	40,092
Other income and other gains and losses			720
Administrative expenses			(5,265)
Finance costs			<u>(116)</u>
Profit before taxation			<u>35,431</u>

Year ended 31 March 2017

	Provision of steel and metal engineering services <i>HK\$’000</i>	Sales of steel and metal products <i>HK\$’000</i>	Total <i>HK\$’000</i>
Segment revenue	<u>103,291</u>	<u>58,192</u>	<u>161,483</u>
Segment results	<u>37,685</u>	<u>16,086</u>	53,771
Other income and other gains and losses			524
Administrative expenses			(7,675)
Finance costs			<u>(132)</u>
Profit before taxation			<u>46,488</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 March 2018

	Provision of steel and metal engineering services <i>HK\$’000</i>	Sales of steel and metal products <i>HK\$’000</i>	Total <i>HK\$’000</i>
Segment revenue	<u>140,620</u>	<u>58,579</u>	<u>199,199</u>
Segment results	<u>57,089</u>	<u>17,270</u>	74,359
Other income and other gains and losses			7,784
Administrative expenses			(13,091)
Finance costs			(121)
[REDACTED]			<u>[REDACTED]</u>
Profit before taxation			<u>62,534</u>

The accounting policies of the operating segments are the same as the Group’s accounting policies set out in note 3. Segment results mainly represented profit earned by each segment, excluding other income and other gains and losses, administrative expenses, finance costs, [REDACTED] and income tax expense.

Other segment information

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Amounts included in the measures of segment profits:			
Depreciation and amortisation			
— Provision of steel and metal engineering services	1,049	687	1,032
— Sales of steel and metal products	461	646	842
— Unallocated	<u>806</u>	<u>1,103</u>	<u>1,254</u>
	<u>2,316</u>	<u>2,436</u>	<u>3,128</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Entity-wide information

Geographical information

The Group’s revenue are derived from Hong Kong and the PRC based on the location of goods delivered and services provided as follows:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Hong Kong	120,832	158,443	198,569
The PRC	<u>1,866</u>	<u>3,040</u>	<u>630</u>
	<u><u>122,698</u></u>	<u><u>161,483</u></u>	<u><u>199,199</u></u>

The Group’s non-current assets are located in Hong Kong and the PRC by physical location of assets as follows:

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Hong Kong	11,244	11,903	3,122
The PRC	<u>13,194</u>	<u>11,627</u>	<u>14,399</u>
	<u><u>24,438</u></u>	<u><u>23,530</u></u>	<u><u>17,521</u></u>

Information about major customers

Revenues attributed from customers that accounted for 10% or more of the Group’s total revenue during the Track Record Period are as follows:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<i>Revenue from provision of steel and metal engineering services</i>			
Customer A	40,948	47,630	19,861
Customer B	27,074	N/A*	N/A*
Customer C	<u>N/A*</u>	<u>N/A*</u>	<u>51,555</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
<i>Revenue from sales of steel and metal products</i>			
Customer A	491	1,110	367
Customer B	3,145	N/A*	N/A*
Customer D	<u>N/A*</u>	<u>N/A*</u>	<u>21,445</u>

* Revenue from the customer is less than 10% of the Group’s total revenue in the respective year

6. DIRECTORS’ AND EMPLOYEES’ EMOLUMENTS

(a) Directors’ and chief executive’s emoluments

Mr. PS Lee and Ms. LC Lau were appointed as directors of the Company on 6 March 2018 and redesignated as executive directors on 14 May 2018. Mr. Lee Ka Chun Benny (“Mr. Benny Lee”) was appointed as director of the Company on 6 March 2018 and redesignated as a non-executive director of the Company on 14 May 2018. [Mr. Au Yeung Wai Key, Hon Cheung Kwok Kwan, JP and Mr. Tse Ka Ching] were appointed as independent non-executive directors of the Company on [●] and no emoluments were paid or payable to them during the Track Record Period]. The emoluments paid or payable to the executive directors, non-executive director and chief executive of the Company (including the emoluments for services as directors of the group entities prior to becoming the director of the Company) by entities now comprising the Group during the Track Record Period as follows:

	Mr. PS Lee	Ms. LC Lau	Mr. Benny Lee	Total
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Year ended 31 March 2016				
Fees	—	—	N/A	—
Other emoluments				
Salaries and other benefits	180	—	N/A	180
Retirement benefit scheme contributions	<u>9</u>	<u>—</u>	<u>N/A</u>	<u>9</u>
Total emoluments	<u>189</u>	<u>—</u>	<u>N/A</u>	<u>189</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Mr. PS Lee	Ms. LC Lau	Mr. Benny Lee	Total
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Year ended 31 March 2017				
Fees	—	—	N/A	—
Other emoluments				
Salaries and other benefits	180	—	N/A	180
Retirement benefit scheme contributions	9	—	N/A	9
Total emoluments	<u>189</u>	<u>—</u>	<u>N/A</u>	<u>189</u>
Year ended 31 March 2018				
Fees	—	—	—	—
Other emoluments				
Salaries and other benefits	180	180	45	405
Retirement benefit scheme contributions	9	9	2	20
Total emoluments	<u>189</u>	<u>189</u>	<u>47</u>	<u>425</u>

Note: Mr. PS Lee also acts as chief executive of the Group.

During the Track Record Period, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during the Track Record Period.

(b) Employees’ emoluments

The five highest paid individuals are all non-director employees for each of the years ended 31 March 2016, 2017 and 2018. Their emoluments were as follow:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Salaries and other benefits	2,113	2,212	2,348
Discretionary bonus (note)	—	—	653
Retirement benefit scheme contributions	85	88	73
	<u>2,198</u>	<u>2,300</u>	<u>3,074</u>

Note: The discretionary bonuses are determined with references to the performance of individual employee and of the Group.

APPENDIX I

ACCOUNTANTS’ REPORT

Their emoluments are within the following bands:

	Year ended 31 March		
	2016	2017	2018
	<i>Number of employees</i>	<i>Number of employees</i>	<i>Number of employees</i>
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income			
Interest income from bank deposits	1	4	10
Rental income from investment properties	376	341	395
Sales of scrap materials	209	127	771
Others	<u>47</u>	<u>11</u>	<u>161</u>
	<u>633</u>	<u>483</u>	<u>1,337</u>
Other gains and losses			
Net exchange (losses) gains	(5)	(7)	77
Gain on disposal of property, plant and equipment	92	48	50
Gain on disposal of investment properties	<u>—</u>	<u>—</u>	<u>6,320</u>
	<u>87</u>	<u>41</u>	<u>6,447</u>
	<u>720</u>	<u>524</u>	<u>7,784</u>

APPENDIX I

ACCOUNTANTS’ REPORT

8. FINANCE COSTS

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Interests on bank borrowings	94	75	56
Interests on finance leases	22	57	65
	<u>116</u>	<u>132</u>	<u>121</u>

9. PROFIT BEFORE TAXATION

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Profit before taxation has been arrived at after charging (crediting):			
Auditor’s remuneration	65	65	466
Depreciation on property, plant and equipment	1,850	1,981	2,685
Depreciation on investment properties	265	265	253
Cost of inventories recognised as an expense	19,075	42,106	41,309
Amortisation of prepaid lease payments	201	190	190
Staff costs (including directors’ emoluments):			
Directors’ emoluments (note 6)	189	189	425
Other staff costs:			
Salaries and other benefits	23,454	30,483	48,048
Retirement benefits scheme contributions	2,006	2,295	2,863
	25,460	32,778	50,911
Gross rental income from investment properties	(376)	(341)	(395)
Less: direct operating expense incurred for investment properties that generate rental income during the year	317	317	305
	(59)	(24)	(90)
Minimum lease payments under operating leases in respect of warehouse premises	<u>62</u>	<u>68</u>	<u>210</u>

APPENDIX I

ACCOUNTANTS’ REPORT

10. INCOME TAX EXPENSE

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Current tax:			
Hong Kong Profits Tax	6,052	8,237	10,249
The PRC Enterprise Income Tax	—	—	297
Underprovision in prior years	—	32	—
	<u>6,052</u>	<u>8,269</u>	<u>10,546</u>
Deferred taxation (note 26)	(27)	126	(236)
	<u><u>6,025</u></u>	<u><u>8,395</u></u>	<u><u>10,310</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for the Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Profit before taxation	<u>35,431</u>	<u>46,488</u>	<u>62,534</u>
Tax at the Hong Kong Profits Tax rate of 16.5%	5,846	7,671	10,318
Tax effect of income not taxable for tax purpose	—	—	(792)
Tax effect of expenses not deductible for tax purpose	199	227	1,209
Tax effect of estimated tax losses not recognised	—	485	—
Tax effect of utilisation of tax losses previously not recognised	—	—	(485)
Underprovision in prior years	—	32	—
Effect of different tax rate of a subsidiary operating in other jurisdiction	—	—	90
Others	(20)	(20)	(30)
Income tax expense for the year	<u><u>6,025</u></u>	<u><u>8,395</u></u>	<u><u>10,310</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

The Group had unused tax losses of approximately HK\$2,940,000 as at 31 March 2017. No deferred tax assets have been recognised in respect of such unused tax losses due to the unpredictability of future profit streams of respective group entity. Such tax losses will expire within five years.

11. DIVIDENDS

During the years ended 31 March 2017 and 2018, Hang Yick declared and paid dividends of HK\$24,000,000 and HK\$24,000,000 in respect of the years ended 31 March 2017 and 2018, respectively to the then shareholders of Hang Yick. The rate of dividends and the numbers of shares ranking for the above dividends are not presented as such information is not considered meaningful.

Other than as disclosed above, no dividend was paid or declared by the companies comprising the Group during the Track Record Period.

[On [DATE], the Company declared a dividend of HK\$[240,000] per share amounting to HK\$[24,000,000] in aggregate to the then shareholder.]

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	For the year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings:			
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>29,406</u>	<u>38,093</u>	<u>52,224</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>
Number of shares (note):			
Number of ordinary shares for the purpose of calculating basic earnings per share	<u>[570,000]</u>	<u>[570,000]</u>	<u>[570,000]</u>

Note: The number of ordinary shares for the purpose of calculating basis earnings per share has been determined on the assumption that the Group Reorganisation as set out in note 1 and the [REDACTED] as described in the section headed “Share Capital” in the Document have been effective on 1 April 2015.

No diluted earnings per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

APPENDIX I

ACCOUNTANTS’ REPORT

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 April 2015	8,794	4,474	2,454	137	15,859
Additions	—	1,728	2,521	—	4,249
Disposal	—	(142)	—	—	(142)
At 31 March 2016	8,794	6,060	4,975	137	19,966
Additions	—	2,052	774	—	2,826
Disposal	—	(380)	—	—	(380)
Exchange realignment	(774)	—	(304)	(3)	(1,081)
At 31 March 2017	8,020	7,732	5,445	134	21,331
Additions	—	587	2,915	92	3,594
Disposal	—	(203)	—	—	(203)
Exchange realignment	774	17	478	9	1,278
At 31 March 2018	8,794	8,133	8,838	235	26,000
DEPRECIATION					
At 1 April 2015	2,424	3,814	489	71	6,798
Provided for the year	529	831	468	22	1,850
Eliminated on disposal	—	(142)	—	—	(142)
At 31 March 2016	2,953	4,503	957	93	8,506
Provided for the year	499	798	666	18	1,981
Eliminated on disposal	—	(228)	—	—	(228)
Exchange realignment	(277)	—	(69)	(2)	(348)
At 31 March 2017	3,175	5,073	1,554	109	9,911
Provided for the year	499	1,308	854	24	2,685
Eliminated on disposal	—	(203)	—	—	(203)
Exchange realignment	336	5	110	3	454
At 31 March 2018	4,010	6,183	2,518	136	12,847
CARRYING AMOUNTS					
At 31 March 2016	<u>5,841</u>	<u>1,557</u>	<u>4,018</u>	<u>44</u>	<u>11,460</u>
At 31 March 2017	<u>4,845</u>	<u>2,659</u>	<u>3,891</u>	<u>25</u>	<u>11,420</u>
At 31 March 2018	<u>4,784</u>	<u>1,950</u>	<u>6,320</u>	<u>99</u>	<u>13,153</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of lease or 20 years
Motor vehicles	20.0% to 30.0%
Plant and machinery	10.0% to 20.0%
Office equipment, furniture and fixtures	20.0% to 33.3%

The Group was in the progress of obtaining the building certificates for the buildings in the PRC with carrying amounts of approximately HK\$5,841,000 and HK\$4,845,000 as at 31 March 2016 and 2017, respectively. These building certificates were obtained during the year ended 31 March 2018.

As at 31 March 2016, 2017 and 2018, the carrying amounts of the Group’s motor vehicles included amounts of approximately HK\$1,209,000, HK\$2,593,000 and HK\$1,306,000 respectively in respect of assets held under finance leases (as disclosed in note 23).

14. INVESTMENT PROPERTIES/ASSETS CLASSIFIED AS HELD FOR SALE

Investment properties	<i>HK\$’000</i>
COST	
At 1 April 2015, 31 March 2016 and 2017	11,357
Disposal	(7,359)
Transfer to assets classified as held for sale	<u>(3,998)</u>
At 31 March 2018	<u>—</u>
DEPRECIATION	
At 1 April 2015	2,884
Provided for the year	<u>265</u>
At 31 March 2016	3,149
Provided for the year	<u>265</u>
At 31 March 2017	3,414
Provided for the year	253
Eliminated upon disposal	(3,079)
Eliminated upon transfer to assets classified as held for sale	<u>(588)</u>
At 31 March 2018	<u>—</u>
CARRYING AMOUNTS	
At 31 March 2016	<u>8,208</u>
At 31 March 2017	<u>7,943</u>
At 31 March 2018	<u>—</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The above investment properties are located in Hong Kong and are depreciated on a straight-line basis over the shorter of the term of lease and 50 years.

The fair value of the Group’s investment properties was approximately HK\$13,738,000 and HK\$14,870,000 as at 31 March 2016 and 2017, respectively. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Limited, independent valuers not connected with the Group whose address is 6/F, Three Pacific Place, 1 Queen’s Road East, Hong Kong.

The fair value of the investment properties were determined based on direct comparison approach assuming sale of property interest in the existing state with the benefit of immediate vacant possession or subject to the existing tenancies and by making reference to comparable sales transactions as available in the relevant market.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. All of the fair value measurement of the Group’s investment properties were categorised into level 3 of the fair value hierarchy.

As at 31 March 2016 and 2017, all of the Group’s investment properties were pledged as securities for bank borrowings of the Group (as disclosed in note 24).

Assets classified as held for sale

As at 31 March 2018, the assets classified as held for sale represented an property of the Group with carrying amount of HK\$3,410,000. In March 2018, the Group has entered into a provisional sales and purchase contract with an independent third party for the disposal of such property at a cash consideration of approximately HK\$4,800,000 and the expected completion date of such disposal of investment properties will be in [May 2018]. Accordingly, such property was transferred from investment properties to assets classified as held for sale in March 2018.

15. PREPAID LEASE PAYMENTS

All the Group’s prepaid lease payments comprise leasehold land in the PRC.

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Analysed for reporting purpose:			
Non-current asset	4,770	4,167	4,368
Current asset	<u>201</u>	<u>183</u>	<u>201</u>
	<u>4,971</u>	<u>4,350</u>	<u>4,569</u>

APPENDIX I

ACCOUNTANTS’ REPORT

16. INVENTORIES

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

17. TRADE RECEIVABLES/RETENTION RECEIVABLES

Trade receivables

For customers that the Group provides engineering services on steel and metal works, the Group normally grants credit terms of 30 days from the date of invoices on progress payments of contract works. For customers that the Group sells metal and steel products, except for certain major customers of which the Group grants a credit period of up to 60 days from the delivery of goods, the Group grants no credit terms to other customers and they are to settle payment in full upon delivery of goods. The following is an ageing analysis of the trade receivables presented based on the invoice date at the end of the reporting period:

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
0 - 30 days	15,043	19,666	15,407
31 - 60 days	1,078	3,624	543
61 - 90 days	1,940	1,237	325
Over 90 days	<u>2,518</u>	<u>2,651</u>	<u>1,575</u>
	<u>20,579</u>	<u>27,178</u>	<u>17,850</u>

Before accepting any new customer, the Group assesses the potential customer’s credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. Approximately 74.4%, 73.6% and 87.2% of trade receivables as at 31 March 2016, 2017 and 2018, respectively, that are neither past due nor impaired have good credit quality. These customers have no default of payment in the past.

The Group has a policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management’s judgement including the creditworthiness and the past collection history of each customer.

APPENDIX I

ACCOUNTANTS’ REPORT

Included in the Group’s trade receivables are debtors with aggregate carrying amount of approximately HK\$5,271,000, HK\$7,185,000 and HK\$2,289,000 which are past due at 31 March 2016, 2017 and 2018, respectively, for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivables and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The following is an ageing analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Overdue by:			
1 - 30 days	1,136	3,478	678
31 - 60 days	2,023	1,246	246
61 - 90 days	526	527	140
Over 90 days	<u>1,586</u>	<u>1,934</u>	<u>1,225</u>
	<u><u>5,271</u></u>	<u><u>7,185</u></u>	<u><u>2,289</u></u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or there were no history of default of payments by the respective customers and the directors of the Company believe that no impairment is required.

Retention receivables

Retention receivables represents the monies withheld by customers of contract works and are unsecured, interest-free and recoverable after the completion of defect liability period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranging from 1 to 2 years from the date of completion of respective engineering service projects.

The retention receivables are to be settled, based on the expiring of the defect liability period, at the end of each reporting period as follows:

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
On demand or within one year	2,192	5,310	5,355
After one year	<u>12,394</u>	<u>10,989</u>	<u>12,797</u>
	<u><u>14,586</u></u>	<u><u>16,299</u></u>	<u><u>18,152</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP			THE COMPANY
	2016	2017	2018	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Other receivables	702	1,198	907	—
Deposits	152	59	443	—
Prepayments	595	502	851	—
Deferred [REDACTED]	—	—	[REDACTED]	[REDACTED]
Total	<u>1,449</u>	<u>1,759</u>	<u>4,333</u>	<u>2,132</u>

19. CONTRACT ASSETS

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Engineering services contracts	<u>9,230</u>	<u>8,036</u>	<u>8,938</u>

Amounts represent the Group’s rights to considerations from customers for the provision of steel and metal engineering services, which arise when the Group completed the steel and metal work under such contracts but yet certified by architects, surveyors or other representatives appointed by customers. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

There were no impairment losses recognised on any contract asset in the Track Record Period.

APPENDIX I

ACCOUNTANTS’ REPORT

20. AMOUNTS DUE FROM/TO RELATED COMPANIES/CONTROLLING SHAREHOLDERS/ A SUBSIDIARY

Amounts due from related companies

	As at				Maximum amount outstanding during the year ended 31		
	1 April		As at 31 March		March		
	2015	2016	2017	2018	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Hang Yick Gate Engineering Co.	621	1,070	1,308	—	1,070	1,308	1,308
Hang Yick Metal Products	<u>3,109</u>	<u>6,222</u>	<u>8,295</u>	<u>—</u>	<u>6,222</u>	<u>8,295</u>	<u>8,295</u>
	<u>3,730</u>	<u>7,292</u>	<u>9,603</u>	<u>—</u>			

Balances with i) Hang Yick Gate Engineering Co., which was an unlimited company controlled by Mr. PS Lee and ii) Hang Yick Metal Products, which was an unlimited company controlled by Ms. LC Lau, are trade in nature, unsecured, interest-free and with no fixed repayment term. Approximately HK\$4,001,000 and HK\$2,311,000 of such trade balances were aged within 90 days and approximately HK\$3,291,000 and HK\$7,292,000 of such trade balances were aged over 90 days based on the invoice date at 31 March 2016 and 2017, respectively. During the year ended 31 March 2018, all these balances were fully settled.

Amounts due to Controlling Shareholders

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Mr. PS Lee	44,440	31,328	—
Ms. LC Lau	<u>6,781</u>	<u>10,730</u>	<u>—</u>
	<u>51,221</u>	<u>42,058</u>	<u>—</u>

The amounts were non-trade nature, unsecured, interest-free any repayable on demand.

Amount due to a subsidiary and a related company

The amounts are non-trade nature, unsecured, interest-free and repayable on demand. The related company is controlled by close family members of the Controlling Shareholders.

APPENDIX I

ACCOUNTANTS’ REPORT

21. BANK BALANCES AND CASH

As at 31 March 2016, 2017 and 2018, bank balances and cash comprise of cash held and short term bank deposits with an original maturity of three months or less which carry interest at prevailing market rate of 0.01% per annum.

22. TRADE AND OTHER PAYABLES AND ACCRUALS

	THE GROUP			THE COMPANY
	As at 31 March			As at 31 March
	2016	2017	2018	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade payables	2,043	6,624	2,170	—
Accrued staff costs	2,188	5,328	5,709	—
Accrued [REDACTED]	—	—	[REDACTED]	[REDACTED]
Receipts in advance	109	926	676	—
Accruals and others	817	2,038	463	—
	<u>5,157</u>	<u>14,916</u>	<u>11,658</u>	<u>2,640</u>

The credit period granted to the Group by suppliers normally ranges from 0 to 30 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
0 to 30 days	1,923	1,069	1,740
31 - 60 days	3	171	430
61 - 90 days	—	5,384	—
Over 90 days	117	—	—
	<u>2,043</u>	<u>6,624</u>	<u>2,170</u>

APPENDIX I

ACCOUNTANTS’ REPORT

23. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Analysed for reporting purposes as:			
Current liabilities	475	974	661
Non-current liabilities	<u>630</u>	<u>1,018</u>	<u>352</u>
	<u>1,105</u>	<u>1,992</u>	<u>1,013</u>

	Present value of minimum					
	Minimum lease payments			lease payments		
	2016	2017	2018	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Obligations under finance leases payable:						
Within one year	511	1,037	687	475	974	661
More than one year but not more than two years	471	742	353	456	716	352
More than two years but not more than five years	<u>177</u>	<u>306</u>	<u>—</u>	<u>174</u>	<u>302</u>	<u>—</u>
	1,159	2,085	1,040	1,105	1,992	1,013
Less: future finance charges	<u>(54)</u>	<u>(93)</u>	<u>(27)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
	<u>1,105</u>	<u>1,992</u>	<u>1,013</u>	1,105	1,992	1,013
Less: amount due for settlement within 12 months (shown under current liabilities)				<u>(475)</u>	<u>(974)</u>	<u>(661)</u>
Amount due for settlement after 12 months				<u>630</u>	<u>1,018</u>	<u>352</u>

The Group leased certain of its motor vehicles under finance leases. The lease term ranged from 2 to 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.0% to 2.5% per annum, 2.0% to 2.5% per annum and 2.0% to 2.3% per annum as at 31 March 2016, 2017 and 2018. All leases were on a fixed repayment basis and no arrangement was entered into for contingent rental payments.

APPENDIX I

ACCOUNTANTS’ REPORT

During the year ended 31 March 2018, the Group has early repaid certain of the obligations under finance leases with carrying amount of approximately HK\$467,000.

The Group’s obligations under finance leases were secured by the lessors’ charge over the Group’s leased assets (as disclosed in note 13).

24. BANK BORROWINGS

	As at 31 March		
	2016	2017	2018
	HK\$’000	HK\$’000	HK\$’000
Carrying amounts (shown under current liabilities) that contain a repayment on demand clause but repayable based on scheduled repayment terms:			
- Within one year	561	579	600
- More than one year but not exceeding two years	579	600	757
- More than two years but not exceeding five years	1,311	757	—
- More than five years	46	—	—
	<u>2,497</u>	<u>1,936</u>	<u>1,357</u>

The bank borrowings are at floating rate which carry interest at Hong Kong dollar prime rate minus 1.50% or 1.75% per annum. The weighted average effective interest rate on the Group’s bank borrowings was 3.37%, 3.36% and 3.35% per annum as at 31 March 2016, 2017 and 2018, respectively.

The bank borrowings are guaranteed by personal guarantees from Mr. PS Lee and Ms. LC Lau with limited amount and secured by (i) the Group’s investment properties with carrying amount of approximately HK\$8,208,000 and HK\$7,943,000 as at 31 March 2016 and 2017 respectively; (ii) the Group’s property classified as held for sale with carrying amount of approximately HK\$3,410,000 as at 31 March 2018 and (iii) certain properties of Mr. PS Lee and Ms. LC Lau as of 31 March 2016, 2017 and 2018.

[The directors of the Company have represented to us that they expect that such personal guarantee and securities from Mr. PS Lee and Mr. LC Lau will be released on or before the completion of the [REDACTED].]

APPENDIX I

ACCOUNTANTS’ REPORT

25. PROVISIONS

	Long service payments HK\$’000
At 1 April 2015	343
Addition	<u>5</u>
At 31 March 2016	348
Reversal on provision	<u>(21)</u>
At 31 March 2017	327
Reversal on provision	<u>(73)</u>
At 31 March 2018	<u><u>254</u></u>

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management’s best estimate of probable future payments which have been earned by the employees from their services to the group entities up to the end of each reporting period.

26. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, deferred tax asset and liability have been offset. The following are the deferred tax liability and asset recognised and movements thereon during the Track Record Period:

	Accelerated tax depreciation HK\$’000	Provision for long service HK\$’000	Total HK\$’000
At 1 April 2015	(316)	57	(259)
Charged to profit or loss	<u>26</u>	<u>1</u>	<u>27</u>
At 31 March 2016	(290)	58	(232)
Credit to profit or loss	<u>(122)</u>	<u>(4)</u>	<u>(126)</u>
At 31 March 2017	(412)	54	(358)
Charged (credit) to profit or loss	<u>248</u>	<u>(12)</u>	<u>236</u>
At 31 March 2018	<u><u>(164)</u></u>	<u><u>42</u></u>	<u><u>(122)</u></u>

APPENDIX I**ACCOUNTANTS’ REPORT**

27. SHARE CAPITAL**The Group**

The share capital as at 1 April 2015 and 31 March 2016 and 2017 represented the share capital of Hang Yick. The share capital as at 31 March 2018 represented the share capital of the Company.

The Company

Details of movements of share capital of the Company are as follows:

	Number of shares	Share capital HK\$’000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 6 March 2018 (date of incorporation) and 31 March 2018	<u>38,000,000</u>	<u>380</u>
Issued:		
At date of incorporation	2	—*
Issue of shares	<u>98</u>	<u>—*</u>
At 31 March 2018	<u><u>100</u></u>	<u><u>—*</u></u>

* Amount less than HK\$1,000

The Company was incorporated on 6 March 2018 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

At the date of incorporation, one share of the Company was allotted and issued nil-paid to the initial subscriber of our Company, an independent third party, and was transferred to Mr. PS Lee on the same date. On the same date, 1 nil-paid share of the Company was allocated and issued at par to Ms. LC Lau.

On 28 March 2018, as part of the Group Reorganisation as disclosed in note 1, HY Metal acquired from Mr. PS Lee and Ms.LC Lau all of their shares in Hang Yick. In consideration thereof, the Company allotted and issued as fully paid 98 shares to HY Steel. The new shares rank pari passu with the then existing share in all aspects.

APPENDIX I**ACCOUNTANTS’ REPORT**

28. OPERATING LEASE COMMITMENTS**The Group as lessor**

Property rental income earned during the Track Record Period were approximately HK\$376,000, HK\$341,000 and HK\$395,000. Certain of the Group’s properties held for rental purposes, with a carrying amount of approximately HK\$8,208,000, HK\$7,943,000 and HK\$3,410,000 as at 31 March 2016, 2017 and 2018. All of the properties held have committed tenants for next one to two years.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 March		
	2016	2017	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Within one year	264	220	138
In the second to fifth year inclusive	<u>88</u>	<u>55</u>	<u>81</u>
	<u><u>352</u></u>	<u><u>275</u></u>	<u><u>219</u></u>

The Group as lessee

Details of the Group’s operating lease commitment as lessee for a lease entered into with a related company are disclosed in note 34(b).

29. RETIREMENT BENEFITS SCHEMES

The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years. The cap of contribution amount is HK\$1,500 per employee per month.

The retirement benefits schemes contributions arising from the MPF Scheme charged to the consolidated statements of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The PRC subsidiary is required to make contributions to the state-managed retirement schemes operated by the local governments based on certain percentage of the monthly salaries of their current employees to fund the benefits.

The only obligation of the Group with respect to the above defined contribution retirement benefit schemes are to make the required contributions under the respective schemes.

The contributions paid and payable to the schemes by the Group during the Track Record Period were HK\$2,015,000, HK\$2,304,000 and HK\$2,883,000, respectively.

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of debt, which includes bank borrowings, amounts due to related companies and Controlling Shareholders as disclosed in respective notes, and equity of the Group, comprising issued share capital and reserves.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of borrowings or the repayment of the existing borrowings.

APPENDIX I

ACCOUNTANTS’ REPORT

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP			THE COMPANY
	As at 31 March			As at 31 March
	2016	2017	2018	2018
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>68,695</u>	<u>85,724</u>	<u>65,955</u>	<u>—</u>
Financial liabilities				
Amortised cost	<u>59,039</u>	<u>58,257</u>	<u>12,339</u>	<u>8,529</u>

(b) Financial risk management objectives and policies

The Group’s financial instruments include trade receivables, retention receivables, other receivables and deposits, amounts due from related companies, bank balances and cash, trade and other payables and accruals, amount due to a related company, amounts due to Controlling Shareholders and bank borrowings. The Company’s financial instruments include other payables and accruals and amount due to a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Interest rate risk

The Group’s fair value interest rate risk relates primarily to fixed-rate obligations under finance leases, currently, the Group has not used any derivative contracts to hedge these exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arises.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 21 and 24 for details of the bank balances and bank borrowings respectively). The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group’s exposure on ongoing basis and will consider hedging interest rate risk should the need arises.

The Group’s cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong dollar prime rate arising from the Group’s variable-rate bank borrowings.

APPENDIX I

ACCOUNTANTS’ REPORT

No sensitivity analysis is provided on variable-rate bank balances and bank borrowings as the management of the Group considers that the interest rate fluctuation on bank balances and bank borrowings is minimal.

(ii) *Credit risk*

The Group’s credit risk is primarily attributable to trade receivables, retention receivables, other receivables and deposits, amount due from related companies and bank balances.

The Group’s maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position at the end of the reporting period.

Management adopted a policy on providing credit facilities to customers. A credit investigation, including assessment of financial information, advice from business partners in relation to potential customers and credit search, would be required to be launched. The level of credit granted must not exceed a predetermined level set by the management. Credit evaluation is performed on a regular basis.

The Group has concentration of credit risks with exposure limited to certain customers. The top debtor comprised approximately 39.2%, 30.4% and 23.1% of the Group’s trade receivables and 51.9%, 42.9% and 29.3% of the Group’s retention receivables as at 31 March 2016, 2017 and 2018 respectively. The top five debtors comprised approximately 82.6%, 73.0% and 70.5% of the Group’s trade receivables and 92.0%, 85.2% and 79.9% of the Group’s retention receivables as at 31 March 2016, 2017 and 2018 respectively. All these top five debtors are customers located in Hong Kong. The directors closely monitor the settlement of the customers. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

The credit risk for bank balances is considered not material as such amounts are placed in banks with good reputations.

(iii) *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group’s operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group’s remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specially, bank borrowings with a repayment on demand clause are included in the earliest time bend regardless of the probability of the banks choosing to exercise their rights.

APPENDIX I

ACCOUNTANTS’ REPORT

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Within 3 months HK\$'000	4 - 12 months HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
THE GROUP							
As at 31 March 2016							
Non-derivative financial liabilities							
Trade and other payables and accruals	N/A	297	4,751	—	—	5,048	5,048
Amount due to a related company	N/A	273	—	—	—	273	273
Amounts due to Controlling Shareholders	N/A	51,221	—	—	—	51,221	51,221
Bank borrowings	N/A	2,497	—	—	—	2,497	2,497
Obligations under finance leases	2.31	—	128	383	648	1,159	1,105
		<u>54,288</u>	<u>4,879</u>	<u>383</u>	<u>648</u>	<u>60,198</u>	<u>60,144</u>
As at 31 March 2017							
Non-derivative financial liabilities							
Trade and other payables and accruals	N/A	534	13,456	—	—	13,990	13,990
Amount due to a related company	N/A	273	—	—	—	273	273
Amounts due to Controlling Shareholders	N/A	42,058	—	—	—	42,058	42,058
Bank borrowings	N/A	1,936	—	—	—	1,936	1,936
Obligations under finance leases	2.33	—	269	768	1,048	2,085	1,992
		<u>44,801</u>	<u>13,725</u>	<u>768</u>	<u>1,048</u>	<u>60,342</u>	<u>60,249</u>
As at 31 March 2018							
Non-derivative financial liabilities							
Trade and other payables and accruals	N/A	853	10,129	—	—	10,982	10,982
Bank borrowings	N/A	1,357	—	—	—	1,357	1,357
Obligations under finance leases	2.25	—	216	471	353	1,040	1,013
		<u>2,210</u>	<u>10,345</u>	<u>471</u>	<u>353</u>	<u>13,379</u>	<u>13,352</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Weighted average effective interest rate %	Repayable on demand HK\$’000	Within 3 months HK\$’000	4 - 12 months HK\$’000	1 year to 5 years HK\$’000	Total undiscounted cash flows HK\$’000	Total carrying amount HK\$’000
THE COMPANY							
As at 31 March 2018							
Non-derivative financial liabilities							
Other payables and accruals	N/A	—	2,640	—	—	2,640	2,640
Amount due to a subsidiary	N/A	5,889	—	—	—	5,889	5,889
		<u>5,889</u>	<u>2,640</u>	<u>—</u>	<u>—</u>	<u>8,529</u>	<u>8,529</u>

Bank borrowings with a repayment on demand clause are included in the “Repayment on demand” time band in the above maturity analysis. As at 31 March 2016, 2017 and 2018, the aggregate carrying amount of these bank borrowings of approximately HK\$2,497,000, HK\$1,936,000 and HK\$1,357,000, respectively. Taking into account the Group’s financial position, management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Management of the Group believes that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

For the purpose of managing liquidity risk, management of the Group reviews the expected cash flow information of the Group’s bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements as set out in the table below:

	Weighted Average effective interest rate %	Within 3 months HK\$’000	4 - 12 months HK\$’000	1 year to 5 years HK\$’000	More than 5 years HK\$’000	Total undiscounted cash flows HK\$’000	Total carrying amount HK\$’000
Bank borrowings:							
As at 31 March 2016	3.37	159	477	2,005	46	2,687	2,497
As at 31 March 2017	3.36	159	477	1,416	—	2,052	1,936
As at 31 March 2018	3.35	<u>159</u>	<u>477</u>	<u>780</u>	<u>—</u>	<u>1,416</u>	<u>1,357</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

APPENDIX I

ACCOUNTANTS’ REPORT

Fair value measurement

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statements of cash flows as cash flows from financing activities.

	Amount due to a related company <i>HK\$’000</i>	Amounts due to Controlling Shareholders <i>HK\$’000</i>	Obligations under finance leases <i>HK\$’000</i>	Bank borrowings <i>HK\$’000</i>	Dividend payable <i>HK\$’000</i>	Total <i>HK\$’000</i>
At 1 April 2015	273	55,865	—	3,038	—	59,176
Financing cash flows	—	(4,644)	(217)	(635)	—	(5,496)
Finance costs	—	—	22	94	—	116
Purchase of property, plant and equipment	—	—	1,300	—	—	1,300
Exchange realignment	—	—	—	—	—	—
At 31 March 2016	273	51,221	1,105	2,497	—	55,096
Financing cash flows	—	(6,360)	(699)	(636)	(24,000)	(31,695)
Finance costs	—	—	57	75	—	132
Purchase of property, plant and equipment	—	—	1,529	—	—	1,529
Dividend declared	—	—	—	—	24,000	24,000
Exchange realignment	—	(2,803)	—	—	—	(2,803)
At 31 March 2017	273	42,058	1,992	1,936	—	46,259
Financing cash flows	(273)	(44,646)	(1,344)	(635)	(24,000)	(70,898)
Finance costs	—	—	65	56	—	121
Purchase of property, plant and equipment	—	—	300	—	—	300
Dividend declared	—	—	—	—	24,000	24,000
Exchange realignment	—	2,588	—	—	—	2,588
At 31 March 2018	—	—	1,013	1,357	—	2,370

APPENDIX I

ACCOUNTANTS’ REPORT

33. RESERVE OF THE COMPANY

Movement in the Company’s reserve

	Accumulated losses <i>HK\$’000</i>
At 6 March 2018 (date of incorporation)	—
Loss and total comprehensive expense for the period	<u>6,397</u>
At 31 March 2018	<u><u>6,397</u></u>

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

	Year ended 31 March		
	2016 <i>HK\$’000</i>	2017 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Sales to related companies ^(Note a)	<u>4,001</u>	<u>2,311</u>	<u>—</u>
Rental expenses to a related company ^(Note b)	<u>—</u>	<u>—</u>	<u>142</u>

Notes:

- (a) These related companies are controlled by directors of the Company.
- (b) At the end of each reporting period, the Group had commitments for future minimum payments under non-cancellable operating lease for a warehouse premises with a company controlled by Mr. PS Lee, which fall due as follows:

	As at 31 March		
	2016 <i>HK\$’000</i>	2017 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Within one year	—	—	566
In the second to fifth year inclusive	<u>—</u>	<u>—</u>	<u>991</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>1,557</u></u>

The above lease is negotiated for a fixed term of 3 years with fixed rental during the lease term.

APPENDIX I**ACCOUNTANTS’ REPORT**

During the year ended 31 March 2018, the Group disposed of investment properties with aggregate carrying amount of HK\$4,280,000 to a related party (being the son of Mr. PS Lee and Ms. LC Lau) for a cash consideration of HK\$10,600,000.

During the Track Record Period, certain premises held by Mr. PS Lee and Ms. LC Lau (either individually or jointly) were used by the Group as office and showroom without consideration. Subsequently on 7 May 2018, the Group entered into lease agreements with Mr. PS Lee and Ms. LC Lau in respect of such premises for a term of approximately 35 months commencing from 7 May 2018 to 31 March 2021 at an aggregate monthly rental of HK\$57,000.

Details of the balances with related companies and Controlling Shareholders of the Company at the end of the reporting period are disclosed in the statements of financial position and note 20.

Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record Period were as follows:

	Year ended 31 March		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	904	909	2,471
Retirement benefit scheme contributions	<u>44</u>	<u>44</u>	<u>78</u>
	<u>948</u>	<u>953</u>	<u>2,549</u>

35. MAJOR NON-CASH TRANSACTIONS

During the Track Record Period, the Group entered into finance lease arrangements in respect of certain motor vehicles with a total capital value at inception of the respective leases of approximately HK\$1,300,000 HK\$1,529,000 and HK\$300,000 respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

36. PARTICULARS OF SUBSIDIARIES

Particulars of the Company’s subsidiaries at the end of each reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and full paid share capital/ registered capital	Attributable equity interest of the Group as at 31 March			date of this report	Principal activities	Notes
				2016	2017	2018			
Hang Yick	Hong Kong 20 January 1993	Hong Kong	Ordinary share of HK\$10,000	100%	100%	100%	[100%]	Design, manufacture, supply and installation of steel and metal products for construction projects	(a)
惠州恒益五金製品有限公司 Huizhou Hengyi Wujin Zhipin Limited (“Huizhou Hengyi”)	The PRC 27 August 2010	The PRC	Registered capital of HK\$10,000,000	100%	100%	100%	[100%]	Manufacture and sales of steel and metal products	(b)
HY Metal	British Virgin Islands 15 March 2018	Hong Kong	Ordinary share of US\$1	n/a	n/a	100%	[100%]	Investment holding	(c)

Except for Huizhou Hengyi which have a financial year end of 31 December, all subsidiaries now comprising the Group are limited liability companies and have adopted 31 March as their financial year end date. Except for HY Metal which is a directly wholly-owned subsidiary of the Company, all other subsidiaries are indirectly held by the Company.

Notes:

- (a) The statutory financial statements of Hang Yick for the years ended 31 March 2016 and 2017 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by Roger K.C. Tou & Co., certified public accountants and Lau Chung Wai (Certified Public Accountant (Practising)) respectively. [The statutory financial statements of Hang Yick for the year ended 31 March 2018 are not yet due for issuance as of the date of this report.]
- (b) Huizhou Hengyi is a wholly foreign-owned enterprise established in the PRC. The financial statements of Huizhou Hengyi for the years ended 31 December 2015, 2016 and 2017 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 惠州康海會計師事務所(普通合伙), certified public accountants registered in the PRC.
- (c) No audited financial statements have been prepared for HY Metal since its date of incorporation as it was incorporated in jurisdiction where there is no statutory audit requirement.

37. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the Historical Financial Information, subsequent events of the Group are details as below:

[(a) Increase of authorised and issued share capital of the Company]

On [●], the shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$[380,000] to HK\$[38,000,000] by the creation of [3,762,000,000] additional shares, each ranking pari passu with the shares of the Company then in issue in all respects.

Pursuant to the written resolutions of the shareholders of the Company passed on [●] 2018, subject to the share premium account of the Company being credited as a result of the [REDACTED] and [REDACTED] of the Company’s share on the Stock Exchange, the directors of the Company are authorised to allot and issue a total of [REDACTED] shares of the Company credited as fully paid at par to the holder(s) of shares on the register of members of the Company at the close of business on [●] 2018 (or as they may direct) in proportion to their shareholdings (save that no shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK\$[REDACTED] standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares of the Company.

(b) Share option scheme

The Company has conditionally adopted a share option scheme on [●]. Details of the principal terms of the share option scheme are summarised in “Statutory and General Information — D. Share Option Scheme” in appendix [IV] to the Document.]

[●]

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 March 2018.

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants’ report on the historical financial information of the Group (the “Accountants’ Report”) from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this document, and is included herein for information only. The unaudited [REDACTED] financial information should be read in conjunction with the section headed “Financial information” in this document and “Accountants’ Report” set forth in Appendix I to this document.

A. STATEMENT OF UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

B. INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION

[REDACTED]

[REDACTED]

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be

APPENDIX III

**SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 April 2018.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND THE CAYMAN ISLANDS COMPANIES LAW**

Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 6 March 2018. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 April 2018 and our principal place of business in Hong Kong is at Unit B, Upper G/F, Stage 4, Yau Tong Industrial Building, 18-20 Sze Shan Street, Yau Tong, Kowloon, Hong Kong. Mr. PS Lee of G-2/F, 101 Shok Wu Wai, San Tin, Yuen Long, New Territories, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the relevant laws of the Cayman Islands and the constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix III to this document.

2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, the authorised share capital was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. One nil-paid Share was allotted and issued to the subscriber on 6 March 2018, which was subsequently transferred to Mr. PS Lee on the same date. On the same date, one nil-paid Share was allotted and issued at par to Ms. LC Lau.
- (b) On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of our Company to HY Steel at consideration of HK\$1 each.
- (c) On 28 March 2018, Mr. PS Lee and Ms. LC Lau transferred the entire issued share capital of Hang Yick to HY Metal. In consideration of the acquisition, our Company created, allotted and issued 98 new Shares, credited as fully paid, to HY Steel; and credited one nil paid share owned by Mr. PS Lee and one nil paid share owned by Ms. LC Lau as fully paid. Mr. PS Lee and Ms. LC Lau transferred the Shares to HY Steel at nominal consideration.
- (d) On [●], our Shareholder resolved to increase the authorised share capital of our Company from HK\$[380,000] to HK\$[38,000,000] by the creation of [3,762,000,000] additional Shares, each ranking pari passu with our Shares then in issue in all respects.
- (e) Immediately following completion of the [REDACTED] and the [REDACTED], and taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, [REDACTED] Shares will be issued fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (f) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our existing Shareholder passed on [●]” in this appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares which would effectively alter the control of our Company will be made.
- (g) Save as disclosed in “Share Capital” and “History, Reorganisation and Corporate Structure” to this document, there has been no alteration in our Company’s share capital since its incorporation.

3. Written resolutions of our existing Shareholder passed on [●]

On [●], resolutions in writing were passed by our Shareholder pursuant to which, among other things:

- (a) our Company approved and adopted the Memorandum with immediate effect and the Articles conditionally with effect from the [REDACTED], the terms of which are summarised in Appendix III to this document;
- (b) the authorised share capital of our Company be increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$[38,000,000] divided into [3,800,000,000] Shares of HK\$0.01 each by the creation of an additional [3,762,000,000] Shares of HK\$0.01 each, ranking pari passu with the existing Shares in all respects;
- (c) conditional on the Listing Committee granting the [REDACTED] of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this document, including any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme, and on the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms of the [REDACTED] or otherwise, in each case on or before the date falling 30 days after the date of this document:
 - (i) the [REDACTED] was approved and our Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] to rank pari passu with the then existing Shares in all respects;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” of this appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Share Option Scheme to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (iii) conditional further on the share premium account of our Company being credited as a result of the [REDACTED], the [REDACTED] be approved, and our Directors were authorised to capitalise an amount of HK\$[REDACTED] standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par [REDACTED] Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of our Company at the close of business on [●] in proportion (as nearly as possible without involving fractions) to its/ their then existing shareholdings in our Company, each ranking pari passu in all respects with the Shares then in issue, and the Directors were authorised to give effect to such capitalisation and distributions;
- (d) general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Memorandum and the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the [REDACTED], Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] and [REDACTED] but excluding or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on Main Board or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

immediately following completion of the [REDACTED] or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [REDACTED] or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

4. Corporate Reorganisation

In preparing for the [REDACTED], the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. See “History, Reorganisation and Corporate Structure — Business and corporate development — Reorganisation” for further details.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this document.

Save for the alterations described in “History, Reorganisation and Corporate Structure”, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in this document concerning the repurchase of our Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) Shareholders’ approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions passed by our Shareholder on [●], a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [REDACTED] and the [REDACTED] but excluding any Shares which may be issued under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules. Our Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits, out of our Company’s share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company’s share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(iii) *Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a “core connected person” (as defined in the Listing Rules), which includes a director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders.

(c) *Exercise of the Repurchase Mandate*

On the basis of [REDACTED] Shares in issue immediately after completion of the [REDACTED], our Directors would be authorised under the Repurchase Mandate to repurchase up to [REDACTED] Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(d) *Funding of repurchase*

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) **General**

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders’ interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase our Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this document and are or may be material in relation to the business of our Company taken as a whole:

- (a) an agreement for the sale and purchase dated 28 March 2018 entered into between Mr. PS Lee and Ms. LC Lau as vendors and HY Steel as purchaser, in relation to the sale and purchase of two Shares of our Company in consideration of HK\$1 each;
- (b) an agreement for the sale and purchase dated 28 March 2018 entered into between Mr. PS Lee and Ms. LC Lau as vendors and HY Metal as purchaser, in relation to the sale and purchase of the entire issued share capital of Hang Yick. In consideration, our Company allotted and issued 98 new Shares, credited as fully paid, to HY Steel;
- (c) the Deed of Non-competition dated [●] given by Mr. PS Lee, Ms. LC Lau and HY Steel in favour of our Company;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (d) the Deed of Indemnity dated [●] given by Mr. PS Lee, Ms. LC Lau and HY Steel in favour of our Company; and
- (e) the [REDACTED] dated [●] relating to the [REDACTED] and entered into between our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED], details of which are summarised in [REDACTED].

2. Intellectual property rights of our Group

(a) *Trademark*

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks in Hong Kong that is considered to be or may be material to our business and with which we conduct the majority of our business:

Trademark	Applicant	Class	Application number
	Hang Yick Gate Engineering Limited	6, 17, 37, 40 & 42	304410143
			
			
			

(b) *Patent*

As at the Latest Practicable Date, our Group has registered the following patent:

Patent	Registrant	Patent number	Expiry Date
Fire-rated Door	Hang Yick Gate Engineering Limited	HK1176513	8 February 2021

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(c) *Domain names*

As at the Latest Practicable Date, our Group has registered the following domain names:

Domain name	Registrant	Expiry date
www.hy-engineering.com	Hang Yick Gate Engineering Limited	20 March 2020

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) *Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following the completion of the [REDACTED] or upon the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are [REDACTED] on the Main Board, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Rules 5.46 to 5.67 of the Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, will be as follows:

(i) Long position in the Share

Name of Director/ chief executive	Capacity/nature of interest	Number of Shares held/interested immediately following completion of the [REDACTED] and the [REDACTED] (Note 1)	Percentage of shareholding immediately following completion of the [REDACTED] and the [REDACTED]
Mr. PS Lee (Note 2)	Interest in a controlling corporation/Interest of spouse	[REDACTED]	[REDACTED]
Ms. LC Lau (Note 3)	Interest in a controlling corporation/Interest of spouse	[REDACTED]	[REDACTED]

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

Notes:

- (1) All interests stated are long positions.
- (2) Mr. PS Lee beneficially owns 70% of the issued share capital of HY Steel. Mr. PS Lee is the spouse of Ms. LC Lau and is deemed to be interested in 30% of the issued share capital of HY Steel. Therefore, Mr. PS Lee is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Mr. PS Lee is also a director of HY Steel.
- (3) Ms. LC Lau beneficially owns 30% of the issued share capital of HY Steel. Ms. LC Lau is the spouse of Mr. PS Lee and is deemed to be interested in 70% of the issued share capital of HY Steel. Therefore, Ms. LC Lau is deemed to be interested in all the Shares held by HY Steel for the purpose of the SFO. Ms. LC Lau is also a director of HY Steel.

(b) *Interests of substantial and other Shareholders in our Shares and underlying Shares*

So far as is known to our Directors and taking no account of any Shares which may be taken up under the [REDACTED], or pursuant to options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the [REDACTED], have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/nature of interest	Number of Shares <i>(Note 1)</i>	Percentage of shareholding
HY Steel	Beneficial owner	[REDACTED]	[REDACTED]

Note:

- (1) All interests stated are long positions.

2. Particulars of service agreements

None of our Directors has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Remuneration of Directors

- (a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the Track Record Period were approximately HK\$189,000, HK\$189,000 and HK\$425,000, respectively.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 March 2019 will be approximately HK\$3.0 million.
- (c) Under the arrangements currently proposed, conditional upon the [REDACTED], the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

HK\$

Executive Directors

Mr. PS Lee	1,200,000
Ms. LC Lau	1,200,000

Non-executive Director

Mr. Benny Lee	600,000
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Independent non-executive Directors

[Mr. Au Yeung Wai Key]	180,000
[Hon Cheung Kwok Kwan, JP]	180,000
[Mr. Tse Ka Ching Justin]	180,000

- (d) Each of our Directors has entered into a service contract with our Company for a term of three years commencing from the [REDACTED], which may be terminated by not less than three months' notice served by either party on the other, and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles.

4. Fees or commission received

Save as disclosed in “[REDACTED]” in this document, none of our Directors or the experts named in the paragraph headed “Consents of experts” in this appendix had received any agency fee or commissions from our Group within the three years preceding the date of this document.

5. Related party transactions

Details of the related party transactions are set out under notes 34 to the Accountants' Report set out in Appendix I to this document.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

6. Disclaimers

Save as disclosed in this document:

- (a) taking no account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandates as referred to in “A. Further information about our Company” in this appendix, and taking no account of Shares which may be taken up under the [REDACTED], our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the [REDACTED], have an interest or short position in our Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (b) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) which, once our Shares are [REDACTED] on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange;
- (c) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (e) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group;
- (g) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on [●]. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	[●], the date on which the Share Option Scheme is conditionally adopted by our Shareholder by way of written resolutions
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealings in securities
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

2. Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholder passed on [●]:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(b) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(c) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange’s daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price, where our Company has been [REDACTED] on the Stock Exchange for less than five Business Days, the [REDACTED] price of the Shares on the Stock Exchange shall be used as the closing price for any Business Day fall within the period before [REDACTED].

(d) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(e) *Maximum number of Shares*

- (i) Subject to sub-paragraphs (ii) and (iii) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the [REDACTED]. Therefore, it is expected that our Company may grant options in respect of up to [REDACTED] Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such [REDACTED] Shares from time to time) to the participants under the Share Option Scheme.
- (ii) The 10% limit as mentioned above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.
- (iii) Our Company may seek separate approval from our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.
- (iv) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(f) *Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his close associates abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of our Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(g) *Grant of options to certain connected persons*

- i. Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective close associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- ii. Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective close associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
 - (a) representing in aggregate over 0.1% of our Shares in issue; and
 - (b) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million, such further grant of options is required to be approved by the Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. All core connected persons of our Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective close associates is also required to be approved by the Shareholders in the aforesaid manner.

(h) *Restrictions on the times of grant of options*

- (i) An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
 - (b) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules),
- (ii) Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published and:
- (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (b) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) ***Time of exercise of option***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as our Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(j) ***Performance targets***

Save as determined by our Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(k) ***Ranking of Shares***

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with our fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(l) ***Rights are personal to grantee***

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(m) ***Rights on cessation of employment by death***

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (n) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee’s entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (q), (r) and (s) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(n) ***Rights on cessation of employment by dismissal***

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee’s service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(o) ***Rights on cessation of employment for other reasons***

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment of an on one or more of the grounds specified in (n) above, the option (to the extent not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(p) ***Effects of alterations to share capital***

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time, provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value

(q) *Rights on a general offer*

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/ or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(r) *Rights on winding-up*

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Group give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(s) *Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

considering such compromise or arrangement (“**Suspension Date**”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavor to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of our officers.

(t) *Lapse of options*

An option shall lapse automatically on the earliest of:

- (i) the expiry of the period referred to in paragraph (i) above;
- (ii) the date on which our Board exercises our Company’s right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (l);
- (iii) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (m), (o), (q), (r) or (s) above;
- (iv) subject to paragraph (r) above, the date of the commencement of the winding-up of our Company;
- (v) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(vi) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or

(vii) subject to the compromise or arrangement as referred to in paragraph (s) become effective, the date on which such compromise or arrangement becomes effective.

(u) *Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as our Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(v) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

(w) *Alteration to the Share Option Scheme*

(i) The Share Option Scheme may be altered in any respect by resolution of our Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.

(ii) Any amendment to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of our Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iii) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the Listing Rules or any guidelines issued by the Stock Exchange from time to time.

(x) *Termination to the Share Option Scheme*

Our Company by resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

(y) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the [REDACTED] granting the [REDACTED] of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

3. Present status of the Share Option Scheme

Application has been made to the [REDACTED] for the [REDACTED] of and permission to deal in the Shares which fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred in “B. Further information about the business — 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things, (a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which our [REDACTED] becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which our [REDACTED] becomes unconditional; and (b) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which our [REDACTED] becomes unconditional. The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such taxation liability or taxation claim in the audited consolidated financial statements of any member of our Group for the Track Record Period; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the [REDACTED] becomes unconditional; or

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (c) the taxation liability arises in the ordinary course of business of our Group after 31 March 2018 up to and including the date of which the [REDACTED] becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

Our Director confirmed that as at the Latest Practicable Date, save as disclosed in “Business – Litigation and claims” of this document, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the [REDACTED] of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein including any Shares falling to be issued pursuant to the exercise of any options which may be under the Share Option Scheme.

The Sole Sponsor’s fees are HK\$[REDACTED] and are payable by our Company.

4. Compliance adviser

We have appointed Fortune Financial Capital Limited as our compliance adviser upon [REDACTED] pursuant to Rule 3A.19 of the Listing Rules. Further details of the appointment are set out in the section headed “Directors and Senior Management — Compliance adviser”.

5. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$42,588 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualifications
Fortune Financial Capital Limited	A licensed corporation to engage in type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Khoo & Co.	Legal adviser as to Hong Kong law
Deheng Law Offices (Shenzhen)	Legal adviser as to the PRC law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Frost & Sullivan Limited	Independent industry consultant
Ms. Sabrina S.Y. Ho	Barrister-at-law in Hong Kong

8. Consents of experts

Each of Fortune Financial Capital Limited, Deloitte Touche Tohmatsu, Khoo & Co., Deheng Law Offices (Shenzhen), Conyers Dill & Pearman, Frost & Sullivan Limited and Ms. Sabrina S.Y. Ho has given and has not withdrawn its written consent to the issue of this document with the inclusion of its letters and/or reports and/or valuation certificates and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

9. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by [REDACTED] and a branch register of members of our Company will be maintained by [REDACTED]. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s [REDACTED] in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable our Shares to be admitted into [REDACTED].

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

11. Material adverse change

Our Directors confirm, save for the matters disclosed in “Financial Information — Material adverse changes”, that there has not been any material adverse change in the financial or trading position or prospects of our Group since 31 March 2018 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this document.

12. Taxation of holders of Shares

(a) Hong Kong

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

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the [REDACTED] accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

13. Miscellaneous

1. Save as disclosed in this document:

(a) Within the two years immediately preceding the date of this document:

- (i) no share or loan capital of our Company or any of the subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration than cash;
- (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any capital of our Company or any of the subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of the subsidiaries;

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

- (iii) no commission has been paid or is payable (except to [REDACTED]) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
 - (iv) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
 - (v) no share or loan capital of our Company or any of the subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (b) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this document;
- (c) none of the experts:
- (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (j) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
- (d) our Company and its subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
- (e) our Directors have been advised that, under the Cayman Islands law, the use of a Chinese name approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands law;
- (f) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (g) our Group has no outstanding convertible debt securities; and
- (h) the English text of this document shall prevail over the Chinese text.

13. Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the [REDACTED];
- (b) copies of the material contracts referred to in “Statutory and General Information — B. Further information about the business — 1. Summary of material contracts” in Appendix IV to this document; and
- (c) the written consents referred to in “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Khoo & Co. 2nd and 5th Floor, Tern Centre Tower 2, 251 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountants’ Report and the independent reporting accountants assurance report on the unaudited [REDACTED] financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this document, respectively;
- (c) the audited consolidated financial statements of our Group for each of the three years ended 31 March 2018;
- (d) the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal adviser, summarising certain aspects of Cayman Islands company law referred to in Appendix III to this document;
- (e) the material contracts referred in “Statutory and General Information — B. Further information about the business — 1. Summary of material contracts” in Appendix IV to this document;
- (f) the service agreements and letters of appointment referred in “Statutory and General Information — C. Further information about substantial Shareholders, Directors and experts”;
- (g) the rules of the Share Option Scheme;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
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- (h) the written consents referred in “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix IV to this document;
- (i) the Companies Law;
- (j) the legal opinion issued by Ms. Sabrina S.Y. Ho, a barrister-at-law in Hong Kong advising on the Inland Revenue Ordinance;
- (k) the legal opinion issued by Khoo & Co., our legal adviser as to Hong Kong Law, advising on certain aspects on Hong Kong laws; and
- (l) the independent industry report issued by Frost & Sullivan.