



# Heng Hup Holdings Limited

## 興合控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1891

## SHARE OFFER

Sole Sponsor



Joint Global Coordinators and Joint Bookrunners



## IMPORTANT

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



### Heng Hup Holdings Limited

興合控股有限公司

(incorporated in the Cayman Islands with limited liability)

#### Share Offer

Number of Offer Shares	:	250,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	:	25,000,000 Shares (subject to reallocation)
Number of Placing Shares	:	225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	:	Not more than HK\$0.62 per Offer Share and expected to be not less than HK\$0.50 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Par value	:	HK\$0.01 per Share
Stock code	:	1891

#### Sole Sponsor



#### Joint Global Coordinators



#### Joint Bookrunners and Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). Neither the Securities and Futures Commission of Hong Kong nor the Registrar of Companies in Hong Kong takes any responsibility as to the contents of this prospectus or any of the other documents referred to above.

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

The Offer Price will be not more than HK\$0.62 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share unless otherwise announced. Prospective investors applying for the Public Offer Shares shall pay on application the maximum Offer Price of HK\$0.62 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price finally determined is lower than HK\$0.62 per Offer Share.

The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares being offered under the Share Offer and/or the Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published a notice of reduction on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.henghup.com](http://www.henghup.com). Please refer to the sections headed "Structure of the Share Offer" and "How to Apply for the Public Offer Shares" of this prospectus for further information.

The final Offer Price is expected to be determined by the Price Determination Agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), on Tuesday, 5 March 2019. If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) are unable to reach any agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Friday, 8 March 2019, the Share Offer will not become unconditional and will lapse immediately.

Prospective investors of the Offer Shares should note that the Joint Global Coordinators have the right, in their sole and absolute discretion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement upon the occurrence of any of the events set out in the paragraph headed "Underwriting — Public Offer — Grounds for termination of the Public Offer Underwriting Agreement" of this prospectus, at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement in accordance with its terms, the Share Offer will not become unconditional and will lapse immediately.

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

27 February 2019

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## EXPECTED TIMETABLE

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*If there is any change in the following expected timetable of the Public Offer, we will issue an announcement in Hong Kong to be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.henghup.com](http://www.henghup.com).*

Public Offer commences and **WHITE** and

**YELLOW** Application Forms available from . . . . . 9:00 a.m. on  
Wednesday, 27 February 2019

Application lists of the Public Offer open <sup>(Note 2)</sup> . . . . . 11:45 a.m. on  
Monday, 4 March 2019

Latest time to lodge **WHITE** and **YELLOW**

Application Forms . . . . . 12:00 noon on  
Monday, 4 March 2019

Latest time to give **electronic application**

**instructions** to HKSCC <sup>(Note 3)</sup> . . . . . 12:00 noon on  
Monday, 4 March 2019

Application lists of the Public Offer close <sup>(Note 2)</sup> . . . . . 12:00 noon on  
Monday, 4 March 2019

Expected Price Determination Date <sup>(Note 4)</sup> . . . . . Tuesday, 5 March 2019

(1) Announcement of:

- the Offer Price;
- an indication of the level of interest in the Placing;
- the level of applications in the Public Offer; and
- the basis of allocation of the Public Offer Shares

to be published on the websites of the Stock Exchange

at [www.hkexnews.hk](http://www.hkexnews.hk) <sup>(Note 6)</sup> and our Company

at [www.henghup.com](http://www.henghup.com) <sup>(Note 7)</sup> on or before . . . . . Thursday, 14 March 2019

(2) Announcement of results of allocations in the

Public Offer (including successful applicants’

identification document numbers, where appropriate)

to be available through a variety of channels including

the websites of the Stock Exchange

at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website

at [www.henghup.com](http://www.henghup.com) (see the paragraph headed

“How to Apply for the Public Offer Shares — 10. Publication

of results” of this prospectus) from. . . . . Thursday, 14 March 2019



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## EXPECTED TIMETABLE

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- (3) A full announcement of the Public Offer containing (1) and (2) above to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) <sup>(Note 6)</sup> and our Company's website at [www.henghup.com](http://www.henghup.com) <sup>(Note 7)</sup> from . . . . . Thursday, 14 March 2019

### Results of allocations for the Public Offer

will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function . . . . . Thursday, 14 March 2019

### Despatch/collection of Share certificates in respect

of wholly or partially successful applications pursuant to the Public Offer on or before <sup>(Note 5)</sup> . . . . . Thursday, 14 March 2019

### Despatch/collection of refund cheques in respect of

wholly or partially unsuccessful application pursuant to the Public Offer on or before <sup>(Note 8)</sup> . . . . . Thursday, 14 March 2019

### Dealings in Shares on the Stock Exchange to

commence on . . . . . Friday, 15 March 2019

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#### Notes:

1. All times and dates refer to Hong Kong local time and date, except as otherwise stated.
2. If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12: 00 noon on Monday, 4 March 2019, the application lists will not open on that day. Please refer to the paragraph headed "How to Apply for the Public Offer Shares — 9. Effect of bad weather on the opening of application lists" of this prospectus.
3. Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to the paragraph headed "How to Apply for the Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS" of this prospectus.
4. The Price Determination Date is expected to be on or around Tuesday, 5 March 2019 and, in any event, not later than Friday, 8 March 2019. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company by Friday, 8 March 2019, the Share Offer will not proceed and will lapse.
5. **Share certificates will only become valid provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Friday, 15 March 2019. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.**
6. The announcement will be available for viewing on the "Main Board — Allotment of Results" page on the Stock Exchange's website [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at Thursday, 14 March 2019.

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## EXPECTED TIMETABLE

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7. None of the website or any of the information contained on the website forms part of this prospectus.
8. Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.

You should read carefully the sections headed “Underwriting”, “Structure of the Share Offer” and “How to Apply for the Public Offer Shares” of this prospectus for details relating to the structure of the Share Offer, procedures on the applications for Public Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund cheques and Share certificates.

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

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## SUMMARY

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*This section aims to give you an overview of the information contained in this prospectus and therefore does not contain all the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the section headed “Definitions” of this prospectus.*

### OVERVIEW

We are a leading scrap ferrous metal trader in Malaysia. According to Frost & Sullivan, we ranked first in terms of trading volume with domestic steel mills in 2017, having a market share of approximately 20.8%. Over the years, we have established a nationwide supplier base of feeder yards from which we source recyclable scrap ferrous metals for sales to steel mills in Malaysia. We also operate three scrapyards equipped with the processing machinery mainly for ferrous metals strategically located in areas where the availability of scrap ferrous metals can be assured and nearby our steel mill customers in the states of Melaka, Selangor and Johor, with an aggregate land area of approximately 35,000 sq.m.. In addition, supported by a fleet of 33 self-owned trucks among which, 18 are trucks with laden weight of 20 tonnes or above as at the Latest Practicable Date, we can always respond to the logistics needs of our small and medium-sized suppliers, who have only limited logistics support, on a timely basis.

We always pride ourselves on our capability to source sizeable volume of scrap ferrous metals to meet the production needs of our steel mill customers. For FY2015, FY2016, FY2017 and 8M2018, we sold 464,955 tonnes, 375,998 tonnes, 519,069 tonnes and 365,386 tonnes of scrap ferrous metal, respectively, which accounted for 89.3%, 83.3% and 82.9% and 85.8% of our revenue, respectively. Alongside with the scrap ferrous metal trading, to a lesser extent, we also trade used batteries and waste paper, which, in aggregate, accounted for 10.4%, 15.3%, 12.7% and 13.5% of our total revenue for FY2015, FY2016, FY2017 and 8M2018, respectively. We also operate one scrapyard mainly for waste paper located in the state of Melaka, with a land area of approximately 1,436 sq.m..

In the past, dumping of steel products from the PRC exporters had posed strong headwinds to the steel industry in Malaysia. However, according to Frost & Sullivan, following the PRC’s supply-side restructuring to eliminate excess steel manufacturing capacity in 2016 and the implementation of protective measures (such as imposing additional import duties on steel products) for the domestic steel industry by the Malaysian government in April 2017, it is expected that the domestic steel industry will continue to make a strong recovery in the years to come which, in turn, should lead to a greater demand for scrap ferrous metals from domestic steel mills to satisfy their production needs.

### CHARACTERISTICS OF OUR INDUSTRY

1. Scrap ferrous metal is the principal raw material used in the modern steel production process, namely electric arc furnace (“EAF”), which requires lower capital investment and is more environmentally friendly with less greenhouse gas emission, as compared to the traditional steel



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## SUMMARY

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production process, basic oxygen furnace (“**BOF**”), which predominantly uses iron ore as the principal raw material. Please refer to the section headed “Industry Overview” on page 61 of this prospectus for further details of these two production processes. According to Frost & Sullivan, EAF is commonly adopted by steel mills in Malaysia. As at the Latest Practicable Date, five out of seven steel mill companies in Malaysia have EAF crude steel producing facilities.

2. Scrap ferrous metal usually originates from end-of-life products, like automobiles, household appliances, building materials, etc. as well as materials left over from product manufacturing, and its sources are highly localised and scattered across Malaysia. Historically, the amount of domestically produced scrap ferrous metals has not been sufficient to fulfil the production demand of steel mills in Malaysia. The shortfall has always been satisfied by imported scrap ferrous metals. Please refer to the paragraph headed “Industry Overview — Import of scrap ferrous metals in Malaysia” on page 66 of this prospectus for details of import supply of scrap ferrous metals in Malaysia.
3. Given the highly localised and scattered nature of the sources, along the supply chain from the parties who generate scrap ferrous metal to the steel mills which use it as the raw material for steel production, there usually involve several layers of market participants, such as individuals and entities looking to sell their own scrap ferrous metals, scrapyards, brokers and traders, who perform the tasks of collecting, processing, consolidating and managing the sale of scrap ferrous metals.
4. According to Frost & Sullivan, to avoid the cumbersome administrative routines in procuring scrap ferrous metals from numerous market participants on the one hand; and to avoid any undue reliance on a sole supplier and the manipulation by such sole supplier on the supply and market price on the other hand, steel mills would usually designate three to four sizeable suppliers as their approved consolidated points of contact (the “**approved scrap metal providers**”) in securing the necessary quantity of scrap ferrous metals to satisfy their production needs. In order to become an approved scrap metal provider, a scrap metal provider has to demonstrate its capacity to deliver scrap ferrous metals in the quantity as expected by the steel mill from time to time. The steel mill would also periodically assess the performance of each approved scrap metal provider in terms of the volume and timeliness of scrap ferrous metal supply, and would replace those providers who do not meet the steel mill’s expectation. Suppliers who are not on the steel mills’ approved list of suppliers have to trade through approved scrap metal providers. As at the Latest Practicable Date, there were 23 entities acting as approved scrap metal providers serving the seven steel mill companies in Malaysia.
5. Due to the fact that the domestic supply of scrap ferrous metals is not entirely sufficient to satisfy the production needs of all the steel mills in Malaysia, steel mills often offer incentives to their respective approved scrap metal providers to encourage them to provide larger quantities of scrap ferrous metals. As a result, it is quite common that the approved scrap metal provider would sell a majority portion of scrap ferrous metals it sources to a particular steel mill in order to enjoy the incentives.

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## SUMMARY

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6. The approved scrap metal providers need to possess sufficient working capital to sustain its business. Steel production from raw materials to finished steel products takes time. Steel mills usually need credit terms to pay off their approved scrap metal providers for scrap ferrous metal purchase. The tenor of credit terms varies from time to time, depending on how fast the individual steel mill can move its inventory and its own cash flow position. On the other hand, market participants in the scrap ferrous metal market trade among each other on a deal by deal basis and the transactions are usually settled upon physical delivery or shortly afterwards. Therefore, the approved scrap metal provider always has to settle its purchases well before it receives the sale proceeds from the purchasing steel mill.

## BUSINESS MODEL

We purchase scrap ferrous metals from various sources and process them at our scrapyards to the required specification before on selling them to our steel mill customers (“**Scrapyard Sales**”). We also purchase processed scrap ferrous metals from external third-party scrapyards, who are not approved scrap metal providers of the steel mills, and on sell them to our customers without our processing. The delivery of such scrap ferrous metals is generally handled by the relevant third-party scrapyard to our customers directly (“**Direct Delivery Sales**”) with the exception when our logistic support is called in because the relevant supplier has difficulty in arranging its own transportation. The buying price we offer to our suppliers for scrap ferrous metals under Direct Delivery Sales is generally higher than Scrapyard Sales, as our suppliers have to handle the processing and delivery.

In the Direct Delivery Sales transactions, we consider our role is of significant importance to our suppliers for the following reasons: (a) we provide regular guidance to our suppliers on the specifications of scrap ferrous metals which are up to the acceptance standard of our steel mill customers and this greatly reduces the chance that the scrap ferrous metals being rejected by our customers; (b) we can always mobilise our logistics support, such as our trucks and provide our processing machinery such as excavators to assist our suppliers in their delivery of scrap ferrous metals; and (c) our suppliers who trade through us would have their trade balances settled in around 6 to 7 days as against over 30 days if they were to trade directly with our steel mill customers.

For FY2015, FY2016, FY2017 and 8M2018, our revenue attributable to Direct Delivery Sales accounted for approximately 71.7%, 79.4%, 69.5% and 71.2% of our total revenue attributable to sales of scrap ferrous metals respectively, while the remainders were all Scrapyard Sales.

## PRICING

The value of scrap ferrous metals in the market to a large extent is dictated by the steel mills. The steel mill determines its procurement price at which it agrees to take up the scrap ferrous metals from the approved scrap metal providers. Having been informed by the steel mill of the procurement price, the approved scrap metal providers need to work out their optimal buying price for scrap ferrous metals, whereby, on one hand, the buying price is competitive enough that the required quantity of scrap ferrous metals can be successfully secured from their sources and, on the other hand, the approved scrap metal providers can maximise the gross margin they can earn. Additionally, our largest customer, the Lion Companies, and our recently developed new customer, Alliance Steel (M) Sdn. Bhd. also offer us incentives to encourage us to provide larger quantities of scrap ferrous metals by raising its procurement price on a progressive tiered scale for different quantity brackets.

## SUMMARY

### PRODUCTS

The following table sets forth the types of materials we traded during the Track Record Period, their respective revenue and sales volume, average selling price per tonne, average cost of trading goods sold per tonne as well as the gross margin per tonne:

	Year ended 31 December														
	2015					2016					2017				
	Revenue	Sales volume	Average selling price	Average cost of trading goods sold	Gross margin	Revenue	Sales volume	Average selling price	Average cost of trading goods sold	Gross margin	Revenue	Sales volume	Average selling price	Average cost of trading goods sold	Gross margin
			RM per tonne	RM per tonne	RM per tonne			RM per tonne	RM per tonne	RM per tonne			RM per tonne	RM per tonne	RM per tonne
	RM'000	tonnes				RM'000	tonnes				RM'000	tonnes			
Scrap ferrous metals	383,799	464,955	825	746	<b>79</b>	315,095	375,998	838	760	<b>78</b>	613,342	519,069	1,182	1,085	<b>97</b>
Used battery	32,541	12,403	2,624	2,545	<b>79</b>	45,499	14,882	3,057	2,888	<b>169</b>	69,484	18,068	3,846	3,659	<b>187</b>
Waste paper	12,042	25,357	475	370	<b>105</b>	12,614	22,847	552	426	<b>126</b>	24,474	31,770	770	612	<b>158</b>
Other materials	1,182	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	5,321	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	32,128	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>
<b>Total</b>	<b>429,564</b>					<b>378,529</b>					<b>739,428</b>				

	Eight months ended 31 August									
	2017					2018				
	Revenue	Sales volume	Average selling price	Average cost of trading goods sold	Gross margin	Revenue	Sales volume	Average selling price	Average cost of trading goods sold	Gross margin
			RM per tonne	RM per tonne	RM per tonne			RM per tonne	RM per tonne	RM per tonne
	RM'000	tonnes				RM'000	tonnes			
Scrap ferrous metals	337,424	303,921	1,110	1,021	<b>89</b>	487,773	365,386	1,335	1,241	<b>94</b>
Used battery	45,823	12,112	3,783	3,604	<b>179</b>	60,467	15,790	3,829	3,609	<b>220</b>
Waste paper	14,372	19,277	746	580	<b>166</b>	16,570	23,535	704	591	<b>113</b>
Other materials	22,772	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	3,946	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>
<b>Total</b>	<b>420,391</b>					<b>568,756</b>				

*Note:* In view of the wide product mix of other materials such as lead and steel bars, our Directors consider that the analysis on the sales volume, average selling price, average cost of trading goods sold and gross margin of other materials to be not meaningful.

During the Track Record Period, the trading of scrap ferrous metals was our core business which contributed approximately 89.3%, 83.3%, 82.9%, 80.3% and 85.8% of our total revenue for FY2015, FY2016, FY2017, 8M2017 and 8M2018, respectively, and also accounted for 90.2%, 79.5%, 83.2%, 80.6% and 84.0% of our gross profit for the corresponding periods, respectively. Our Group benefited from the PRC's supply-side restructuring to eliminate excess steel manufacturing capacity in 2016 and the implementation of protective measures (such as imposing additional import duties on steel products) for the domestic steel industry by the Malaysian government in April 2017, which facilitated a recovery of domestic steel industry and has thus led to greater demand for our scrap ferrous metals. Therefore, we achieved remarkable growth in our revenue and gross profit in the trading of scrap ferrous metals since FY2017. In addition, due to the establishment of business relationship with a few new suppliers and customers of used batteries and waste paper as well as the general rise in their market prices, we recorded an increase in revenue generated from trading of used batteries and waste paper during the Track Record Period. For further details, please refer to section headed "Financial Information — Description and discussion of the major components of the combined statements of comprehensive income — Gross profit and gross profit margin" from page 167 to page 170 of this prospectus.

## SUMMARY

### SALES AND CUSTOMERS

In FY2015, FY2016 and FY2017, we principally sold scrap ferrous metals to two steel mill customers in Malaysia, and in 8M2018, we sold scrap ferrous metals to three additional steel mill customers, which makes it five in total. The following table shows the breakdown of revenue attributable to each of these five customers and their respective percentage to our total revenue attributable to the sales of scrap ferrous metals during Track Record Period:

	Year ended 31 December											
	2015				2016				2017			
	RM'000		Percentage of sales to our customers attributable to		RM'000		Percentage of sales to our customers attributable to		RM'000		Percentage of sales to our customers attributable to	
			Direct				Direct				Direct	
			Delivery	Scrapyard			Delivery	Scrapyard			Delivery	Scrapyard
			Sales	Sales			Sales	Sales			Sales	Sales
The Lion Companies <i>(Note 1)</i>												
• Lion Industries	377,868	98.5	72.6	27.4	306,345	97.2	81.0	19.0	607,613	99.1	70.1	29.9
• Megasteel Sdn. Bhd <i>(Note 2)</i>	1,214	0.3	14.2	85.8	—	—	—	—	—	—	—	—
Established Metal Industries Sdn. Bhd.	741	0.2	85.6	14.4	2,204	0.7	20.5	79.5	485	0.1	62.8	37.2
Alliance Steel (M) Sdn. Bhd. <i>(Note 3)</i>	—	—	—	—	—	—	—	—	—	—	—	—
Customer C <i>(Note 4)</i>	—	—	—	—	—	—	—	—	—	—	—	—
PT. Lautan Steel Indonesia <i>(Note 5)</i>	—	—	—	—	—	—	—	—	—	—	—	—
Others <i>(Note 6)</i>	3,976	1.0	2.0	98.0	6,546	2.1	24.1	75.9	5,244	0.8	1.6	98.4
<b>Total</b>	<b>383,799</b>	<b>100.0</b>			<b>315,095</b>	<b>100.0</b>			<b>613,342</b>	<b>100.0</b>		

### Eight months ended 31 August

	2017				2018			
	RM'000		Percentage of sales to our customers attributable to		RM'000		Percentage of sales to our customers attributable to	
			Direct				Direct	
			Delivery	Scrapyard			Delivery	Scrapyard
			Sales	Sales			Sales	Sales
The Lion Companies <i>(Note 1)</i>								
• Lion Industries	334,211	99.1	68.1	31.9	453,859	93.0	71.3	28.7
• Megasteel Sdn. Bhd <i>(Note 2)</i>	—	—	—	—	—	—	—	—
Established Metal Industries Sdn. Bhd.	485	0.1	62.8	37.2	6,254	1.3	89.8	10.2
Alliance Steel (M) Sdn. Bhd. <i>(Note 3)</i>	—	—	—	—	18,499	3.8	89.2	10.8
Customer C <i>(Note 4)</i>	—	—	—	—	796	0.2	94.9	5.1
PT. Lautan Steel Indonesia <i>(Note 5)</i>	—	—	—	—	5,362	1.1	1.5	98.5
Others <i>(Note 6)</i>	2,728	0.8	1.1	98.9	3,003	0.6	25.5	74.5
<b>Total</b>	<b>337,424</b>	<b>100.0</b>			<b>487,773</b>	<b>100.0</b>		

#### Notes:

- For illustrative purpose, we define Lion Industries and its related company, Megasteel Sdn. Bhd, as the Lion Companies.
- Megasteel Sdn. Bhd. had been experiencing financial difficulties since September 2015. Its 21.1% major shareholder, Lion Diversified Holdings Berhad, was delisted from the Main Market of Bursa Malaysia Securities Berhad on 20 April 2018. Our Directors have confirmed that there had been no material adverse change to the terms of transactions between

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## SUMMARY

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our Group and the Lion Companies after the delisting of Lion Diversified Holdings Berhad and up to the Latest Practicable Date. Our revenue attributable to the Lion Companies increased by RM119.7 million or 35.8% from RM334.2 million for 8M2017 to RM453.9 million for 8M2018.

3. We started business relationship with Alliance Steel (M) Sdn. Bhd. in April 2018.
4. We started business relationship with Customer C in August 2018. Customer C has an annual production capacity of 0.7 million tonnes and its steel mill is located in the state of Terengganu.
5. We started business relationship with PT. Lautan Steel Indonesia in June 2018.
6. Others represent trading companies which purchased scrap ferrous metals from our Group.

Despite our largest customer, the Lion Companies accounting for over 90% of our revenue attributable to the sales of scrap ferrous metals during the Track Record Period, our Directors consider our business is sustainable and the reliance is mutual between our Group and the Lion Companies in terms of the business relationship. For details, please refer to the paragraph headed “Business — Our business relationship with the Lion Companies” from page 131 to page 133 of this prospectus.

Our customers for used batteries and waste paper are lead smelting plants and paper mills, respectively, in Malaysia.

### *Background of Lion Industries*

Lion Industries forms part of a conglomerate known as the Lion Group which was first established in the 1930s and has its operations in Malaysia, China, Singapore, Indonesia, Vietnam, Hong Kong, Cambodia, Myanmar and US as at the Latest Practicable Date. Its principal business includes retail, property development, mining, steel, agriculture and computer sectors.

The Lion Group has (a) three companies listed on the Main Market of Bursa Malaysia Securities Berhad, namely Lion Forest Industries Berhad (stock code: 8486), Lion Industries Corporation Berhad (stock code: 4235) (i.e. Lion Industries) and Parkson Holdings Berhad (stock code: 5657); (b) two companies listed on the Main Board of Singapore Exchange Limited, namely Lion Asiapac Limited (stock code: BAZ) and Parkson Retail Asia Limited (stock code: O9E); and (c) one company listed on the Main Board of the Stock Exchange, namely Parkson Retail Group Limited (stock code: 3368). It provides employment for more than 17,500 people globally. The revenue of the Lion Group amounted to RM15,763 million for the year ended 30 June 2017.

The steel mill operations of the Lion Group are managed under Lion Industries. For the three years ended 30 June 2015, 2016 and 2017, the revenue of Lion Industries amounted to RM2,782.4 million, RM2,514.9 million and RM2,667.5 million, respectively, while it recorded loss after tax of RM287.9 million and RM905.8 million for the two years ended 30 June 2016 and profit after tax of RM113.5 million for the year ended 30 June 2017, respectively. Dumping of steel products from the PRC has led to depressed steel price and squeezed operating margin of steel mills in Malaysia. Lion Industries shut down certain production lines in the face of the unfavourable business environment and as a result, Lion Industries incurred significant loss in 2015 and 2016.

Lion Industries is principally engaged in the manufacturing and marketing of steel products and, to a very small extent, property management, trading and distribution of building materials and other steel products. We sold scrap ferrous metals to two steel mills managed under Lion Industries during the Track Record Period. According to Frost & Sullivan, the market share of Lion Industries was estimated to be approximately 21%, 25% and 30% of the total production volume of crude steel in Malaysia for 2015, 2016 and 2017, respectively. As at 30 September 2017, Tan Sri Cheng Heng Jem was the ultimate controlling shareholder of Lion Industries, holding approximately 31.85% direct interest thereof.



## SUMMARY

### PURCHASES AND SUPPLIERS

Over the years, we have established a nationwide supplier base of feeder yards from which we source recyclable scrap ferrous metals. During the Track Record Period, we purchased scrap ferrous metals from over 3,000 suppliers throughout Malaysia. For FY2015, FY2016, FY2017 and 8M2018, our purchases attributable to our largest supplier amounted to RM18.2 million, RM15.9 million, RM29.2 million and RM23.0 million, representing 4.7%, 4.7%, 4.3% and 4.3% of our total purchases, respectively, while our purchases attributable to our five largest suppliers in aggregate amounted to approximately RM72.2 million, RM66.5 million, RM109.0 million and RM95.1 million, representing 18.6%, 19.4%, 15.9% and 17.9% of our total purchases, respectively.

Our suppliers are predominantly scattered around different states in Malaysia. The following table sets out our purchase volume of scrap ferrous metals based on the suppliers' location of establishment for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
	Volume of scrap ferrous metals purchased	Volume of scrap ferrous metals purchased	Volume of scrap ferrous metals purchased	Volume of scrap ferrous metals purchased
	tonnes	tonnes	tonnes	tonnes
<b>Malaysia</b>				
<b>State</b>				
Selangor <i>(Note 1)</i>	215,572	190,069	217,504	151,202
Johor <i>(Note 1)</i>	89,404	72,592	106,217	67,965
Perak	26,070	16,947	18,858	17,041
Melaka <i>(Note 1)</i>	24,347	15,408	26,494	19,084
Pahang	18,874	9,072	14,718	12,361
Negeri Sembilan	17,066	7,510	12,547	11,214
Penang	6,512	12,206	9,840	1,619
Sarawak	4,469	2,896	8,525	21,858
Sabah	3,235	860	19,901	49
Kedah	1,958	1,806	1,944	1,225
Kelantan	898	474	745	1,479
Terengganu	33	1,124	1,239	240
<b>Federal territory</b>				
Labuan	—	—	—	17,939
Kuala Lumpur	43,317	44,292	52,086	35,509
<b>Sub-total</b>	<b>451,755</b>	<b>375,256</b>	<b>490,618</b>	<b>358,785</b>
<b>Overseas</b> <i>(Note 2)</i>	13,550	965	33,268	7,867
<b>Total</b>	<b>465,305</b>	<b>376,221</b>	<b>523,886</b>	<b>366,652</b>

Notes:

- We operate our own scrapyards in the state.
- Our overseas suppliers include suppliers in, among others, Singapore, Australia, the PRC, Timor-Leste, Hong Kong and the Philippines.

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## SUMMARY

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In the case of the supplier delivering scrap ferrous metals to our scrapyard, it is our policy that the supplier may collect cash from us on the spot if the settlement amount is below RM5,000. For FY2015, FY2016, FY2017 and 8M2018, purchases settled in cash amounted to RM57.0 million, RM42.0 million, RM75.0 million and RM44.1 million, representing approximately 14.7%, 12.3%, 11.0% and 8.3% of our total purchases while the remainders were all settled by way of cheque payment or telegraphic transfer. The number of cash purchase transactions during FY2015, FY2016, FY2017 and 8M2018 was approximately 47,000, 36,000, 47,000 and 32,000, respectively. The average value of each cash purchase during FY2015, FY2016, FY2017 and 8M2018 amounted to RM1,200, RM1,210, RM1,595 and RM1,394, respectively. According to Frost & Sullivan, it is common for small-scale suppliers to require payment in cash to facilitate their cash flow since cash settlement reduces the administrative burden of such suppliers having to present the cheque for payment and avoid the time lapse of two business days for clearing the cheque. On the other hand, our Group is in a position to bargain a more favourable buying price with our suppliers, usually 3% to 5% lower, for transactions settled in cash. We have put in place cash management policy to be followed. For details, please refer to the paragraph headed “Business — Suppliers — Payment to our suppliers” on page 120 of this prospectus.

## MARKET AND COMPETITION

The global steel price was in a downward trend from 2012 to 2016 due to an excess of supply in the market. According to Frost & Sullivan, the PRC steel mills accounted for 49.6% of the global crude steel production in 2016 and a significant portion of such production was for the export markets, particularly for the Southeast Asian countries. However, following the PRC’s supply side restructuring to eliminate excess steel manufacturing capacity in 2016, steel price bottomed and started to improve. Furthermore, the Malaysian government increased tariffs for steel imports in April 2017, which has enabled the domestic steel mills to make a strong recovery and also led to growth in demand for scrap ferrous metals from steel mills to satisfy their production needs.

According to Frost & Sullivan, the steel mills, instead of sourcing scrap ferrous metals directly from various suppliers, often engage three to four sizeable scrap ferrous metal trading entities each as their consolidated point of contact (i.e. approved scrap metal provider) to purchase scrap ferrous metals. The number of such approved scrap metal providers in the entire steel industry in Malaysia was 23 as at the Latest Practicable Date and we were the largest in terms of trading volume with a market share of 20.8% in 2017. The steel mills often evaluate the performance of the approved scrap metal providers on a regular basis and eliminate such approved scrap metal providers if they fail to supply scrap ferrous metals of a prescribed volume. The competition among these approved scrap metal providers is not so much on the customer side, as each steel mill has its own approved scrap metal providers and it is the steel mill who sets the procurement price (or the scrap ferrous metal selling price from the perspective of the approved scrap metal provider). Instead, the approved scrap metal providers have to compete among each other on the supply side, where they have to offer a buying price for scrap ferrous metals which is competitive enough to enable them to secure the required quantity of scrap ferrous metals from different sources. Therefore, approved scrap metal providers have to regularly scour the market for up-to-date rates offered by competitors.

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## SUMMARY

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### COMPETITIVE STRENGTHS

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

1. We have the capital base to maintain our leading position in the industry.
2. Our executive Directors and our sourcing team possess extensive scrap ferrous metal trading industry experience.
3. Our scrapyards are strategically located in the areas where the availability of scrap ferrous metals can be assured and nearby our steel mill customers.
4. We possess our own fleet of trucks to serve our suppliers and our scrapyards.
5. We have been an approved scrap metal provider since 2010 to the Lion Companies, which was the largest steel producer in Malaysia in 2017 with stable and significant demand for scrap ferrous metals.

### BUSINESS STRATEGIES AND EXPANSION PLANS

2016/2017 was a watershed period of the steel industry in Malaysia. The PRC supply-side restructuring to eliminate excess steel manufacturing capacity in 2016 and the imposition of additional import duties on steel products by the Malaysian government in 2017 laid an encouraging macro backdrop for the revival of the steel industry in Malaysia. Average price of steel bar hit the bottom in 2016 and started to trade up in 2017. Correspondingly, the procurement price offered by steel mills for scrap ferrous metals also went up. Domestic crude steel production rose from 2.8 million tonnes in 2016 to 3.7 million tonnes in 2017 representing an increase of over 32%, whilst import volume of finished steel products was reduced from 7.5 million tonnes to 7.1 million tonnes during the same period. Going forward, the crude steel production by local steel mills is forecast to grow at a CAGR of 10.2% from 2018 to 2022, whilst import volume of finished steel products is forecast to decrease at a CAGR of -2.1% for the same forecast period, according to Frost & Sullivan. In other words, the domestically manufactured steel products are going to play a much bigger role in the local steel consumption market and, to a certain extent, gradually replace part of the imported products. For details of the steel industry in Malaysia, please refer to the section headed “Industry Overview — Overview of steel industry in Malaysia” from page 61 to page 64 of this prospectus.

As a result, the demands for domestic scrap ferrous metals will also grow in order to satisfy the increasing production needs from the local steel mills. The domestic supply volume of scrap ferrous metals is forecast to grow at a CAGR of 10.0% from 2018 to 2022 by Frost & Sullivan. In this regard, we have formulated the following business strategies, not only to strengthen our leading position in the Malaysian scrap ferrous metal trading industry, but more importantly, to capture the business opportunities generated by the aforesaid favourable macro backdrop of the steel industry in Malaysia.

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## SUMMARY

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We plan to expand our supplier and customer bases and increase our business volume of scrap ferrous metals through implementing the following strategies:

- Partially replacing our fleet of trucks
- Enhancing our processing abilities
- Setting up our enterprise resources planning system
- Setting up a new scrapyards in the east coast of Peninsular Malaysia
- Expansion of our scrapyards in Selangor
- Working capital for our scrap ferrous metal trading business
- General working capital or for other general corporate purpose

### RISK FACTORS

- We depend heavily on the performance of the steel and steel consuming industries in Malaysia. If the scrap ferrous metal trading market in Malaysia does not continue to grow, grows more slowly than expected or declines, our business, financial condition and results of operations could be adversely affected.
- A significant portion of our revenue was generated from the sales attributable to our five largest customers during the Track Record Period, among which the Lion Companies were the largest. Any downturn in the business, closure of any steel mills, slight decline in the demand for scrap ferrous metals from or financial difficulties of our five largest customers during the Track Record Period could have an adverse impact on our business, financial condition and results of operations.
- Our trade receivables turnover days is in general longer than our trade payable turnover days. Such mismatch between our trade receivables turnover days and our trade payables turnover days causes a cash flow gap. We may be exposed to risk on working capital and liquidity. As a significant portion of our revenue is generated from sales attributable to the Lion Companies, if the Lion Companies fail to settle our trade receivables in a timely manner, our working capital and liquidity position could be adversely affected.
- Any fluctuation in steel selling prices resulting in decrease in the procurement price of scrap ferrous metals offered by our customers could adversely affect our business, financial condition and results of operations.
- One of our competitive strengths lies in our nationwide supplier base of scrap materials. If we fail to purchase stable and high-volume supply of scrap materials to satisfy the demand of our customers, our reputation, business, financial condition and results of operations could be adversely affected.

## SUMMARY

- We intend to apply 45.1% of the net proceeds of the Share Offer as additional working capital for our scrap ferrous metal trading business. However, there is no assurance that our business strategy and future plans will bring in the anticipated benefits to our Group.
- Our business and operations could be adversely affected by a decline in steel prices.

As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the section headed “Risk Factors” of this prospectus in its entirety before you decide to invest in the Offer Shares.

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

#### *Selected combined statements of comprehensive income data*

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Revenue	429,564	378,529	739,428	420,391	568,756
Gross profit	35,643	31,710	53,791	29,935	36,834
Profit before income tax	18,600	16,058	30,956	18,934	27,949
Profit and total comprehensive income for the year/period	13,672	12,051	23,111	14,269	21,594
Sales volume of scrap ferrous metals (tonnes)	464,955	375,998	519,069	303,921	365,386

Our operating results for FY2017 improved substantially as compared to the previous two years on the back of the increase in our sales volume as driven by the recovery of the steel industry in Malaysia. Following the PRC's measures to eliminate excess steel production capacity in 2016 and the Malaysian Government's imposition of additional tariffs on steel imports in 2017, the domestic steel price started to go up, which enabled the steel mill to pay a higher procurement price to its approved scrap metal providers for scrap ferrous metal supply. As a result, the approved scrap metal provider could, in turn, afford to offer a higher buying price to its suppliers, which brought about an increased supply of scrap ferrous metal.

Furthermore, the improved landscape of the steel industry also enabled the steel mills to settle their procurement bills on a shorter credit terms. Our trade receivables turnover days improved from 77.8 days for FY2016 to 41.1 days for FY2017 and further to 33.8 days for 8M2018, which helped our cash flow to finance our growth in sales volume.

Please refer to the section headed “Financial Information” from page 154 to page 203 of this prospectus for details.



## SUMMARY

### *Selected combined statements of financial position data*

The following table sets out a summary of our combined statements of financial position as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Non-current assets	23,312	23,639	21,040	21,238
Current assets (including assets classified as held for sale)	101,200	104,459	138,114	122,300
Current liabilities	72,725	73,681	81,351	24,194
Net current assets	28,475	30,778	56,763	98,106
Non-current liabilities	8,573	7,152	7,427	4,974
<b>Net assets</b>	<b>43,214</b>	<b>47,265</b>	<b>70,376</b>	<b>114,370</b>

Along with the improvement in our operating results, we recorded increases in our net current assets and net assets during the Track Record Period, despite the fact that we declared a dividend of RM8 million in FY2016.

### *Selected combined statements of cash flows*

The following table sets out a summary of our combined statements of cash flows for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Operating cash flows before working capital changes	20,521	19,974	33,724	20,872	20,183
Net cash flows from operating activities	3,420	1,424	11,590	7,221	11,073
Net cash flows from/(used in) investing activities	11,451	(2,518)	(807)	(644)	(2,741)
Net cash flows from/(used in) financing activities	(12,527)	(215)	(131)	550	(8,630)

## SUMMARY

During the Track Record Period, we generated net cash flows from operating activities and mostly utilised such cash flows for repayments of borrowings and purchases of property, plant and equipment and investment properties.

### *Key financial ratios*

	Year ended/as at 31 December			Eight months ended/as at 31 August
	2015	2016	2017	2018
<b>Profitability:</b>				
Gross profit margin	8.3%	8.4%	7.3%	6.5%
Net profit margin before interest and tax	4.7%	4.5%	4.3%	5.0%
Net profit margin	3.2%	3.2%	3.1%	3.8%
Return on equity	31.6%	25.5%	32.8%	N/A
Return on total assets	11.0%	9.4%	14.5%	N/A
<b>Liquidity:</b>				
Current ratio	1.4 times	1.4 times	1.7 times	5.1 times
Quick ratio	1.4 times	1.4 times	1.6 times	4.6 times
<b>Solvency:</b>				
Interest coverage ratio	13.9 times	16.8 times	35.0 times	69.8 times
Gearing ratio <i>(Note 1)</i>	0.4 times	0.3 times	0.2 times	0.05 times
Net debt to equity ratio	0.1 times	0.1 times	Net cash	Net cash

#### *Notes:*

- Gearing ratio is calculated based on the total debt (i.e. borrowings + finance lease liabilities) at the date indicated divided by the total equity at the date indicated.
- Please refer to the paragraph headed “Financial Information — Key financial ratios” from page 196 to page 198 of this prospectus for further details.

### *Sensitivity analysis of average gross margin for our scrap materials trading business*

Our Directors do not consider that the fluctuations of the steel price would have a very significant impact on our business as (a) any decrease in the procurement price offered by the steel mills would largely be passed onto the buying price we offer to our suppliers in order to maintain a stable gross margin; and (b) given our short inventories turnover days, any price fluctuations of scrap ferrous metals during such relatively short time frame would not generally be significant.

Nevertheless, our Directors consider that our ability to maintain a stable gross margin is the determining factor to our profitability.

## SUMMARY

The following tables demonstrate the sensitivity analysis of our profit before tax in relation to changes of gross margin assuming all other factors being constant:

	Impact on profit before tax:				
	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
<i>Change of gross margin by:</i>					
+10%	4,058	3,641	5,975	3,361	4,097
+5%	2,029	1,821	2,987	1,681	2,048
-5%	(2,029)	(1,821)	(2,987)	(1,681)	(2,048)
-10%	(4,058)	(3,641)	(5,975)	(3,361)	(4,097)

## SHAREHOLDING INFORMATION

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), our Company will be owned as at 51.0% by 5S Holdings and 4.8% by each of the five Sia Brothers. 5S Holdings was incorporated by the Sia Brothers as an investment holding vehicle of our Company and is directly owned as to 35%, 16.25%, 16.25%, 16.25% and 16.25% by Mr. Sia 4 (chairman of our Board and chief executive officer), Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5, respectively. Under the deed of acting in concert confirmation and undertaking entered into by the Sia Brothers dated 20 August 2018, they jointly and severally undertake that, among others, during the period they (by themselves or together with their associates) remain in control of our Group, they shall continue to act in concert as a group and to vote as a group (by themselves and/or through companies controlled by them and/or their trustees) on an unanimous basis in respect of all shareholders' matters and corporate matters of our Group, and that 5S Holdings is a company controlled by the Sia Brothers. As such, 5S Holdings and the Sia Brothers are together regarded as a group of our Controlling Shareholders pursuant to the deed of acting in concert confirmation and undertaking.

Our Group has entered into (a) two tenancy agreements with (i) Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5 and (ii) Mr. Sia 5; and (b) three master purchase agreements in respect of the purchasing scrap materials from (i) Long Hin Recycle & Trading Sdn. Bhd., (ii) Lek Seng and Lek Seng Metal Sdn. Bhd. and (iii) Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., in respect of the continuing connected transactions contemplated thereunder. The two tenancy agreements, whether on an aggregated or standalone basis, are fully exempt continuing connected transactions, while the three master purchase agreements with Long Hin Recycle & Trading Sdn. Bhd., Lek Seng, Lek Seng Metal Sdn. Bhd., Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. are subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules upon the Listing. Please refer to the section headed "Connected Transactions" from page 211 to page 222 of this prospectus for details.

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## SUMMARY

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### DIVIDENDS

For FY2016, HH Metal declared an interim dividend of RM8.0 million to its then shareholders which has been fully settled.

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare dividends of no less than 30% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board will review dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, and other factors our Board may deem relevant in determining whether dividends are to be declared and paid. Please refer to the paragraph headed "Financial Information — Dividends" on page 202 of this prospectus for further details.

### NON-COMPLIANCE

We were in non-compliance with certain legal and regulatory requirements in failing to (a) obtain temporary permits for our movable structures erected on the Melaka Scrapyard I and II, the Selangor Scrapyard and the Johor Scrapyard; and (b) file correct tax return for years of assessment of 2011 to 2013 resulting in understatement of our taxable income prior to the Track Record Period. We have fully rectified the non-compliance regarding (i) the temporary permits for movable structures in August 2018 and (ii) the filing of the tax return since 2015. Please refer to the paragraph headed "Business — Compliance matters" from page 145 to page 149 of this prospectus for details.

### LITIGATION OR CLAIMS

As at the Latest Practicable Date, no member of our Group was subject to any actual, pending or threatened litigation or claims of material importance which would have a material impact on our operations, financials and reputation.

### LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$0.56 (being the mid-point of the stated range of the Offer Price between HK\$0.50 and HK\$0.62), the total expenses for the Listing (including underwriting fees and commission payable by us) are estimated to be approximately RM22.5 million, of which RM1.2 million and RM4.0 million were charged as part of the administrative expenses for FY2017 and 8M2018, respectively.

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## SUMMARY

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We expect approximately RM6.7 million of the Listing expenses to be charged as administrative expenses subsequently of which RM4.3 million will be charged in the remaining four months for FY2018 while the remaining RM2.4 million will be charged for the year ending 31 December 2019. RM10.6 million is expected to be accounted for as a deduction from equity upon the Listing. The above total Listing expenses are the latest practicable estimates for reference only, and the final amount to be recognised may differ from these estimates.

### PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2018

Our Directors estimate that, on the bases set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the estimated unaudited combined profit attributable to owners of our Company for the year ended 31 December 2018 is as follows:

Estimated unaudited combined profit attributable to owners of our Company <sup>(Note 1)</sup>	Not less than RM23.5 million
Unaudited pro forma estimated earnings per Share <sup>(Note 2)</sup>	Not less than RM2.35 cents

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*Notes:*

1. The bases on which the above profit estimate for the year ended 31 December 2018 has been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the estimated combined profit attributable to owners of our Company for the year ended 31 December 2018 based on the audited combined results of our Group for the eight months ended 31 August 2018 and the unaudited combined results based on management accounts of our Group for the four months ended 31 December 2018. The profit estimate has been prepared on the basis that is consistent in all material respects with the accounting policies currently adopted by our Group as set out in note 2 of Section II in Appendix I to this prospectus.
2. The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated combined profit for the year ended 31 December 2018 attributable to owners of our Company by 1,000,000,000 Shares that had been in issue for the year ended 31 December 2018, assuming that the Share Offer and the Capitalisation Issue had been completed on 1 January 2018. The calculation of the estimated earnings per Share does not take into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

### OFFER STATISTICS

	Based on an Offer Price of	
	HK\$0.50 per Offer Share	HK\$0.62 per Offer Share
Market capitalisation <sup>(Note 1)</sup>	HK\$500 million	HK\$620 million
Unaudited pro forma adjusted combined net tangible assets of our Group attributable to the owners of our Company per Share	HK\$0.32	HK\$0.34

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*Notes:*

1. Such calculation is based on 1,000,000,000 Shares expected to be in issue following the completion of the Share Offer and the Capitalisation Issue, but does not take into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.
2. Please refer to Appendix II to this prospectus for details regarding the assumptions and the calculation method used.



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## SUMMARY

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### REASONS FOR LISTING AND USE OF PROCEEDS

The net proceeds of the Share Offer will strengthen our capital base and will provide funding for achieving our business strategies and carrying out our future plans as set out in the section headed “Future Plans and Use of Proceeds” of this prospectus.

Assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.56 (being the mid-point of the Offer Price range), the aggregate amount of net proceeds of the Share Offer to be received by our Company after deducting the underwriting commission and estimated expenses payable by our Company is estimated to be approximately HK\$94.3 million. Our Directors currently intend to apply such net proceeds in the following manner in the period commencing from the Latest Practicable Date and the years ending 31 December 2019 and 31 December 2020:

- (a) approximately HK\$8.3 million or approximately 8.8% will be used for partially replacing our fleet of trucks;
- (b) approximately HK\$6.7 million or approximately 7.1% will be used for enhancing our processing abilities;
- (c) approximately HK\$2.2 million or approximately 2.3% will be used for setting up our enterprise resource planning system;
- (d) approximately HK\$10.5 million or approximately 11.1% will be used for setting up a new scrapyard in the east coast of Peninsular Malaysia;
- (e) approximately HK\$14.7 million or approximately 15.6% will be used for expansion of our scrapyard in Selangor;
- (f) approximately HK\$42.5 million or approximately 45.1% will be used as our working capital for our scrap ferrous metal trading business; and
- (g) approximately HK\$9.4 million or approximately 10.0% will be used as our general working capital or for other general corporate purpose (excluding the purchase of scrap materials).

Please refer to the section headed “Future Plans and Use of Proceeds” from page 248 to page 250 of this prospectus for details.

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## SUMMARY

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### RECENT DEVELOPMENTS OF OUR GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD AND NO MATERIAL ADVERSE CHANGE

For the nine months ended 30 September 2018, the sales volume of scrap ferrous metals amounted to 410,903 tonnes, which was higher than the sales volume of scrap ferrous metals for the nine months ended 30 September 2017 of 350,276 tonnes. The increase in sales volume of scrap ferrous metals was mainly attributable to a recovery of domestic steel industry. Our gross margin amounted to RM95 per tonne for the nine months ended 30 September 2018, which was comparable to that for 8M2018.

The Sales and Service Tax (“SST”) has been reintroduced and implemented in Malaysia under the Sales Tax Act 2018 and Service Tax Act 2018 since 1 September 2018. The SST is a single-stage tax levied on all locally manufactured and imported goods and certain prescribed services. The companies within our Group being the GST (Goods and Services Tax) registered companies previously would be automatically registered under the SST regime. Under the SST, the provision of services is taxed at 6% while the sale of manufactured goods is to incur a 10% of tax. Our Directors, after considering the advice from our Malaysian Legal Advisers, do not expect the SST to have any material adverse impact on our product pricing and profit margin as (i) our sales of local scrap materials are not manufactured goods and (ii) we will make selling price adjustments on our products if we need to pay extra tax for selling our imported scrap materials due to SST.

With effect from 31 December 2018, scrap categories including, among others, compressed auto pieces, small electric motors and insulated wires, were banned from import to the PRC as announced by the Ministry of Ecology and Environment of the PRC on 13 April 2018. For details, please refer to the paragraph headed “Industry Overview — Overview of scrap ferrous metal trading market in Malaysia” of this prospectus.

As a result of the above mentioned import bans, the scrap motors cannot be imported into the PRC for dismantling, which has caused Chiho to stop its related operation in the PRC. Therefore, on 30 January 2019, Chiho entered into a joint venture agreement with our Group to develop a processing facility to provide scrap motor dismantling services to Chiho in Malaysia with an initial startup cost of RM2.0 million. The joint venture will charge Chiho dismantling fees on a cost plus basis. It is intended that such joint venture will be owned as to 51% by Chiho and 49% by our Group according to which the profit of the joint venture will be shared. The board of directors shall consist of two directors to be nominated by Chiho and the remaining one to be nominated by our Group. Our Directors expect the annual dismantling capacity of the aforesaid processing facility to be 70,000 tonnes per annum. Chiho will be mainly responsible for the supervision of the dismantling process in the aforesaid processing facility and our Group will be mainly responsible for recruiting the staff for the dismantling operation in Malaysia. For the scrap motors dismantled by the joint venture, Chiho will distribute the scrap non-ferrous metals so extracted through its own channels, and sell the scrap ferrous metals to our Group provided that our procurement price is no less than the price offered by other scrap ferrous metal traders in Malaysia. Our Directors expect the setup and operation of the said processing facility will commence in around May and August 2019, respectively.

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## SUMMARY

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Our Directors have confirmed that after performing all the due diligence work which our Directors consider appropriate, save as disclosed in this prospectus, there had been no material adverse change in our financial or trading position or prospects since 31 August 2018 and up to the date of this prospectus, and that there has been no event since 31 August 2018 which would materially affect the information shown in the accountant's report, the text of which as set out in Appendix I to this prospectus. Save as disclosed above, our Directors have confirmed that there has not been any material change in our indebtedness and contingent liabilities since 31 August 2018. As far as our Directors are aware of, save as disclosed above, there was no material change in the general conditions in the steel production industry or in the markets that our Group operates in Malaysia since 31 August 2018 which has affected or would affect our business operations or financial conditions materially and adversely.

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## DEFINITIONS

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

“8M2017”	the eight months ended 31 August 2017
“8M2018”	the eight months ended 31 August 2018
“5S Holdings”	5S Holdings (BVI) Limited, being (a) a company incorporated in the BVI with limited liability on 10 April 2018; and (b) one of our Controlling Shareholders, which is directly owned as to 35%, 16.25%, 16.25%, 16.25% and 16.25% by Mr. Sia 4, Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5, respectively
“Application Form(s)”	<b>WHITE</b> Application Form(s) and <b>YELLOW</b> Application Form(s), or where the context so requires, any of them, relating to the Public Offer
“Articles”	the amended and restated articles of association of our Company conditionally adopted on 19 February 2019 and which will take effect on the Listing Date, a summary of which is set out in Appendix V to this prospectus, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday or a day which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted) on which licensed banks in Hong Kong are generally open for normal banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 749,990,000 Shares to be made upon capitalisation of the amount of HK\$7,499,900 standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further information about our Group — 4. Written resolutions of our Shareholders” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)

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## DEFINITIONS

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“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as investor participant(s) who may be individual(s) or joint individuals or corporation(s)
“CCASS Participant(s)”	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chiho”	Chiho Environmental Group Limited, a company listed on the Main Board of the Stock Exchange with stock code 976 and is principally engaged in the recycling of ferrous and non-ferrous metals with its main operation bases located in Europe, America and the PRC
“close associate(s)”	has the meaning ascribed to it 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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Heng Hup Holdings Limited (興合控股有限公司), being an exempted company incorporated in the Cayman Islands with limited liability on 12 April 2018
“connected person(s)”	has the meaning ascribed to it under the Listing Rules



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## DEFINITIONS

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“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, for the purpose of this prospectus, refers to 5S Holdings and the Sia Brothers or, where the context so requires, any one of them. 5S Holdings and the Sia Brothers are together a group of Controlling Shareholders. Please refer to the section headed “History, Development and Reorganisation” of this prospectus for the shareholding of each of our Controlling Shareholders in our Company immediately following completion of the Reorganisation, the Share Offer and the Capitalisation Issue (without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 19 February 2019 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) regarding certain indemnities as more particularly set out in the paragraph headed “E. Other information — 1. Estate duty, tax and other indemnities” in Appendix VI to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 19 February 2019 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertakings as more particularly set out in the paragraph headed “Relationship with Controlling Shareholders — Deed of Non-competition” of this prospectus
“Director(s)”	the director(s) of our Company as at the date of this prospectus
“Frost & Sullivan”	Frost & Sullivan Limited, being an independent market research institution and our industry consultant
“Frost & Sullivan Report”	an independent industry report prepared by Frost & Sullivan, an extract of which is set out in the section headed “Industry Overview” of this prospectus
“FY2015”	the financial year ended 31 December 2015
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018

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## DEFINITIONS

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“GDP”	gross domestic product
“Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company becoming the holding company of our existing subsidiaries, such subsidiaries and the business carried on by them or their predecessors (as the case may be)
“GST”	Goods and Services Tax
“HH (BVI)”	Heng Hup (BVI) Limited, being a company incorporated in the BVI with limited liability on 17 April 2018 and our direct wholly-owned subsidiary
“HH Hardware”	Heng Hup Hardware (M) Sdn. Bhd. (formerly known as Heng Hup Recycle Sdn. Bhd. prior to 29 May 2017), being a company incorporated in Malaysia on 24 March 2005 and our indirect wholly-owned subsidiary
“HH Holdings”	Heng Hup Holdings (Malaysia) Sdn. Bhd., being a company incorporated in Malaysia on 22 December 2017 and our indirect wholly-owned subsidiary
“HH Metal”	Heng Hup Metal Sdn. Bhd., being a company incorporated in Malaysia on 3 July 2008 and our indirect wholly-owned subsidiary
“HH Metal (Johor)”	Heng Hup Metal (Johor) Sdn. Bhd., being a company incorporated in Malaysia on 27 May 2009 and our indirect wholly-owned subsidiary
“HH Paper”	Heng Hup Paper Sdn. Bhd., being a company incorporated in Malaysia on 3 July 2008 and our indirect wholly-owned subsidiary
“HH Paper (Melaka)”	Heng Hup Paper (Melaka) Sdn. Bhd., being a company incorporated in Malaysia on 13 March 2009 and our indirect wholly-owned subsidiary
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, being a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong Share Registrar”	Tricor Investor Services Limited, being the branch share registrar and transfer office of our Company in Hong Kong
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board
“Incentive Scheme”	the incentive scheme offered by the Lion Companies to our Group under which the procurement price is raised on a progressive tiered scale for different quantity brackets to incentivise us to supply scrap ferrous metals in larger quantities
“independent third party(ies)”	individual(s) or company(ies) who is/are not the connected person(s) of our Company
“ITA”	the Income Tax Act 1967 of Malaysia, as amended, supplemented or otherwise modified from time to time
“Johor Scrapyard”	the premises located at GM 3418, Lot 8742, Mukim Sungai Terap, Daerah Muar, Johor, Malaysia, bearing the postal address of 119-3, Lot 1241, Kampung Tengah, Sungai Abong, 84000 Muar, Johor, Malaysia, being our scrap ferrous metal scrapyard in Johor
“Joint Bookrunners and Joint Lead Managers”	(a) Shenwan Capital; (b) Elstone Securities Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities) regulated activity (“ <b>Elstone Securities</b> ”); (c) SPDB International Capital Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities; and (d) Haitong International Securities Company Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 3 (leveraged foreign exchange trading) and type 4 (advising on securities) regulated activities
“Joint Global Coordinators”	(a) Shenwan Capital; and (b) Elstone Securities (each a “ <b>Global Coordinator</b> ”)
“km”	kilometre
“Latest Practicable Date”	19 February 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication

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## DEFINITIONS

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“Lion Companies”	Lion Industries Corporation Berhad, being a company listed on the Main Market of Bursa Malaysia Securities Berhad, together with four of its subsidiaries, namely Amsteel Mills Sdn. Bhd., Antara Steel Mills Sdn. Bhd., Posim Marketing Sdn. Bhd. and Amsteel Mills Marketing Sdn. Bhd., and its related company, namely Megasteel Sdn. Bhd. It is engaged in the manufacturing and marketing of steel products and, to a very small extent, property management, trading and distribution of building materials and other steel products. The Lion Companies, together with the Trading Companies, were our largest customers during the Track Record Period
“Lion Industries”	Lion Industries Corporation Berhad, being a company listed on the Main Market of Bursa Malaysia Securities Berhad with stock code 4235
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about Friday, 15 March 2019, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Malaysian Legal Advisers”	Julius Leonie Chai, being the legal advisers to our Company as to Malaysian law
“Melaka Scrapyard I”	the premises located at GM 28, Lot 694 and PM 14, Lot 695, both in Mukim Cheng, Melaka, Malaysia bearing the postal address of No. 695, Jalan Tampoi, Krubong, 75150 Melaka, Melaka, Malaysia, being our scrap ferrous metal scrapyard in the state of Melaka
“Melaka Scrapyard II”	the premises located at PN 20151, Lot 4862, Mukim Cheng, Melaka, Malaysia bearing the postal address of Lot 4262, Jalan TTC 24, Taman Teknologi Cheng, 75250 Melaka, Melaka, Malaysia, being our waste paper scrapyard in the state of Melaka

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## DEFINITIONS

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“Memorandum”	the amended and restated memorandum of association of our Company adopted and took effect on 19 February 2019, a summary of which is set out in Appendix V to this prospectus, as amended from time to time
“MNA Group”	MNA Metal Resources Sdn. Bhd. and Yokohama Reclamation Sdn. Bhd., being companies with common directors and one of our five largest customers for FY2016, FY2017 and 8M2018
“Mr. Sia 1”	Datuk Sia Keng Leong, an executive Director and one of our Controlling Shareholders
“Mr. Sia 2”	Mr. Sia Kok Chong, an executive Director and one of our Controlling Shareholders
“Mr. Sia 3”	Mr. Sia Kok Seng, an executive Director and one of our Controlling Shareholders
“Mr. Sia 4”	Mr. Sia Kok Chin, an executive Director, the chairman of our Board, our chief executive officer and one of our Controlling Shareholders
“Mr. Sia 5”	Mr. Sia Kok Heong, an executive Director and one of our Controlling Shareholders
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.62 and is expected to be not less than HK\$0.50 at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer, such price to be determined in the manner further described in the paragraph headed “Structure of the Share Offer — Determining the Offer Price” of this prospectus
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Over-allotment Option”	the option expected to be granted by our Company to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by the Joint Global Coordinators (for themselves and on behalf of the other Placing Underwriters) at any time from the Listing Date until the 30th day after the last day for the lodging of applications under the Public Offer, to require our Company to issue up to 37,500,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, at the Offer Price to cover over-allocations in the Placing, if any

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## DEFINITIONS

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“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company for cash at the Offer Price to selected professional, institutional and individual investors, details of which are set out in the section headed “Structure of the Share Offer” of this prospectus
“Placing Shares”	the 225,000,000 Shares initially being offered for subscription for cash at the Offer Price under the Placing, subject to reallocation, and, where relevant, together with any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, details of which are set out in the section headed “Structure of the Share Offer” of this prospectus
“Placing Underwriters”	the underwriters of the Placing Shares which are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional placing underwriting agreement expected to be entered into on or around the Price Determination Date between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters regarding the Placing
“PRC”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) on or around the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Tuesday, 5 March 2019 (or such later time as may be agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), but in any event not later than 6:00 p.m. (Hong Kong time) on Friday, 8 March 2019) on which the Offer Price is to be determined for the purpose of the Share Offer
“Public Offer”	the conditional offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price payable in full on application, on the terms and subject to the conditions described in this prospectus and the Application Forms, details of which are set out in the section headed “Structure of the Share Offer” of this prospectus

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## DEFINITIONS

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“Public Offer Shares”	the 25,000,000 Shares initially being offered for subscription at the Offer Price under the Public Offer, subject to reallocation, details of which are set out in the section headed “Structure of the Share Offer” of this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer listed in the paragraph headed “Underwriting — Public Offer Underwriters” of this prospectus
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 26 February 2019 entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators and the Public Offer Underwriters regarding the Public Offer, as more particularly set out in the section headed “Underwriting” of this prospectus
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in the paragraph headed “History, Development and Reorganisation — Reorganisation” of this prospectus
“RM”	Malaysian ringgit, the lawful currency of Malaysia
“SDBA”	the Street, Drainage and Building Act 1974 of Malaysia, as amended, supplemented or otherwise modified from time to time
“Selangor Scrapyard”	the premises located at PN 92794, Lot 43181 and PN 92795, Lot 37589, Pekan Baru Subang, Daerah Petaling, Selangor, Malaysia bearing the postal address of No. 264, Jalan Satu A, Kampung Baru Subang, 52100 Shah Alam, Selangor, Malaysia, being our scrap ferrous metal and waste paper scrapyard in the state of Selangor and our headquarters
“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 the otherwise modified from time to time
“Share(s)”	the ordinary share(s) with a par value of HK\$0.01 each in the share capital of our Company
“Share Offer”	collectively, the Public Offer and the Placing



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## DEFINITIONS

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“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 February 2019, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sia Brothers”	Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong
“Sole Sponsor” or “Stabilising Manager” or “Shenwan Capital”	Shenwan Hongyuan Capital (H.K.) Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
“sq.m.”	square metre
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between 5S Holdings and the Stabilising Manager on or around the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 37,500,000 Shares to cover any over-allocation under the Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, for the purpose of this prospectus, refers to the entities disclosed in the section headed “Substantial Shareholders” of this prospectus or, where the context so requires, any one of them
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	FY2015, FY2016, FY2017 and 8M2018
“Trading Companies”	the scrap ferrous metal trading companies introduced by the Lion Companies to settle payment with us, details of which are set out in the paragraph headed “Business — Customers — Our settlement with the Lion Companies” of this prospectus
“Underwriters”	collectively, the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	collectively, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement

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## DEFINITIONS

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“US” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US Securities Act”	the United States Securities Act of 1933, as amended, supplemented or the otherwise modified from time to time
“US\$” or “USD”	United States dollars, the lawful currency of the US
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) the Public Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) the Public Offer Shares to be deposited directly into CCASS
“%”	per cent

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements which are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- (a) our business strategies and plan of operations;
- (b) the amount and nature of, and potential for, future development of our business;
- (c) our operations and business prospects;
- (d) our dividend policy;
- (e) planned projects;
- (f) the regulatory environment of our industry in general;
- (g) future development in our industry;
- (h) the global and domestic economy; and
- (i) the scrap material trading market.

The words “anticipate”, “believe”, “can” “could”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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

### RISKS RELATING TO OUR BUSINESS

**We depend heavily on the performance of steel and steel consuming industries in Malaysia. If the scrap ferrous metal trading market in Malaysia does not continue to grow, grows more slowly than expected or declines, our business, financial condition and results of operations could be adversely affected.**

During the Track Record Period, save for PT. Lautan Steel Indonesia, all the scrap materials were sold to our customers in Malaysia. For FY2015, FY2016, FY2017 and 8M2018, our revenue generated from sales of scrap ferrous metals amounted to RM383.8 million, RM315.1 million, RM613.3 million and RM487.8 million, respectively, representing 89.3%, 83.3%, 82.9% and 85.8% of our total revenue, respectively. As such, we depend heavily on the performance of the steel industry in Malaysia and the industries which consume steel in Malaysia, including construction and manufacturing of heavy equipment, automobiles, aircraft, ships and household appliances. According to Frost & Sullivan, with the expected growth of apparent finished steel products consumption in Malaysia at a CAGR of 3.0% from 2018 to 2022, the enlarging production capacity for major local steel mills and the implementation of safeguard measures for domestic steel industry by the Malaysian government, steel production in Malaysia is expected to grow. A significant slowdown in the Malaysia economy, or a downturn in the construction or manufacturing sectors in Malaysia, may adversely affect the scrap ferrous metal trading market in Malaysia. In addition, the scrap ferrous metal trading market may be affected by various other factors, such as changes in industry preferences, cost and availability of substitute materials and scrap ferrous metals market prices.

As a result, we cannot assure you that the scrap ferrous metal trading market in Malaysia will continue to grow. If it does not continue to grow, grows more slowly than expected or declines, our business, financial condition and results of operations could be adversely affected.

**A significant portion of our revenue was generated from the sales attributable to our five largest customers during the Track Record Period, among which the Lion Companies were the largest. Any downturn in the business, closure of any steel mills, slight decline in the demand for scrap ferrous metals from or financial difficulties of our five largest customers during the Track Record Period could have an adverse impact on our business, financial condition and results of operations.**

For FY2015, FY2016, FY2017 and 8M2018, our revenue from sales attributable to the Lion Companies amounted to RM379.1 million, RM306.3 million, RM607.6 million and RM453.9 million,

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## RISK FACTORS

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respectively, representing 88.2%, 81.0%, 82.2% and 79.8% of our total revenue, respectively, while our revenue from sales attributable to our five largest customers amounted to RM423.8 million, RM360.7 million, RM719.0 million and RM548.9 million, respectively, representing 98.7%, 95.3%, 97.2% and 96.5% of our total revenue, respectively.

We do not enter into any legally binding long-term agreement with any of our five largest customers during the Track Record Period and our five largest customers during the Track Record Period are not obligated in any way to continue purchasing from us at the same or increasing levels. We cannot assure you that our five largest customers during the Track Record Period will not reduce or cease to purchase from us for any reason out of our control, such as any unexpected sudden decline in the steel industry in Malaysia. Any such downturn in the business, closure of any steel mills, decline in the demand for scrap ferrous metals from or financial difficulties of our five largest customers during the Track Record Period, could lead to an adverse impact on our business, financial condition and results of operations if we are unable to identify new customers with comparable transaction amounts.

**Our trade receivables turnover days is in general longer than our trade payable turnover days. Such mismatch between our trade receivables turnover days and our trade payables turnover days causes a cash flow gap. We may be exposed to risk on working capital and liquidity. As a significant portion of our revenue is generated from sales attributable to the Lion Companies, if the Lion Companies fail to settle our trade receivables in a timely manner, our working capital and liquidity position could be adversely affected.**

Working capital is crucial to the scrap material trading business as we, as the approved scrap metal provider, need to possess sufficient working capital to sustain our business. Steel production from raw materials to finished steel products takes time. The tenor of credit term for steel mills to pay off their approved scrap metal providers depends on how fast the individual steel mill can move its inventory and its own cash flow position. On the other hand, market participants in the scrap ferrous metal trading market trade on a deal by deal basis and the transactions are usually settled upon physical delivery or shortly afterwards. Therefore, we have to settle our purchases well before we receive the sale proceeds from the purchasing steel mill, leading to a mismatch between our trade receivables turnover days and our trade payables turnover days. For FY2015, FY2016, FY2017 and 8M2018, our trade receivables turnover days was longer than our trade payables turnover days by 42.1 days, 57.1 days, 32.9 days and 28.2 days, respectively. Such mismatch between our trade receivables turnover days and our trade payables turnover days causes a cash flow gap.

During the Track Record Period and up to the Latest Practicable Date, our Group had relied principally on, among others, cash generated from our operations to finance our business. As such, our working capital is significantly affected by the swiftness of the collection of proceeds from our end customers, in particular, the Lion Companies, which in turn largely depends on the operating conditions of the steel production industry in Malaysia.

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## RISK FACTORS

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In the event that the operating conditions of the steel production industry in Malaysia deteriorates and our customers fail to settle payment with us on a timely basis, the discrepancy between our trade receivables turnover days and trade payables turnover days may be widened, which may tighten our working capital and liquidity, and in turn adversely affect our ability to settle the buying prices with our suppliers and affect our stable supply of significant volume of scrap materials to our customers, and our business, financial condition and results of operations could be adversely affected.

**Any fluctuation in steel selling prices resulting in the decrease in the procurement price of scrap ferrous metals offered by our customers could adversely affect our business, financial condition and results of operations.**

The value of scrap ferrous metals in the market to a large extent is dictated by the steel mills, which firstly determine their procurement price at which they agree to take up the scrap ferrous metals from the approved scrap metal providers, taking into account the steel selling prices which the steel mills could offer to their customers, the associated production cost and their targeted profit margin. The approved scrap metal providers then work out their optimal buying price for scrap ferrous metals on such basis, whereby on one hand the buying price is competitive enough to secure the required quantity of scrap ferrous metals from their sources, and on the other hand, the approved scrap metal providers can maximise the gross margin it can earn. If there is any significant fluctuation in the steel selling prices or procurement price offered by our customers and we are not able to pass on such decrease in our procurement price to our suppliers, our profit margin, business, financial condition and results of operations could be adversely affected.

**One of our competitive strengths lies in our nationwide supplier base of scrap materials. If we fail to purchase stable and high-volume supply of scrap materials to satisfy the demand of our customers, our reputation, business, financial condition and results of operations could be adversely affected.**

Attributable to our nationwide supplier base of scrap materials, we are a leading scrap ferrous metal trader in Malaysia. According to Frost & Sullivan, we ranked first in terms of trading volume with domestic steel mills in 2017, having a market share of 20.8%. As such, we are able to develop stable business relationship with large-scale steel producers such as the Lion Companies which require stable and high-volume supply of scrap ferrous metals for their mass production. During the Track Record Period, we purchased scrap ferrous metals from over 3,000 suppliers throughout Malaysia. For FY2015, FY2016, FY2017 and 8M2018, the sales volume of scrap ferrous metals we sold amounted to approximately 464,955 tonnes, 375,998 tonnes, 519,069 tonnes and 365,386 tonnes, respectively.

We cannot assure you that we could maintain the stable and high-volume supply of scrap materials to our customers. If we fail, our business relationship with our customers could be adversely affected. In case we lose the support from our major customers, or fail to benefit from the Incentive Scheme under which we enjoy raised procurement price on a progressive tiered scale for different quantity brackets, our reputation, our business, financial condition and results of operations could be adversely affected.

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## RISK FACTORS

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**We intend to apply 45.1% of the net proceeds of the Share Offer as additional working capital for our scrap ferrous metal trading business. However, there is no assurance that our business strategy and future plans will bring in the anticipated benefits to our Group.**

Our trade receivables turnover days is in general longer than our trade payable turnover days. Such mismatch between our trade receivables turnover days and our trade payables turnover days causes a cash flow gap. The net proceeds of the Share Offer will be applied as additional working capital for our scrap ferrous metal trading business to capture our future business growth.

Our strategy is based on our existing plans in light of the prevailing market conditions and possible industry development, and are subject to inherent risks and uncertainties at different development and expansion stages. The formulation of our strategy is based on the assumptions that there will be no material change in (a) existing political, legal or economic conditions in Malaysia; (b) market conditions; and (c) business relationship with our existing suppliers and customers. Such assumptions, if proved to be incorrect, could affect the commercial viability of our business strategy.

We cannot assure you that our strategy will be implemented in the manner as disclosed in this prospectus or that it will bring in the anticipated benefits to our Group. If it fails, our business, financial condition and results of operations could be adversely affected.

**If our Group is unable to maintain our net profit margin or compete successfully against other market players, our reputation, our business, financial condition and results of operations may be adversely affected.**

We operate with thin profit margin as scrap ferrous metal trader. For FY2015, FY2016, FY2017 and 8M2018, our net profit margins amounted to 3.2%, 3.2%, 3.1% and 3.8%, respectively. We need to monitor and keep our cost structure lean in order to maintain our profitability and offer competitive buying price to our suppliers. There is no assurance that our Group could maintain our cost structure and net profit margin or compete with existing competitors or new entrants successfully in the future. In the event that our Group is unable to maintain our net profit margin and compete with other market players successfully, our business, financial condition, and results of operations may be adversely affected.

**Our Group has significant concentration of credit risk from our steel mill customers.**

For FY2015, FY2016, FY2017 and 8M2018, the revenue attributable to our steel mill customers represented 88.4%, 81.6%, 82.3% and 85.2% of our total revenue, respectively, and in particular, the revenue attributable to the Lions Companies represented 88.2%, 81.0%, 82.2% and 79.8% of our total revenue, respectively. During the years of 2015 and 2016 when the Lion Companies suffered difficult operating conditions in Malaysia as a result of the dumping of steel products from the PRC exporters, the trade receivables turnover days of the Lion Companies could be as long as 80.8 and 173.3 days, respectively (taking into account the sales transaction invoiced to the Lion Companies only). In the event that the operating conditions of the steel production industry in Malaysia deteriorate or our steel mill customers, in particular, the Lion Companies, fail to settle payment with us in a timely manner, or at all, our business, financial condition and results of operations could be adversely affected.



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## RISK FACTORS

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**Our gain on disposal of assets is non-recurring in nature. Accordingly, we may not record such gain in the future.**

We recorded gain on disposal of assets classified as held for sale of RM9.3 million for the eight months ended 31 August 2018 as a result of the disposal of our investment properties located in Malaysia to our Directors for an aggregate consideration of RM11.0 million based on market valuation. Please refer to the paragraph headed “Financial Information — Description and discussion of the major components of the combined statements of comprehensive income — Net other gains/(losses)” of this prospectus for further details. While such gain had a considerable impact on our reported profit for the relevant period, it was non-recurring in nature and accordingly, we may not record such gain in the future. Such gain should not be indicative of our future financial performance.

**We are subject to risks relating to logistic arrangement.**

Our suppliers deliver scrap materials to our scrapyards or to our customers directly, either by their trucks or our trucks, while we deliver scrap materials from our scrapyards to our customers by our trucks. As such, we are highly dependent on our logistic arrangement for smooth delivery of scrap materials from our suppliers and to our customers. We may also engage external logistic service providers to deliver in the event that our trucks are utilised at their full capacity. Our business is substantially reliant on efficient and accountable logistic arrangement.

We cannot assure you that our logistics support will not be disrupted by reasons such as shortage of supplies and equipment, operational problems, labour disputes, extreme weather condition, shortage of energy, acts of war or terrorism, natural disasters and other causes, in which case our supply chain and provision of scrap materials may be adversely affected, and our business, financial condition and results of operations could be adversely affected.

**An integral part of our success lies in our ability to recruit and retain experienced employees for our business operations. The departure of any members of our management team or our experienced employees could adversely interrupt our business if we are unable to recruit the replacement personnel with equivalent qualifications in a timely manner.**

Our success is attributed to the leadership and contributions of our management team comprising our executive Directors and our senior management personnel, who are collectively responsible for the overall corporate developments and business strategies of our Group as well as implementing business plans and driving the growth of our Group. As such, the experience and contributions of our management team are crucial to the success and continuous growth of our Group.

Our Directors believe that an integral part of our success lies in our ability to recruit and retain experienced employees with knowledge in the scrap material trading industry for our business operations. However, there is no assurance that we will be able to recruit and retain suitable employees in the future.

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## RISK FACTORS

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If any of our departing employees were to join our competitors or form a competing company, we may lose some of our customers or suppliers. The departure of any members of our management team or our experienced employees could adversely interrupt our business if we are unable to recruit the replacement personnel with equivalent qualifications and experience in a timely manner.

**We had non-compliance incidents in the past. However, there is no guarantee that we can comply fully with the laws, rules and regulations relevant to our operations going forward.**

We had non-compliance incidents in the past as disclosed in the section headed “Business — Compliance matters” of this prospectus.

Despite the enhanced internal control measures implemented by us to prevent recurrence of non-compliance incidents, the implementation of such enhanced internal control measures does not necessarily guarantee that we can fully comply with the laws, rules and regulations relevant to our operations going forward. We may nonetheless be subject to actions and proceedings as the legal, regulatory and/or administrative authorities in Malaysia may institute or take against us for any non-compliance incident. If our Group is imposed with any fine, penalty or other legal consequence as a result, our business, financial condition, results of operations and prospects could be adversely affected.

**Our sales may fluctuate and be affected by festive month.**

The demand and supply of our scrap materials is affected by festive month. In general, the sales and purchase of scrap materials may be lower during festive month of (a) Ramadan, being the Islamic holy month of fasting; and (b) the Lunar New Year. As a result of the above, our results of operations may fluctuate from quarter to quarter. As our Directors cannot assure you that the historical trend of fluctuation of our revenue will not continue, an analysis of our interim financial performance may not be indicative of our full-year results due to the festive month impact.

**A material disruption to our operations could adversely affect our business.**

In the event of unexpected uncertainties and contingencies, our operations could be materially disrupted. Such uncertainties and contingencies include industrial accidents, fires, natural disasters, equipment failures, strikes or disruptions of public infrastructure. In October 2016, a fire broke out at part of the Melaka Scrapyard I, being our scrapyard of waste paper at that time, due to an electrical short-circuit of electric wiring. As a result, our processing machinery, documents and accounting related documents were destroyed while there was no casualty of our employees and the operations of the Melaka Scrapyard I was suspended for about three weeks.

Further, as we make use of our processing machinery, such as excavators with magnet and metal shredders, metal bundling machines in our operations, any breakdown or malfunction of any such machinery could result in disruptions of our operations.

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## RISK FACTORS

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### **We may be subject to liability in connection with industrial accidents at our scrapyards.**

The use of heavy machinery such as excavators with magnet and metal shredders, metal bundling machines in our daily operations is prone to industrial accidents. Further, our waste paper scrapyards are susceptible to fire accidents. During the Track Record Period, a fire incident at part of the Melaka Scrapyard I led to the suspension of operations for about three weeks.

We cannot assure you that industrial accidents, whether due to malfunction of machinery or otherwise, will not occur again in the future at our scrapyards, in which case we may be liable for the damage caused and the operations of our scrapyards may be suspended. Any of the foregoing could adversely affect our business, financial condition and results of operations.

### **We may not have sufficient insurance coverage for our potential losses and liabilities.**

We have taken out insurance policies which are necessary to our operations, including insurance against fire, fidelity, business (money in transit and in premises), public liability and theft/burglary. However, we have not taken out any product liability insurance for the scrap materials we sell as it is not required under Malaysian law. Further, there are certain types of risks that are either uninsurable or that we cannot obtain insurance at a reasonable cost. In the event that an uninsured liability arises or our liability exceeds our insurance coverage, we could be exposed to potential losses and liabilities, and our business, financial condition and results of operations could be adversely affected.

## **RISKS RELATING TO OUR INDUSTRY**

### **Our business and operations could be adversely affected by a decline in steel prices.**

Our business and profitability highly correlate with the prevailing steel prices. Steel prices are subject to fluctuations in steel demand and supply and other factors. The growth of steel industry may slow down as a result of decline in steel prices. Our customers may encounter financial difficulties and the demand for scrap ferrous metals could be reduced. We cannot guarantee that our customers will not be affected financially under a decline in steel prices. Any adverse change to the market condition of the steel industry and thus the profitability and financial position of our customers will affect the demand and procurement price of our customers offered to us, which in turn, would adversely affect our profitability.

**We are required to obtain certain licences for our business operations in Malaysia. We cannot guarantee that we can divert sufficient resources or adjust our current business operations to accommodate the new regulatory regime in a timely manner in response to any additional legal, regulatory or administrative requirements.**

We are required to obtain certain licences, permits and approvals for our business operations in Malaysia. Please refer to the paragraph headed “Regulations — Licences, permits and approvals” of this prospectus for details of the licences, permits and approvals which are material and specific to our business operations in Malaysia.

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## RISK FACTORS

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There is no assurance that the Malaysian government will not promulgate any new law, rule or regulation to further tighten the control over the scrap material trading industry. In case of imposition of additional legal, regulatory or administrative requirements, we may need to allocate additional manpower and financial resources to comply with such requirements and we cannot guarantee that we can divert sufficient resources or adjust our current business operations to accommodate the new regulatory regime in a timely manner. Our failure to comply with regulatory requirements in time could expose us to penalties or even revocation of our licences, permits and approvals and our operations may be interrupted.

### **We operate in a competitive industry.**

The scrap ferrous metal trading industry in Malaysia is competitive. We compete primarily with other major market players in terms of price and payment terms offered to suppliers of scrap ferrous metals. Competition also arises from overseas scrap ferrous metal suppliers as steel mills from time to time import scrap ferrous metals if the price of international scrap ferrous metals is more favourable than domestic scrap ferrous metals. If we fail to compete with other major market players and lose our leading market position, our business financial condition and results of operations could be adversely affected.

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

**Political, economic and legal developments, as well as any change in the Malaysian government policies, could materially and adversely affect our business, financial condition and results of operations.**

As our operating assets are located in Malaysia, our business, financial condition and results of operations are significantly exposed to the political, economic and legal developments in Malaysia. We cannot assure you that the Malaysian government will maintain or continue to maintain political and economic stability. Specifically, our business and operations could be adversely affected by changes in the Malaysian regulatory environment governing the scrap material trading industry. Should the Malaysian government promulgate any new law, rule or regulation to control over the scrap material trading industry, our business, financial condition and results of operations could be affected thereby.

**RM may be subject to foreign exchange controls imposed by the Malaysian government in the future or may be subject to exchange rate fluctuations.**

The Central Bank of Malaysia has, in the past, intervened in the foreign exchange market to stabilise RM, and it pegged RM to USD in September 1998. On 21 July 2005, the Central Bank of Malaysia adopted a managed float system which benchmarked RM to a currency basket to ensure that RM remains close to its fair value. We cannot assure you that the Malaysian government will not impose more restrictive or additional foreign exchange controls. Any imposition, variation or removal of exchange controls may lead to increased exposure of the Malaysian economy to the potential risks and vulnerability of external developments in the international markets.

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## RISK FACTORS

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Furthermore, fluctuations in the value of RM against other currencies will create foreign currency translation gains or losses and any appreciation of RM would lower the cost and enhance the competitiveness of imported scrap ferrous metals, both of which could adversely affect our business, financial condition and results of operations. Any imposition, variation or removal of foreign exchange controls may adversely affect the value of our net assets, earnings or any declared dividends, translated or converted into USD or HKD. Consequently, this may adversely affect our ability to pay dividends or satisfy other foreign exchange requirements, in which case the value of your investment in the Shares may be materially and adversely affected.

**Our operating subsidiaries are incorporated in Malaysia and their major assets are located in Malaysia. It could be difficult to enforce a foreign judgment against our operating subsidiaries, our Directors or our management in Malaysia.**

Our operating subsidiaries are incorporated under the laws of Malaysia. Our Directors are residents of Malaysia and a substantial portion of our assets and the assets of such Directors are located in Malaysia. Any foreign judgment must be registered before it can be enforceable by virtue of the Reciprocal Enforcement of Judgments Act 1958, the registration of which is only possible if the judgment is given by a superior court from a country listed in the First Schedule of the Reciprocal Enforcement of Judgments Act 1958, including, Hong Kong. Alternatively, if the foreign judgment is not from a country listed, the judgment can be enforced by securing a Malaysian judgment. As a result, it could be difficult to enforce a foreign judgment against our operating subsidiaries and our Directors in Malaysia.

### OTHER RELEVANT RISKS

**There has been no prior public market for the Shares, thus an active or liquid trading market for the Shares may not develop and the trading price of the Shares may be volatile.**

The Shares have not been listed or quoted on any stock exchange or open market before completion of the Share Offer. There is no assurance that there will be an active trading market for the Shares on the Stock Exchange upon the Listing. In addition, the market price of the Shares to be traded on the Stock Exchange may differ from the Offer Price and prospective investors should not treat the Offer Price as an indicator of the market price of the Shares to be traded on the Stock Exchange.

Upon the Listing, the trading volume and the market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, our revenue, profit and cash flow, our investment, changes in our management and general economic condition. There is no assurance that such factors will not occur and it is difficult to quantify their impact on the trading volume and the market price of the Shares.

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## RISK FACTORS

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**Prospective investors of the Shares may experience immediate dilution upon the Listing and further dilution if our Company issues additional Shares in the future.**

The Offer Price is expected to be higher than the net tangible asset value per Share immediately prior to the Share Offer. Therefore, prospective investors of the Shares may experience immediate dilution in the pro forma net tangible asset value per Share upon the Listing.

For the purpose of business expansion, our Directors may consider offering and issuing Shares or equity-linked securities in the future. Prospective investors of the Shares may experience further dilution in the net tangible assets book value per Share if our Company offers or issues Shares at a price lower than the then net tangible assets book value per Share.

**Issue of Shares under the Share Option Scheme may decrease our Shareholders' value of investment.**

We have conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed "D. Share Option Scheme" in Appendix VI to this prospectus. Following the grant of any option under the Share Option Scheme in the future and the issue of Shares upon the exercise of any option which may be granted under the Share Option Scheme, there will be a dilution or reduction in shareholding of our then Shareholders and it may also result in a dilution or reduction in the earnings per Share or net asset value per Share.

**Sales or perceived sales of substantial amounts of the Shares in the public market by our Controlling Shareholders after the Listing could adversely affect the prevailing market price of the Shares.**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the Listing Rules, details of which are set out in the paragraph headed "Underwriting — Restrictions and undertakings — Restrictions and undertakings under the Listing Rules" and "Underwriting — Restrictions and undertakings — Undertakings under the Public Offer Underwriting Agreement" of this prospectus. There is no assurance that our Controlling Shareholders, whose interests may be different from those of our other Shareholders, will not dispose of their Shares following the expiration of the lock-up periods. Sales of substantial amounts of the Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares.

**As the payment and the amount of any future dividends will be at the discretion of our Board, historical dividend payments should not be regarded as an indication of our future dividend policy.**

Following completion of the Share Offer, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and the amount of any future dividends will be at the discretion of our Board and will depend on, among other things, our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, and other factors as our Directors may deem relevant. As such factors and the payment of dividends are at the discretion of our Board which reserves the right to

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## RISK FACTORS

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change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend policy.

**Certain information in this prospectus has not been independently verified.**

This prospectus includes certain information which has been extracted from various official government publications and other sources. 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 which would render such information false or misleading. The information has not been independently verified by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or any other party involved in the Share Offer and no representation is given as to their accuracy. As such, despite our Directors and the Sole Sponsor having exercised reasonable care in selecting and identifying the named information sources, in compiling, extracting, and reproducing the information, and in ensuring no material omission of the information, no undue reliance should be placed on such information by prospective investors.

**Forward-looking statements in this prospectus may prove inaccurate.**

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be materially different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statements. The actual financial results, performance or achievements of our Group may differ materially from those discussed in this prospectus.

**Information contained in press articles or other media may not be appropriate, accurate, complete or reliable.**

We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press article or other media coverage, as such information is not sourced from or authorised by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information contained in any press article or other media. Accordingly, in all cases, prospective investors should give consideration as to how much weight or importance they should attach to, or place on, such press article or other media coverage.

Prospective investors should read the entire prospectus carefully, in particular the risks identified in this section and throughout this prospectus. Prospective investors should rely only on the information contained in this prospectus in making their investment decision and should not rely on any other information.



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**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM COMPLIANCE  
WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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**ACCOUNTANT'S REPORT**

It is stated in Rule 4.04(1) of the Listing Rules that “in the case of a new applicant the accountant’s report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries in respect of each of the three financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange”.

Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to include the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and set out the reports specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

According to paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a statement as to the gross trading income or the sales turnover of our Group (as may be appropriate) during each of the three financial years immediately preceding the issue of this prospectus, including an explanation of the method used for the computation of such income or turnover, and a reasonable break-down between the more important trading activities.

According to paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a report by the auditors of our Company with respect to (a) the profits and losses of our Group; and (b) the assets and liabilities of our Group for each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from strict compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Our Company’s financial year end dates are on 31 December. The accountant’s report of our Company set out in Appendix I to this prospectus is currently prepared to cover the three full financial years ended 31 December 2017 and the eight months ended 31 August 2018.

As such, the Sole Sponsor has applied on behalf of our Company to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with Rule 4.04(1) of the Listing Rules on the following conditions:

- (a) this prospectus shall be issued on or before 28 February 2019 and our Company must list on the Stock Exchange on or before 31 March 2019;

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**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM COMPLIANCE  
WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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- (b) our Company has obtained a certificate of exemption from the SFC on strict compliance with the requirements of section 342(1)(b) of, and paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (c) a profit estimate for the year ended 31 December 2018 which complies with Rules 11.17 to 11.19 of the Listing Rules is included in this prospectus; and
- (d) a Directors' statement that save as the Listing expenses, there had been no material adverse change to our Group's financial and trading positions or prospect with specific reference to the trading results from 1 September 2018 to 31 December 2018 is included in this prospectus.

Further, an application has been made to the SFC for a certificate of exemption from strict compliance with the requirements of section 342(1)(b) of, and paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to, the Companies (Winding Up and Miscellaneous Provisions) Ordinance about the inclusion of the accountant's report covering the full financial year results of our Group for the year ended 31 December 2018 in this prospectus.

The SFC has granted a certificate of exemption pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the requirements of paragraphs 27 and 31 on the conditions that (a) particulars of the exemption are set out in this prospectus; (b) this prospectus will be issued on 27 February 2019; and (c) the Shares will be listed on the Stock Exchange on or before 31 March 2019.

The applications to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the requirements under Paragraph 27 of Part I and Paragraph 31 and Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance were made on the grounds, among others, that strict compliance with the above requirements would be unduly burdensome and the exemption would not prejudice the interests of the investing public as:

- (a) there would not be sufficient time for our Company and our reporting accountant to finalise the audited financial statements for the full year ended 31 December 2018 for inclusion in this prospectus, which shall be issued on 27 February 2019. If the financial information for the year ended 31 December 2018 is required to be audited, our Company and our reporting accountant would have to undertake considerable amount of work, costs and expenses to prepare, update and finalise the accountant's report and the relevant sections of this prospectus will also need to be updated to cover such additional period within a short period of time;
- (b) our Directors are of the view that the benefits of such additional work to be done by the reporting accountant to the potential investors would not justify the additional amount of work, costs and expenses as (i) the accountant's report of our Group covering FY2015, FY2016, FY2017 and 8M2018, together with the unaudited supplemental financial

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

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information and the profit estimate for the year ended 31 December 2018 (in compliance with Rules 11.17 to 11.19 of the Listing Rules) included in this prospectus have already provided the potential investors with adequate and reasonable up-to-date information in the circumstances to form a view on the track record and earnings trend of our Company; and (ii) all information which is necessary for the investing public to make an informed assessment of our business, assets and liabilities, financial position, trading position, management and prospects has been included in this prospectus;

- (c) our Directors and the Sole Sponsor confirmed that after performing all due diligence work which they consider appropriate, up to the date of this prospectus, there has been no material adverse change to our financial and trading positions or prospects since 1 September 2018 (immediately following the date of the latest audited statement of financial position in the accountant's report set out in Appendix I to this prospectus) to the date of this prospectus and there has been no event which would materially affect the information shown in the accountant's report as set out in Appendix I to this prospectus, the profit estimate for the year ended 31 December 2018 as set out in Appendix III to this prospectus and the section headed "Financial Information" in this prospectus and other parts of this prospectus; and
- (d) our Company will comply with Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of annual results and annual report for the year ended 31 December 2018, respectively.

### MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. As our operations are in Malaysia and substantially all of our Group's assets are located in Malaysia, we will not, after the Listing or in the foreseeable future, have sufficient management presence in Hong Kong. In light of the fact that the management and operations of our Group are based in Malaysia, the appointment of two additional executive Directors who are ordinarily resident in Hong Kong would increase the administrative expenses of our Group and reduce the effectiveness and responsiveness of our Board in making decisions for our Group, particularly when business decisions are required to be made on a timely basis. Furthermore, such additional executive Directors, not being able to be physically present at the location where our Group's daily operations and management take place, may not be able to fully understand the daily business operations of our Group or appreciate the circumstances affecting the business operations and development of our Group from time to time. This may adversely affect such Directors' ability to exercise their discretion on a fully informed basis, or to make appropriate business decisions or judgements which are beneficial to the operations and development of our Group. As such, it will be unduly cumbersome, costly and not in our Company's interest to appoint two additional executive Directors who are ordinarily resident in Hong Kong merely for the purpose of complying with Rule 8.12 of the Listing Rules.

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

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For the above reasons, the Sole Sponsor has applied on our behalf to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules.

The arrangements proposed by us for maintaining regular communication with the Stock Exchange for the purpose of Rule 8.12 of the Listing Rules are as follows:

- (a) we have appointed two authorised representatives, being Mr. Sia 4 and Mr. Sia 5, pursuant to Rule 3.05 of the Listing Rules, who will act as the principal channel of communication with the Stock Exchange;
- (b) our authorised representatives have the mobile phone numbers, office phone numbers, e-mail addresses and fax numbers of all our Directors and can contact all our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matter;
- (c) each of our Directors who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time;
- (d) we have appointed Shenwan Hongyuan Capital (H.K.) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. Our compliance adviser will act as an additional channel of communication with the Stock Exchange; and
- (e) each of our Directors will provide his/her mobile phone number, office phone number, e-mail address and fax number to the Stock Exchange to ensure that he/she will be readily contactable as and when necessary to deal promptly with enquiries from the Stock Exchange.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into and are expected to continue certain transactions, which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. The Sole Sponsor has applied on behalf of our Company to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with the announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions.

Further information on such waiver is set out in the section headed "Connected Transactions" of this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS IN THIS PROSPECTUS

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

### INFORMATION ON THE SHARE OFFER

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms contain all the terms and conditions of the Public Offer. The Public Offer comprises the offer of 25,000,000 Shares by our Company initially for subscription at the Offer Price while the Placing comprises the offer of 225,000,000 Shares by our Company initially for subscription at the Offer Price.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out in this prospectus and the Application Forms. No person is authorised to give any information in connection with the Share Offer or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, agents, employees, advisers or representatives or any other parties involved in the Share Offer.

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

### UNDERWRITING

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement. The Placing will be fully underwritten by the Placing Underwriters subject to the terms and conditions of the Placing Underwriting Agreement. Please refer to the section headed “Underwriting” of this prospectus for details of the underwriting arrangements.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **RESTRICTIONS ON OFFER OF THE OFFER SHARES**

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

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

Prospective investors should consult their professional advisers and take advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective investors should inform themselves as to the relevant regulatory requirements of investing in the Offer Shares and any applicable exchange control regulations in the jurisdictions of their respective citizenship, residence or domicile.

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

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus.

None of our Company or any of our subsidiaries is presently listed on any stock exchange on which any part of the equity or debt securities of our Company or any of our subsidiaries is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought.

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

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be issued on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day (as defined in the Listing Rules) after any trading day. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Prospective investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### PROFESSIONAL TAX ADVICE RECOMMENDED

Prospective investors of the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the other Underwriters, their respective directors, officers, agents, employees, advisers or representatives or any other persons involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding, purchasing, disposing of or dealing in, the Shares or exercising their rights thereunder.

### SHARE REGISTRARS AND STAMP DUTY

All Shares to be issued and transferred pursuant to the Share Offer will be registered on the register of members of our Company in Hong Kong maintained by the Hong Kong Share Registrar. The principal register of members of our Company in the Cayman Islands is maintained by Conyers Trust Company (Cayman) Limited. Only Shares registered on the register of members of our Company in Hong Kong may be traded on the Stock Exchange.

Dealings in the Shares registered on the register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong payable by each of the purchaser (or transferee) and the seller (or transferor) is 0.1% of the consideration or, if higher, the market value of the Shares being sold or transferred.

### EXCHANGE RATE CONVERSION

Unless otherwise specified and for illustrative purpose only, translations of RM and USD into HKD in this prospectus are based on the rates set out below:

RM1.0 = HK\$2.0

US\$1.0 = HK\$7.8

Such conversions shall not be construed as representations that amount of such currencies were or may have been converted into HKD and vice versa at such rates or any other exchange rates.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### LANGUAGE

The English translations of the names of Malaysian laws, rules and regulations in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations.

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

### ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as total in certain tables may not be an arithmetic aggregation of the figures preceding them.

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## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Sia Kok Chin <i>(chairman of our Board and chief executive officer)</i>	12A, Jalan Polo 10/3 Seksyen 10, Kota Damansara 47810 Petaling Jaya Selangor Malaysia	Malaysian
Datuk Sia Keng Leong	No. 7, JLN AP 9 TMN ARA Permai Hang Tuah Jaya 75350 Melaka Malaysia	Malaysian
Mr. Sia Kok Chong	No. 4A, Jalan BBP 9 Taman Batu Berendam Putra Malaysia	Malaysian
Mr. Sia Kok Seng	No. 7, Jalan BBP 10 Taman Batu Berendam Putra 75350 Melaka Melaka Malaysia	Malaysian
Mr. Sia Kok Heong	5007, Taman Berendam Batu Berendam 75350 Melaka Melaka Malaysia	Malaysian

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## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

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### *Independent non-executive Directors*

Ms. Sai Shiow Yin	No. 3 Jalan CVR 10/2 Country Villa Resort 77200 Bemban Melaka Malaysia	Malaysian
Mr. Puar Chin Jong	22 Jalan Residensi 1 TMN Residensi Sri Utara Off Jln Ipoh-rawang 68100 Kuala Lumpur Malaysia	Malaysian
Mr. Chu Kheh Wee	61 JLN PJS 9/12 BDR Sunway 46150 Subang Jaya Selangor 46150 Selangor Malaysia	Malaysian

### SENIOR MANAGEMENT

Name	Position	Residential address
Mr. Goh Eng Kiat	Regional manager	12, Jalan BBP 10 Taman Berendam Putra 2 Batu Berendam 75350 Melaka Melaka Malaysia
Mr. Lee Heng Wai	Finance manager	34-01-10, Blok 34, Sri Sentosa Jalan Klang Lama 58000 Kuala Lumpur Malaysia

Please refer to the section headed “Directors and Senior Management” of this prospectus for the background information on our Directors and senior management personnel.

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## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

##### **Shenwan Hongyuan Capital (H.K.) Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities)*

Level 19, 28 Hennessy Road  
Hong Kong

#### Joint Global Coordinators

##### **Shenwan Hongyuan Capital (H.K.) Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities)*

Level 19, 28 Hennessy Road  
Hong Kong

##### **Elstone Securities Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities) regulated activity)*

Suite 3712, 37th Floor, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

#### Joint Bookrunners and Joint Lead Managers

##### **Shenwan Hongyuan Capital (H.K.) Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities)*

Level 19, 28 Hennessy Road  
Hong Kong

##### **Elstone Securities Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities) regulated activity)*

Suite 3712, 37th Floor, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

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## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

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**Haitong International Securities Company Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities), type 3 (leveraged foreign exchange trading) and type 4 (advising on securities) regulated activities)*

22nd Floor, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

**SPDB International Capital Limited**

*(A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities)*

Suites 3207-3212

One Pacific Place

88 Queensway

Hong Kong

**Legal advisers to our Company**

*As to Hong Kong law*

**Loeb & Loeb LLP**

*Solicitors, Hong Kong*

21st Floor, CCB Tower

3 Connaught Road Central

Hong Kong

*As to Malaysian law*

**Julius Leonie Chai**

*Advocates & Solicitors*

D-6-1, 6<sup>th</sup> Floor, Capital 4, Oasis Square

No. 2, Jalan PJU 1A/7A, Ara Damansara

47301 Petaling Jaya

Selangor Darul Ehsan

Malaysia

*As to Cayman Islands law*

**Conyers Dill & Pearman**

*Cayman Islands attorneys-at-law*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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## DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

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

*As to Hong Kong law*

**Chiu & Partners**

*Solicitors, Hong Kong*  
40th Floor, Jardine House  
1 Connaught Place  
Hong Kong

*As to Malaysian law*

**Teh & Lee**

*Advocates & solicitors*  
Units A-3-3 & A-3-4, Northpoint Offices  
Mid Valley City  
No. 1 Medan Syed Putra Utara  
59200 Kuala Lumpur  
Malaysia

**Auditors and reporting accountant**

**PricewaterhouseCoopers**

*Certified public accountants*  
22nd Floor, Prince's Building  
Central  
Hong Kong

**Compliance adviser**

**Shenwan Hongyuan Capital (H.K.) Limited**

*A corporation licensed under the SFO to carry on type 1  
(dealing in securities), type 4 (advising on securities)  
and type 6 (advising on corporate finance) regulated  
activities*  
Level 19, 28 Hennessy Road  
Hong Kong

**Industry consultant**

**Frost & Sullivan Limited**

1706, 1 Exchange Square  
No. 8 Connaught Place  
Central  
Hong Kong

**Property valuers**

**Greater China Appraisal Limited**

Room 2703, 27th Floor  
Shui On Centre  
6-8 Harbour Road  
Wanchai, Hong Kong

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**DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER**

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**KGV International Property Consultants (M) Sdn. Bhd.**

B-9-9, Blok B, Megan Avenue II  
12, Jalan Yap Kwan Seng  
50450 Kuala Lumpur  
Malaysia

**Tax advisers****Baker Tilly Monteiro Heng Tax Services Sdn. Bhd.**

Baker Tilly MH Tower  
Level 10, Tower 1, Avenue 5  
Bangsar South City  
59200 Kuala Lumpur  
Malaysia

**Receiving bank****Bank of China (Hong Kong) Limited**

1 Garden Road  
Hong Kong



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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters</b>	No. 264, Jalan Satu A, Kampung Baru Subang Shah Alam Selangor Malaysia
<b>Principal place of business in Hong Kong</b>	21st Floor, CCB Tower 3 Connaught Road Central Hong Kong
<b>Company's website</b>	<b>www.henghup.com</b> (information contained in such website does not form part of this prospectus)
<b>Company secretary</b>	<b>Ms. Ng Wing Yan</b> ( <i>ACIS, ACS</i> ) 40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
<b>Authorised representatives</b>	<b>Mr. Sia Kok Chin</b> 12A, Jalan Polo 10/3 Seksyen 10, Kota Damansara 47810 Petaling Jaya Selangor Malaysia  <b>Mr. Sia Kok Heong</b> 5007, Taman Berendam Batu Berendam 75350 Melaka Melaka Malaysia
<b>Audit committee</b>	Ms. Sai Shiow Yin ( <i>chairlady</i> ) Mr. Puar Chin Jong Mr. Chu Kheh Wee
<b>Remuneration committee</b>	Ms. Sai Shiow Yin ( <i>chairlady</i> ) Mr. Puar Chin Jong Mr. Chu Kheh Wee

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## CORPORATE INFORMATION

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<b>Nomination committee</b>	Mr. Sia Kok Chin ( <i>chairman</i> ) Ms. Sai Shiow Yin Mr. Chu Kheh Wee
<b>Principal share registrar and transfer office in the Cayman Islands</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Branch share registrar and transfer office in Hong Kong</b>	<b>Tricor Investor Services Limited</b> Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banks</b>	<b>Hong Leong Bank</b> Level 8, Wisma Hong Leong No.18 Jalan Perak 50450 Kuala Lumpur Malaysia  <b>United Overseas Bank (M) Berhad</b> No. 48, Jalan PJU 518 Dataran Sunway, Kota Damansara 47810 Petaling Jaya Selangor Darul Ehsan Malaysia

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## INDUSTRY OVERVIEW

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*The information contained in this section and elsewhere in this prospectus have been derived from various official government and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of such information and statistics 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 in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or their respective directors, advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and affiliates has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this section and elsewhere in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.*

### SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the recycling industry in Malaysia. We have agreed to pay Frost & Sullivan a fee of HK\$350,000 which we believe reflects market rates for reports of this type.

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

We have included certain information from the Frost & Sullivan Report in this prospectus to facilitate the prospective investors' understanding of the industry in which we operate. The Frost & Sullivan Report includes information on the scrap material trading industry in Malaysia as well as other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources relating to the industry and market under review. 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 the scrap material trading industry in Malaysia.

## INDUSTRY OVERVIEW

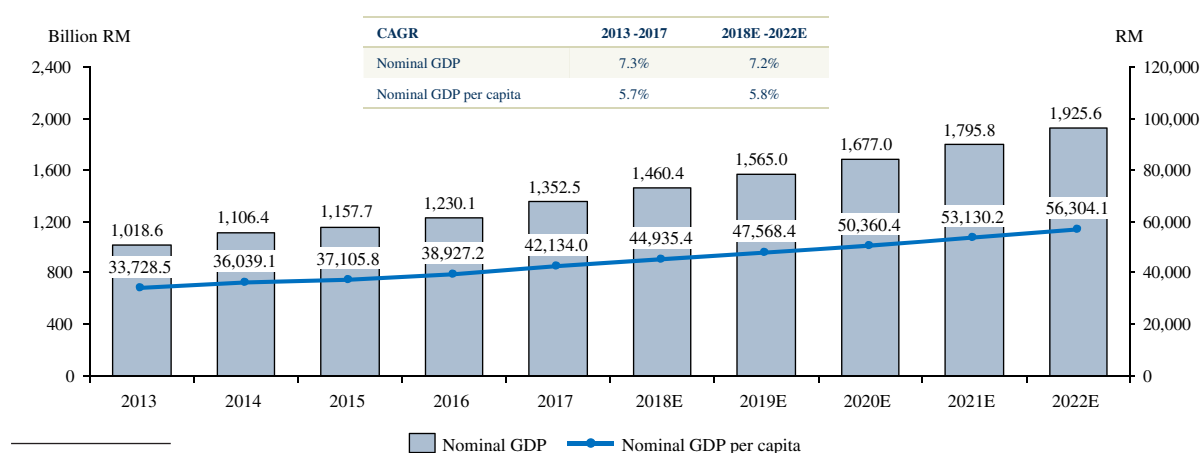
### INTRODUCTION

Ferrous metal is a pure iron or an alloy that contains iron. Steel, a kind of ferrous metal containing carbon, is the major component of a wide spectrum of industries in the modern economy, ranging from infrastructures such as railway and construction, to consumer goods such as automobiles and home appliances. Steel is by far the most-recycled material in the world. With the removal of impurities and the addition of certain alloying elements, steel with the desired properties is produced using scrap ferrous metals as the principal raw materials. Scrap ferrous metals are commonly used by steel mills in Malaysia.

### OVERVIEW OF MARCOECONOMIC ENVIRONMENT IN MALAYSIA

#### Nominal GDP and GDP per capita

Nominal GDP and nominal GDP per capita (Malaysia), 2013-2022E



Source: Frost & Sullivan

Malaysia's economy has recorded a steady growth from 2013 to 2017, resulting from the growing domestic demand driven by rapid urbanisation as well as economic growth underpinned by foreign investment. With the government's key goal to transform Malaysia into a high income nation through promulgation of Vision 2020 and Eleventh Malaysia Plan 2016-2020, the nominal GDP is expected to grow at a CAGR of 7.2% from 2018 to 2022. Vision 2020 was developed as a long-term goal for Malaysia with a primary aim to modernise and develop the economy of Malaysia, whilst the Eleventh Malaysia Plan was a five-year development plan prepared with high impact projects aiming at the realisation of the goal of Vision 2020. The Eleventh Malaysia Plan has a development expenditure allocation of RM250 billion, which was increased by 8.7% from the Tenth Malaysia Plan development expenditure sum. Furthermore, the Eleventh Malaysia Plan highlighted the ongoing construction of several major infrastructural projects such as Mass Rapid Transit Line, Kuala Lumpur International Airport 2 and several major highway networks. As a result, it is expected that the steel industry should benefit from the demand for steel products derived from the construction of such projects of the Eleventh Malaysia Plan.

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## INDUSTRY OVERVIEW

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### INTRODUCTION TO STEEL MANUFACTURING PROCESS

Crude steel is primarily produced via two production processes, namely (a) Basic oxygen furnace (“BOF”) and (b) Electric arc furnace (“EAF”), which involve different principles and raw materials for steel manufacturing. BOF is a traditional process for steel manufacturing and requires iron ore as the principal raw materials, scrap ferrous metals may also be used to cool the molten metal to add efficiency to the production process. EAF is a modern method of steel production, which can fully use scrap ferrous metals as the principal raw materials.

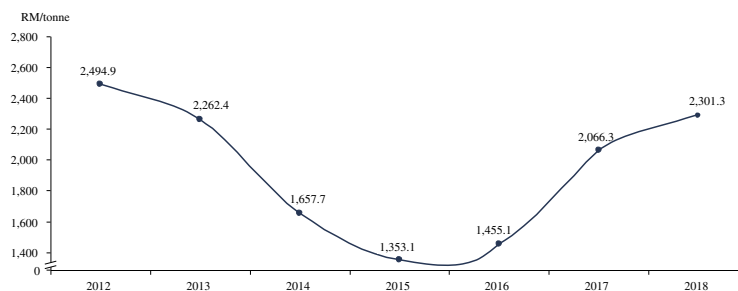
Benefits of steel manufacturing using EAF include (a) lower energy requirement; (b) higher degree of flexibility in altering operation; (c) more environmentally friendly by emitting less greenhouse gases; (d) lower capital cost; and (e) higher yield compared with BOF. For example, average energy consumption by BOF is approximately 24 gigajoule per tonne, which is much higher than EAF (4 gigajoule per tonne). The yield ratio (based on volume of raw materials used) for BOF and EAF is 45% and 90%, respectively.

EAF is commonly adopted by steel mills in Malaysia. According to Frost & Sullivan, as at the Latest Practicable Date, five out of seven steel mill companies in Malaysia have EAF crude steel producing facilities. As such, scrap ferrous metal trading plays an important part in Malaysia’s steel industry.

### OVERVIEW OF STEEL INDUSTRY IN MALAYSIA

#### Steel price

Average selling price of steel bar in Malaysia, 2012-2018



Source: Frost & Sullivan

From 2012 to 2016, the global steel price has declined and the global steel market conditions has remained difficult. The PRC increased its steel manufacturing capacity and production which represented 49.6% of the global crude steel production in 2016. A significant portion of such production was exported globally, especially dominating the export markets in Southeast Asia. For example, the PRC has significantly increased its exports of finished steel products to Malaysia from 1.5 million tonnes in 2012 to 3.7 million tonnes in 2016. Accordingly, the global steel supply increased dramatically and resulted in a continual decrease in international steel price during the period.

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## INDUSTRY OVERVIEW

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Following the PRC's supply-side restructuring to eliminate excess steel producing capacity in 2016, steel price bottomed and started to improve. In addition, the PRC government adopted more stringent environmental requirements to remove substandard steel mills. Going forward, the global steel market conditions are expected to improve due to the following reasons: (a) safeguard measures in place by many countries (including Malaysia which imposes additional import duties on steel products) to protect local steel market and (b) increase in steel price with the expectation that steel production capacity of the PRC will continue to decrease.

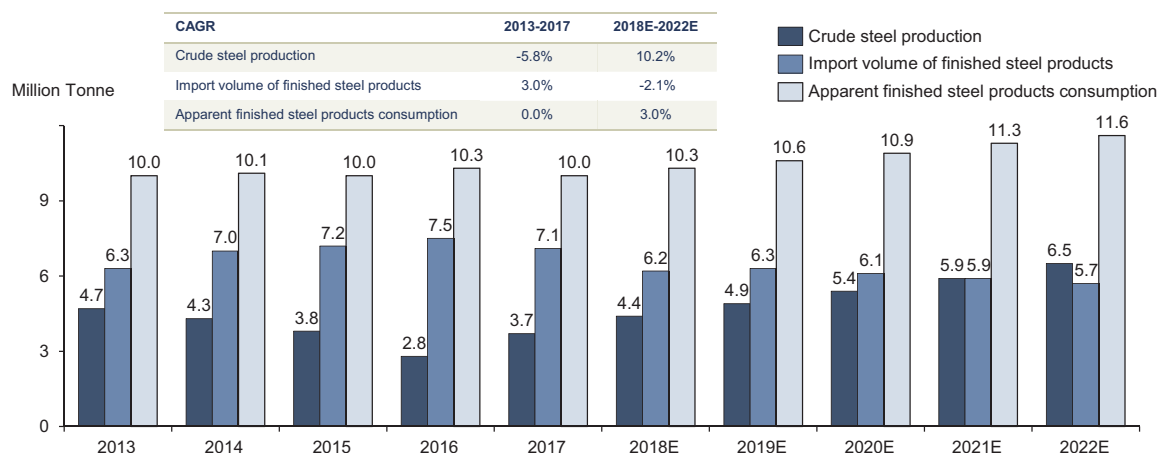
Set out below are some of the safeguard measures taken by Malaysia and other Southeast Asian countries since 2015 which primarily include imposition of safeguard duties and anti-dumping duties to limit the import volume of steel products in the respective countries.

Country	Details
Malaysia	<ul style="list-style-type: none"> <li>• Anti-dumping duties of 2.49% to 25.4% for five years starting from 14 February 2015 on hot-rolled coils, chequered coils and pickled and coiled coils imported from the PRC and Indonesia</li> <li>• Anti-dumping duties of 12.06% to 52.1% for five years starting from 24 January 2016 on pre-painted, painted or colour coated steel coils imported from the PRC and Vietnam</li> <li>• Safeguard duties on import of rebar for three years starting from 13 April 2017 at 13.42%, 12.27%, 11.1%, respectively</li> <li>• Safeguard duties on steel wire rods and deformed bar-in-coils for three years starting from 14 April 2017 at 13.9%, 12.9%, 11.9%, respectively</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>• Safeguard duties on imports of flat-rolled product of iron and non-alloy steel with duty of 2.89 million Rupiah per tonne for two years starting from 2 October 2017</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>• Safeguard duties on hot rolled alloy steel flat products for three years starting from 14 January 2016 at 41.67%, 40.42%, 39.21%, respectively.</li> <li>• Anti-dumping duties on low carbon steel wire rods imported from the PRC for five years starting from 10 March 2016 at 12.81%.</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>• Safeguard duties on billets and long steel products for four years starting from 2 August 2016 at 23.3%.</li> </ul>

## INDUSTRY OVERVIEW

The imposition of safeguard duties and anti-dumping duties is expected to protect the local steel industry by preventing the import of cheap steel products from foreign countries, such as the PRC. Therefore, from the perspective of local steel mills in Malaysia, the market conditions for the entire steel industry should improve with less competitive elements from imported steel products.

### Production, import and consumption of steel (Malaysia), 2013-2022E



Notes:

1. Apparent finished steel products consumption is calculated as production of total finished steel products minus exports of finished steel products plus imports of finished steel products.
2. Crude steel is the primary product of steel manufacturing process and may be further processed and casted into different finished steel products.

Source: Frost & Sullivan

### Consumption of steel in Malaysia

The apparent finished steel products consumption in Malaysia registered a moderate decrease of 0.3 million tonnes (or 2.9%) in 2017 as compared to 2016 despite a growth of 8.2% in nominal GDP per capita in the same year. This was mainly due to a slower growth in the construction (especially in residential) sector as a result of a record-high number of unsold residential properties in 2017, which were mainly private residential apartment units launched and oversupplied over the past few years. Going forward, with the implementation of Eleventh Malaysia Plan 2016-2020 and the expected growth of GDP, the apparent finished steel products consumption in Malaysia is expected to grow at a CAGR of 3.0% from 2018 to 2022.

### Import of steel

The consumption of steel in Malaysia has been satisfied by local crude steel production and import from foreign countries, especially from the PRC. In 2016, the PRC accounted for 49% of total steel import to Malaysia. Import steel price from the PRC decreased gradually from 2013 to 2016 and resulted in an increase in import volume for the same period. Going forward, it is expected that the import volume of steel would decrease gradually at a CAGR of -2.1% from 2018 to 2022 due to the following reasons: (a) the implementation of structural supply-side reforms by the PRC government in respect of steel in 2016, which shifted the focus of the PRC steel producers from export to domestic sales owing to the higher profit margin; and (b) the implementation of safeguard measures for



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## INDUSTRY OVERVIEW

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domestic steel industry by Malaysian government in April 2017 such as imposing additional import duties on steel products which led to additional cost for imported steel and therefore discouraged the import of steel in Malaysia. As such, the import volume of finished steel products dropped from 7.5 million tonnes in 2016 to 7.1 million tonnes in 2017.

### Local production of steel in Malaysia

Crude steel production in Malaysia has recorded a continuous decline from 2012 to 2016 due to the continuous drop of steel price and continuous increase in steel import volume from the PRC. Moreover, a number of steel producers temporarily shuttered operations as production volumes and financial conditions declined for many operators. Going forward, with the expected growth of apparent steel consumption and opening of new steel mills, crude steel production in Malaysia is expected to grow at a CAGR of 10.2% from 2018 to 2022. For instance, Alliance Steel (M) Sdn. Bhd. with annual production capacity of 3.5 million tonnes per annum commenced operations in 2018 and Eastern Steel Sdn. Bhd is developing a steel mill with annual production capacity of 1.5 million tonnes.

### Competitive analysis of steel mills

Steel manufacturing industry in Malaysia is highly concentrated with five major market players in 2017. Set forth below was the ranking of steel mill companies in 2017, in terms of steel production capacity.

Rank	Steel mill company	Annual production capacity (million tonnes)
1	Lion Industries Corporation Berhad	1.5
2	Ann Joo Resources Berhad	1.3
3	Southern Steel Group	1.2
4	Malaysia Steel Works (KL) Bhd.	0.8
5	Established Metal Industries Sdn. Bhd.	0.3

### Recent trade war between the United States and the PRC

The recent trade war between the United States and the PRC was featured with a tariff imposed on US\$200 billion worth goods, including steel products, imported into the United States from the PRC with effect from 24 September 2018. Malaysian Iron and Steel Industry Federation had initially expressed concerns that steel exporters of the PRC who were used to export steel to the United States may choose to export their products to other countries, such as Malaysia. However, considering the current safeguard measures taken by Malaysian government on the local steel industry, the resultant possible impact of the aforesaid trade war is considered to be immaterial to the steel industry in Malaysia. Furthermore, the Malaysia Ministry of International Trade and Industry has stated that it will continue to monitor the trade statistics closely and has assured that it will take appropriate action when needed. To the best knowledge of our Directors, there has been no negative impact on our Group's business as a result of the recent trade war between the United States and PRC.

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### OVERVIEW OF SCRAP FERROUS METAL TRADING MARKET IN MALAYSIA

Scrap ferrous metal trading involves sourcing of scrap ferrous metals from end-of-life products or structures, such as automobiles, household appliances, building materials, etc. as well as materials left over from product manufacturing, such that they can be introduced to further process as raw materials in the production of new steel.

As the sources of scraps ferrous metals are highly localised and scattered across the country, it is unlikely for one company to dominate and source directly from all of the upstream manufacturers of scrap, which might include, among others, construction sites, auto dismantling yards, factories and other local machine shops or foundries. Therefore, along the supply chain from the parties who generate scrap ferrous metal to the steel mills which use it as raw material for steel production, there usually involves several layers of market participants, such as individuals and entities looking to sell their own scrap ferrous metals, scrapyards, brokers and traders, who perform the tasks of collecting, processing, consolidating and managing the sale of scrap ferrous metals.

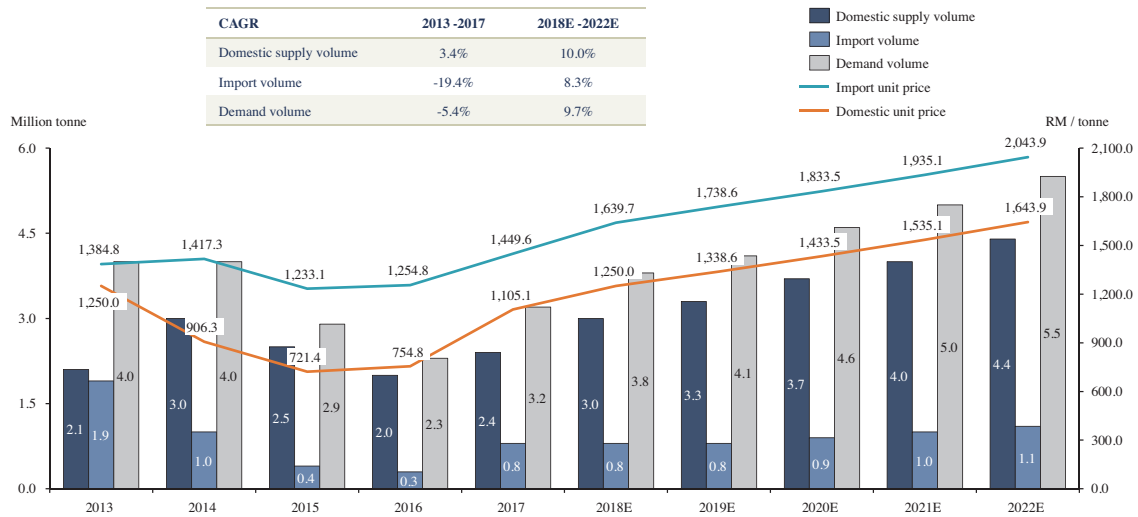
With the industry being structured as such, it is an industry norm for steel mills in Malaysia to designate three to four sizeable suppliers as their approved consolidated points of contact (known as approved scrap metal providers) for the provision of supply volume. The arrangement of having three to four approved scrap metal providers has the advantage of (i) reducing the administrative burden of having to deal with numerous market participants on the one hand; and (ii) avoiding any undue reliance on a sole supplier and the manipulation by such sole supplier on the supply and market price on the other hand. Such arrangement allows the steel mills to ensure the sustainability of the feedstock for their operation. In order to become an approved scrap metal provider, a scrap metal provider has to demonstrate its capacity to deliver scrap ferrous metals in the quantity as expected by the steel mill from time to time. The steel mill would also periodically assess the performance of each approved scrap metal provider in terms of the volume and timeliness of scrap ferrous metal supply, and would replace those providers who do not meet the steel mill's expectation.

Market participants in the scrap ferrous metal market trade among each other on a deal by deal basis and the transactions are usually settled upon physical delivery or shortly afterwards. It is also common for small-scale suppliers to require payment in cash to facilitate their cash flow. On the other hand, due to a relatively long production time from raw materials to finished steel products, steel mills usually need credit terms to pay off their approved scrap providers for scrap ferrous metal purchase. The tenor of credit term varies from time to time, depending on how fast the individual steel mill can move its inventory and its own cash flow position. Therefore, the approved scrap provider always has to settle its purchases well before it receives the sale proceeds from the purchasing steel mill. However, it is also a common industry practice that some sizeable steel mills from time to time line up third party trading companies to settle scrap ferrous metals purchases on their behalf and in such cases the trading companies would usually pay the approved scrap metal providers on shorter credit terms than the steel mills do. The benefits of this arrangement are to provide an additional source of credit to the steel mills as well as to enable the scrap metal providers to recover their trade receivables earlier so as to have the working capital to increase their business volume.

## INDUSTRY OVERVIEW

In Malaysia, steel mills either source scrap ferrous metals domestically or import from foreign countries.

### Volume and price of import and domestic supply of scrap ferrous metals (Malaysia), 2013-2022E



*Note:* Domestic supply volume refers to the volume of scrap ferrous metal sold to downstream customers.

*Source:* Frost & Sullivan

### Import of scrap ferrous metals in Malaysia

Historically, the amount of domestically produced scrap ferrous metals has not been sufficient to fulfil the production demand of steel mills in Malaysia. The shortfall has always been satisfied by imported scrap ferrous metals. The volume of scrap ferrous metals sourced domestically increased significantly since 2014. This was mainly due to the weakening of RM which led to a higher import price of scrap ferrous metals and thus, steel mills were favourably disposed towards sourcing the scrap ferrous metals domestically. The import volume of scrap ferrous metal increased significantly from 0.3 million tonnes in 2016 to 0.8 million tonnes in 2017. This was mainly due to the rapid increase in the demand of scrap ferrous metals for crude steel production amid an upturn in steel price. Going forward, domestic supply of scrap ferrous metals is expected to dominate due to (a) the lower domestic unit price with minimised freight cost fluctuation and inward logistics cost, (b) the lower risk of delayed delivery, (c) price fluctuation due to the time lapse between the placing of purchase of scrap ferrous metals and the actual arrival of imported scrap ferrous metals, and (d) the continued increase in the availability of domestic scrap ferrous metals as the infrastructure in Malaysia enters replacement phase.

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## INDUSTRY OVERVIEW

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### **Domestic supply of scrap ferrous metal in Malaysia**

As steel producers are ramping up their production capacity in Malaysia, domestic steel production is expected to increase further from 2018 to 2022 to meet the growing demand from downstream industries, which will drive the use of scrap ferrous metals as raw materials for production. The sustained economic growth together with a rise in both consumption and production for steel is expected to drive the domestic supply of scrap ferrous metal in Malaysia to climb to 4.4 million tonnes in 2022 at a CAGR of 10.0% from 2018 to 2022.

### **Recent import ban on scrap materials in the PRC and associated impact on Malaysia scrap ferrous metal industry**

On 13 April 2018, the PRC government promulgated the “Announcement No. 6 [2018] of the Ministry of Ecology and Environment, the Ministry of Commerce, the National Development and Reform Commission and the General Administration of Customs—on Adjusting the Catalogue for the Management of the Import of Solid Wastes” (生態環境部、商務部、國家發展和改革委員會、海關總署公告2018年第6號 — 關於調整《進口廢物管理目錄》的公告) to formally ban the direct import of 32 types of scrap materials. The first round of ban took effect from 31 December 2018 for 16 categories of scrap materials, including steel slag, post-industrial plastics, compressed auto pieces, small electric motors, insulated wires and vessels. The second round will take effect from 31 December 2019, the scope of which includes the remaining categories such as wood pellets, stainless steel scrap, and non-ferrous scrap (excluding aluminium and copper) such as titanium and magnesium.

According to Frost & Sullivan, the aforesaid policy led to change in trade destinations of scrap materials from the PRC to the Southeast and South Asian countries. As a result, scrap materials recyclers with import and facilities in the PRC had moved into alternative locations such as Malaysia for processing and sales of scrap materials. Accordingly, Malaysian scrap ferrous metals traders in partnership with such scrap materials recyclers benefit from securing additional supply of scrap ferrous metals.

### **Demand of scrap ferrous metals in Malaysia**

With the decline in local crude steel production, the demand volume for scrap ferrous metals recorded an overall decline at a CAGR of -5.4% from 2013 to 2017. Going forward, with the expected increase in local crude steel production, the demand volume of scrap ferrous metals in Malaysia is anticipated to grow at a CAGR of 9.7% from 2018 to 2022. The demand for scrap ferrous metals always outstrips its supply in Malaysia. The shortfall in supply has been satisfied by import of scrap ferrous metals. Steel mills can always absorb the domestic scrap ferrous metals supply once it is made available to them. Therefore, scrap ferrous metals providers with financial resources, logistics support and suppliers network are in a better position to capture the expected growth of the scrap metal industry in Malaysia.

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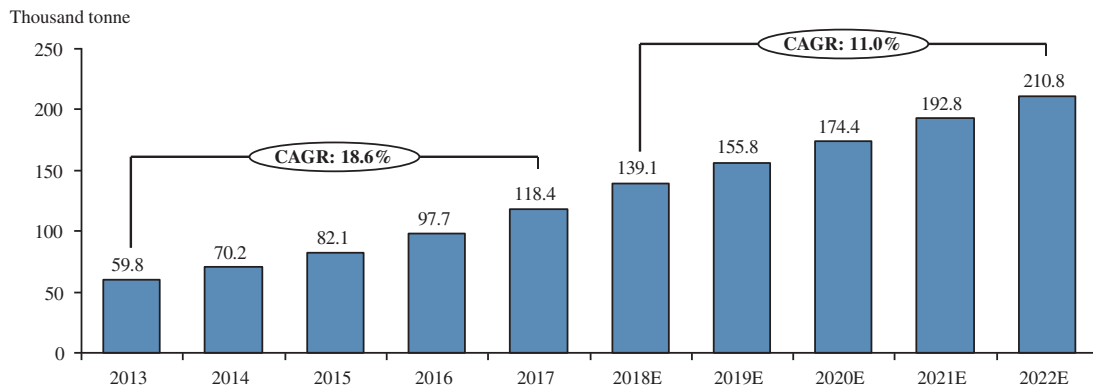
## INDUSTRY OVERVIEW

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### OVERVIEW OF USED BATTERY MARKET IN MALAYSIA

Battery can be categorised by chargeability, namely inchargeable dry cell and chargeable storage battery. Used dry batteries contain ferrous and non-ferrous metals and compounds including steel, tin, zinc and manganese oxide etc., which are mostly recyclable substances with high recovery ratio. On the other hand, storage batteries include hazardous components and liquid of which separation, removal and electric discharge is required during recycling. Common type of batteries categorised by chemistry includes (a) lead acid; (b) nickel-cadmium; (c) lithium ion; (d) alkaline manganese; and (e) zinc-carbon. Lead acid battery is the most profitable battery for recycling, which contains over 70% of reusable lead and is commonly used in automobile. Used lead acid battery are generally collected by retailer of automobile batteries and subsequently recycled by battery manufacturers and other processing companies.

**Volume of used batteries recycled (Malaysia), 2013-2022E**



Source: Frost & Sullivan

The volume of used battery traded in Malaysia has recorded a robust growth at a CAGR of 18.6% from 2013 to 2017, which was mainly attributable to the increase in output of automobiles, electrical appliances and generation of end-of-life electronic products and scrap automobiles. With the continuous urbanisation, and launch and replacement of electrical appliance and automobiles, the used batteries traded in Malaysia is expected to grow at a CAGR of 11.0% from 2018 to 2022.

### OVERVIEW OF WASTE PAPER MARKET IN MALAYSIA

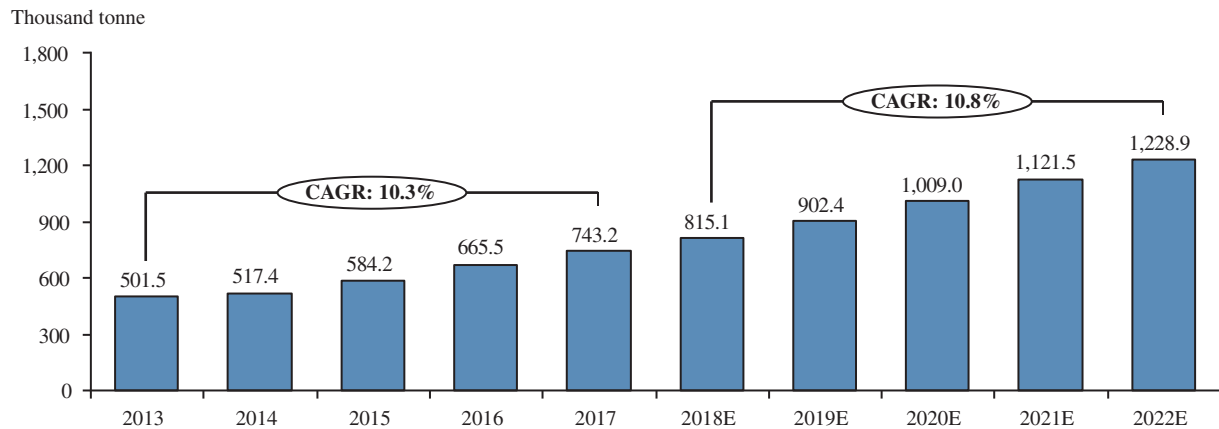
The process of waste paper recycling involves mixing waste paper with water and chemicals to break it down. The waste paper would be further broken into strands of cellulose through heating and chopping. With the aforementioned processes, the mixture called pulp or slurry would be formed. It is strained through screens, which remove any glue or plastic that may still be in the mixture, and then cleaned, de-inked, bleached, and mixed with water. This is how recycled paper is made. Newspaper, corrugated cardboard, magazines, and mixed paper are the examples of waste paper to be recycled.

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## INDUSTRY OVERVIEW

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### Volume of waste paper recycled (Malaysia), 2013-2022E



Source: Frost & Sullivan

With economic growth and continuous rise in disposable income, the rising demand for consumer goods among Malaysia's customers has fuelled the needs for paper-based packaging materials, which in turn contributes to the growth for waste paper trading industry. The volume of waste paper traded increased at a CAGR of 10.3%, from 501.5 thousand tonnes in 2013 to 743.2 thousand tonnes in 2017. Supported by the government incentives for resources recycling and rising demand for consumer goods, waste paper trading is likely to enjoy the growth. The volume of waste paper traded in Malaysia are forecasted to rise at a CAGR of 10.8% from 2018 to 2022.

### COMPETITIVE LANDSCAPE OF SCRAP FERROUS METALS, USED BATTERIES AND WASTE PAPER MARKET IN MALAYSIA

#### Scrap ferrous metals

According to Frost & Sullivan, steel mills in Malaysia often engage sizeable scrap ferrous metal trading companies with solid working capital, extensive supplier network and logistics capabilities as their approved scrap metal providers to consolidate the volume from the suppliers of scrap ferrous metals.

The keys for scrap ferrous metal trading companies in Malaysia to achieve a sizeable trading volume and compete successfully in the market include:

- **Strong supply networks** — The sources of scrap ferrous metal trading market are highly localised. Therefore, scrap ferrous metal trading companies with an extensive network of suppliers, collection points, storage facilities and logistics capability have an advantage in sourcing scrap ferrous metals promptly and in turn, supporting their trading volume.

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- ***Sufficient working capital to support the trading operations*** — As the payment collection periods from the steel mills are usually longer than the payment periods to the suppliers of scrap ferrous metals, trading company is required to have sufficient working capital to support its trading operations. The higher the level of working capital a scrap ferrous metal trader possesses, the higher the business volume it can handled.
- ***Presence in key steel producing regions and scrap producing regions*** — Scrap ferrous metals are generated from end-of-life products or structures, as well as from manufacturing waste. Therefore, scrap ferrous metal trading companies nearby active business areas are more likely to source the scrap from construction sites, factories and manufacturing facilities. Proximity to key steel producing regions can bring about the benefit of low cost and efficient means of transport for the scrap ferrous metals.
- ***Logistics capability*** — Scrap ferrous metal trading companies with own logistics capability are able to serve their suppliers in delivery of scrap ferrous metals, for example, companies with their own fleet of trucks can respond to the logistics needs of their suppliers and save cost of needing to outsource logistic service providers.

### ***Our market ranking***

According to Frost & Sullivan, each steel mill in Malaysia often engages three to four sizeable scrap ferrous metal trading companies as approved scrap metal providers for scrap ferrous metal supply management. As at the Latest Practicable Date, there were 23 entities acting as approved scrap metal providers. As such, the scrap ferrous metal trading market among the approved scrap metal providers is concentrated. The supply of scrap ferrous metals of such approved scrap metal providers are supported by more than 3,000 players (majority of them being small and local enterprises or sole proprietors) across Malaysia. Our Group ranked first in terms of trading volume with steel mills in 2017, having a market share of approximately 20.8%.

Rank	Market player	Volume of scrap ferrous metal traded	
		(million tonnes), 2017	Market share, 2017
1	<b>Our Group</b>	0.5	20.8%
2	Company B	0.4	16.6%
3	Company C	0.2	8.3%
	<b>Subtotal</b>	<b>1.1</b>	<b>45.8%</b>
	Others	1.3	54.2%
	<b>Total</b>	<b>2.4</b>	<b>100.0%</b>

Source: Frost & Sullivan

#### ***Notes:***

- The volume of scrap materials traded refers to the volume of scrap materials sold to downstream customers.
- Company B is principally engaged in scrap ferrous metal trading. It is an approved scrap metal provider of a steel mill not being a customer of our Group.



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## INDUSTRY OVERVIEW

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3. Company C provides logistics services and trade scrap ferrous metal in Malaysia. It is also an approved scrap metal provider of the Lion Companies.

### *Entry barriers*

To become an approved scrap metal provider of a steel mill, a scrap ferrous metal trader is required to supply an ample volume of scrap materials. The barriers to trade a large quantity of scrap ferrous metals are set out below:

- **Sufficient working capital** — Sufficient working capital is required to finance the trading operations of a scrap ferrous metal trader as the collection periods from the steel mills are usually longer than the payment periods to the suppliers of scrap ferrous metals. The higher volume of scrap materials traded, the more working capital is required for trading operations.
- **An extensive network of suppliers** — As the sources of scrap ferrous metal trading market in Malaysia are highly localised, an extensive supplier network is required to ensure a stable and ample supply of scrap ferrous metals. As such, good relationship with numerous suppliers all over Malaysia is required for successful trading operations of scrap ferrous metals.
- **Capital investments** — Capital investments are required to acquire a fleet of trucks as smaller scaled scrapyards may require delivery assistance from time to time. Without adequate delivery assistance available to the suppliers of scrap ferrous metals, such suppliers may switch to other more capable scrap ferrous metal traders.

### *Future opportunity*

- **Increasing demand from the steel industry** — According to Frost & Sullivan, with the opening of new steel producing facilities, crude steel production in Malaysia is expected to grow at a CAGR of 10.2% from 2018 to 2022, in turn, should lead to greater demand for scrap ferrous metals to satisfy their production needs.
- **Mergers and acquisitions** — As the sources of scraps are scattered across Malaysia, traders with extensive geographical coverage of scrap sources are more likely to secure a large quantity of scrap ferrous metals. Traders with financial resources may seek mergers and acquisitions activities through integrating with companies who are approved scrap providers of other steel mill customers at different locations in order to expand their customer base and reduce its logistics cost by allocating the supplies among its steel mill customers efficiently.

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## INDUSTRY OVERVIEW

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### *Threats and challenges*

- **Performance of steel industry** — Scrap ferrous metal trading market is highly susceptible to the change in the performance of the steel industry. Any downturn in the steel industry would affect the steel mills' financial position. Steel mills may delay their payment to scrap ferrous metal traders whose liquidity will be adversely affected.
- **Regulatory measures in Malaysia** — Changes in the government policies directly impact the steel and scrap ferrous metal trading industry. Measures adopted by the Malaysian government to control the import or production of steel products may affect the market demand and price of domestic steel products and scrap ferrous metals. It in turn may affect the financial conditions of the steel mills and scrap ferrous metal traders.
- **Competition from scrap imports** — Competition may arises from overseas scrap ferrous metal suppliers as steel mills from time to time import scrap ferrous metals if the price of international scrap ferrous metals is more favourable than domestic scrap ferrous metals.

### **Used batteries**

The used battery trading industry in Malaysia is relatively concentrated and there were approximately less than 200 market participants principally engaged in trading of electronic waste, including used battery. The three largest players accounted for 33.7% of the total market share in terms of trading volume in 2017, among which our Group was the largest player with market share of 15.3% in 2017.

Rank	Market player	Volume of used batteries traded	
		(Thousand tonnes), 2017	Market share, 2017
1	<b>Our Group</b>	18.1	15.3%
2	Company D	12.2	10.3%
3	Company E	9.6	8.1%
	<b>Subtotal</b>	<b>39.9</b>	<b>33.7%</b>
	Other	78.5	66.3%
	<b>Total</b>	<b>118.4</b>	<b>100.0%</b>

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Source: Frost & Sullivan

#### *Notes:*

1. The volume of scrap material refers to the volume of scrap materials sold to downstream customers.
2. Company D is principally engaged in the trading of scrap ferrous metals and used batteries in Malaysia.
3. Company E is principally engaged in the trading of scrap ferrous metals and used batteries.

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### **Waste paper**

The waste paper trading industry in Malaysia is relatively concentrated. As estimated, there were approximately less than 500 market participants engaged in waste paper trading in 2017. The three leading players covered about 58.1% of the total market share in terms of trading volume in 2017, where our Group had a market share of approximately 4.3% in Malaysia in 2017.

### **COMPETITIVE ADVANTAGE OF OUR GROUP**

Our Directors believe that our competitive strengths have contributed to our success in the scrap ferrous metal trading market. Our competitive strengths mainly include having a solid capital base, scrapyards strategically located close to scrap producing areas and our steel mill customers, logistics capabilities, being one of the few approved scrap metal providers to the largest steel producer in Malaysia, and management with extensive industry experience. Please refer to the paragraph headed “Business — Competitive strengths” of this prospectus for further details.

### **DIRECTORS’ CONFIRMATION**

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information therein.

## REGULATIONS

*This section provides a summary of the material regulations directly relevant to our current and future businesses and how these regulations will affect our business operations and future developments. As this is a summary, it does not contain a detailed analysis of the regulations which are relevant to our business and operations. Prospective investors should not place undue reliance on the statements in this section and should consult their own professional advisers about the regulations referred to in this section.*

### LICENCES, PERMITS AND APPROVALS

#### Summary

The following table sets out a summary of the key licences, permits and approvals which are material and specific to our business operations in Malaysia:

Description	Licensee	Issuing authority	Date of issue	Expiry date
<b>Under the Second-Hand Dealers Act 1946 (the “SHDA”)</b>				
Licence to deal in second-hand goods (Licensed Premises Selangor Scrapyard)	HH Metal	Royal Malaysia Police	11 January 2019	31 December 2019
Exemption Certificate (Licensed Premises Selangor Scrapyard)	HH Metal	Royal Malaysia Police	11 January 2019	31 December 2019
Licence to deal in second-hand goods (Licensed Premises Melaka Scrapyard I)	HH Hardware	Royal Malaysia Police	4 January 2019	31 December 2019
Exemption Certificate (Licensed Premises Melaka Scrapyard I)	HH Hardware	Royal Malaysia Police	4 January 2019	31 December 2019
Licence to deal in second-hand goods (Licensed Premises Melaka Scrapyard II)	HH Hardware	Royal Malaysia Police	31 January 2019	31 December 2019
Exemption certificate (Licensed Premises Melaka Scrapyard II)	HH Hardware	Royal Malaysia Police	31 January 2019	31 December 2019
Licence to deal in second-hand goods (Licensed Premises Johor Scrapyard)	HH Metal (Johor)	Royal Malaysia Police	13 December 2018	31 December 2019

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## REGULATIONS

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Description	Licensee	Issuing authority	Date of issue	Expiry date
<b>Under the Land Public Transport Act 2010 (the “LPTA”)</b>				
Operator’s Licence bearing the serial no. L095786	HH Metal	Land Public Transport Commission of Malaysia	13 March 2017	4 August 2019
Operator’s Licence bearing the serial no. L043042	HH Metal	Land Public Transport Commission of Malaysia	23 July 2015	21 July 2020
Operator’s Licence bearing the serial no. L079063	HH Hardware	Land Public Transport Commission of Malaysia	11 June 2018	17 October 2023
Operator’s Licence bearing the serial no. L078892	HH Hardware	Land Public Transport Commission of Malaysia	30 April 2018	25 June 2023
Operator’s Licence bearing the serial no. 858541-T (LC)	HH Metal (Johor)	Land Public Transport Commission of Malaysia	17 December 2018	16 December 2020
<b>Under the Local Government Act 1976 (the “LGA”)</b>				
<b><i>Licensing of Trades, Businesses and Industries (Shah Alam City Council) By-Laws 2007 (the “SACC By-Laws”)</i></b>				
Industry Licence	HH Metal	Shah Alam City Council	9 November 2018	14 November 2019
Industry Licence	HH Paper	Shah Alam City Council	26 April 2018	30 April 2019
<b><i>Licensing of Trades (Melaka Historic City Council) By-Laws 2010 (the “MHCC By-Laws”)</i></b>				
Business/Advertisement Licence	HH Hardware	Melaka Historic City Council	21 June 2018	30 June 2019
Business/Advertisement Licence	HH Paper (Melaka)	Melaka Historic City Council	26 June 2018	11 June 2019
Business/Advertisement Licence	HH Paper (Melaka)	Melaka Historic City Council	29 August 2018	28 February 2019 <i>(Note)</i>
<b><i>Licensing of Trades, Businesses, Industries and Professions (Muar Municipal Council) By-Laws 1981 (the “MMC By-Laws”)</i></b>				
Business Licence	HH Metal (Johor)	Muar Municipal Council	1 January 2019	31 December 2019

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## REGULATIONS

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Description	Licensee	Issuing authority	Date of issue	Expiry date
<b>Under the Uniform Building By-Laws (as defined below) of the SDBA</b>				
Temporary Permit (for erecting temporary structure on the Melaka Scrapyard I)	HH Hardware	Melaka Historic City Council	10 January 2018	Not applicable
Temporary Permit (for erecting temporary structure on the Melaka Scrapyard II)	HH Hardware	Melaka Historic City Council	10 January 2018	Not applicable
Temporary Permit (for erecting temporary structure on the Johor Scrapyard)	HH Metal (Johor)	Muar Municipal Council	1 January 2019	31 December 2019
<b>Under the Factories and Machinery Act 1967 (the “FMA”)</b>				
Approval letter	HH Hardware	Department of Occupational Safety and Health	16 June 2016	Not applicable
Approval letter	HH Metal (Johor)	Department of Occupational Safety and Health	8 January 2018	Not applicable
Approval letter	HH Metal	Department of Occupational Safety and Health	27 February 2018	Not applicable

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*Note:* HH Paper (Melaka) has obtained a renewed Business/Advertisement Licence which is effective from 22 February 2019 and will expire on 31 August 2019.

The following is a summary of the salient Malaysian legal and regulatory provisions and licensing requirements which have a material impact to our business operations:

### SHDA

The SHDA is the primary legislation in relation to the control and licensing of second-hand dealers in Malaysia whereby no person unless exempted shall deal in second-hand goods except in accordance with the conditions of a licence issued under the SHDA.

Under the SHDA, any person who deals with second-hand goods without obtaining the licence issued thereof shall, on conviction, be liable to a fine not exceeding RM1,000 or to imprisonment for a term which may extend to 3 months or both.

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## REGULATIONS

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Please refer to the table in the paragraph headed “Licences, permits and approvals — Summary” in this section for details of our key licences, permits and approvals obtained under the SHDA.

During the Track Record Period and up to the Latest Practicable Date, each of HH Metal, HH Hardware and HH Metal (Johor) is required and has obtained the requisite licences to deal with second-hand goods under the SHDA.

### **Penal Code**

The Penal Code defines stolen property as the property where the possession whereof has been transferred by theft, or by extortion or by robbery, and property which has been criminally misappropriated or in respect of which criminal breach of trust or cheating has been committed, whether the transfer has been made or the misappropriation or breach of trust or cheating has been committed within Malaysia or otherwise. If such property subsequently comes into the possession of a person legally entitled to the possession thereof, it then ceases to be a stolen property.

Under the Penal Code, whoever dishonestly receives or retains any stolen property, knowing or having reason to believe the same to be stolen property, shall be punished with imprisonment for a term which may extend to 5 years or with fine or with both.

### **LPTA**

The LPTA is the primary legislation governing the land transports in Malaysia whereby unless specified in the LPTA, no person shall operate or provide a goods vehicle services using a class of goods vehicle for the carriage of goods for hire or reward; or for or in connection with any trade or business unless he holds an operator’s licence issued for goods vehicle service, failing which, it is an offence, and shall, on conviction, be liable to a fine not exceeding RM200,000.

Under the LPTA, a licensed operator operating or providing a public service vehicle or goods service that intends to participate in any business or agreement that would cause any change in the equity structure shall obtain the approval of the Land Public Transport Commission of Malaysia, failing which it shall be an offence and shall, on conviction, be liable to a fine of not less than RM1,000 but not more than RM10,000 or to imprisonment for a term not exceeding 1 year or to both.

During the Track Record Period and up to the Latest Practicable Date, each of HH Metal, HH Hardware and HH Metal (Johor) was required and had obtained the requisite licences to operate as a licensed operator under the LPTA. Further, each of HH Metal and HH Hardware obtained the approval in respect of the change of equity structure from the Land Public Transport Commission of Malaysia on 27 July 2018 and 25 July 2018, respectively.



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## REGULATIONS

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### **LGA**

The LGA is an act which empowers every local authority to grant any licence or permit for any trade, occupation or premises and such licence shall be subject to such conditions and restrictions as the local authority may prescribe. The LGA also gives power to local authorities to enact the following by-laws:

#### **(a) SACC By-Laws**

The SACC By-Laws is issued under the LGA and it provides that no person shall operate any activity of trade or use of any place or premise in the local area of Shah Alam City Council without a licence issued by Shah Alam City Council and any person who fails to comply with this requirement shall, on conviction, be liable to a fine not exceeding RM2,000 or imprisonment for a term not exceeding 1 year or both.

Please refer to the table in the paragraph headed “Licences, permits and approvals — Summary” in this section for details of our key licences, permits and approvals obtained under the SACC By-Laws of the LGA.

#### **(b) MHCC By-Laws**

The MHCC By-Laws is issued under the LGA and it provides that no person shall operate any activity of trade or use of any place or premise in the local area of Melaka Historic City Council without a licence issued by Melaka Historic City Council and any person who fails to comply with this requirement shall, on conviction, be liable to a fine not exceeding RM2,000 or imprisonment for a term not exceeding 1 year or both.

Please refer to the table in the paragraph headed “Licences, permits and approvals — Summary” in this section for details of our key licences, permits and approvals obtained under the MHCC By-Laws of the LGA.

#### **(c) MMC By-Laws**

The MMC By-Laws is issued under the LGA where it provides that no person shall operate any activity of trade or use of any place or premise in the local area of Muar Municipal Council without a licence issued by Muar Municipal Council and any person who fails to comply with this requirement shall, on conviction, be liable to a fine not exceeding RM2,000 or imprisonment for a term not exceeding 1 year or both.

Please refer to the table in the paragraph headed “Licences, permits and approvals — Summary” in this section for details of our key licences, permits and approvals obtained under the MMC By-Laws of the LGA.

During the Track Record Period and up to the Latest Practicable Date, each of HH Metal, HH Hardware, HH Paper, HH Paper (Melaka) and HH Metal (Johor) was required and had obtained the requisite licences issued by the respective local authorities under the LGA and the relevant by-laws.

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## REGULATIONS

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### SDBA

The SDBA is the primary legislation regulating the street, drainage and building in local authority areas in Peninsular Malaysia and it provides that the ruler or governor of the respective states in Peninsular Malaysia shall have the power to make the following uniform building by-laws necessary to carry out the provisions of the SDBA:

- (a) Selangor Uniform Building By-Laws, 1986;
- (b) Melaka Uniform Building By-Laws, 1984; and
- (c) Johor Uniform Building By-Laws, 1986

(collectively to be referred as the “**Uniform Building By-Laws**”)

The Uniform Building By-Laws regulate the construction of buildings and the time, manner and procedure for the issuance of the certificate of completion and compliance (the “**CCC**”) for buildings. Prior to the implementation of the CCC, the local authorities were responsible to issue the certificate of fitness for occupation (the “**CF**”) for buildings.

Pursuant to the SDBA and the Uniform Building By-Laws, any person who occupies or permits to be occupied any building or any part thereof without a certificate of completion and compliance shall be liable on conviction to a fine not exceeding RM250,000 or to imprisonment for a term not exceeding 10 years or to both.

Notwithstanding the above, the local authority may at its discretion, issue a temporary permit for the erection of a temporary building subject to the conditions as set out in the Uniform Building By-Laws. Erection of a temporary building without prior written permission of the local authority is an offence and shall, on conviction, be liable to a fine of RM1,000 and the Magistrate’s Court of Malaysia shall on application of the local authority, make a mandatory order requiring such person to remove such movable shed or structure.

Please refer to the table in the paragraph headed “Licences, permits and approvals — Summary” in this section for details of our key licences, permits and approvals obtained under the Uniform Building By-Laws of the SDBA.

During the Track Record Period and up to the Latest Practicable Date, other than the new office of the Selangor Scrapyard which has already possessed the requisite CCC, no other building which would require the CCC or the CF had been erected on such parcels of land where the scrapyards of our Group are located. Save for the non-compliance incident as stated in the paragraph headed “Business — Compliance matters” of this prospectus, each of HH Hardware and HH Metal (Johor) had obtained the requisite temporary permits issued by the respective local authorities in respect of the erection of all temporary buildings as at the Latest Practicable Date.

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## REGULATIONS

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### FMA

The FMA is the primary legislation that provides for the control of factories with respect to matters relating to the safety, health and welfare of person therein.

The Factories and Machinery (Notification, Certificate of Fitness and Inspection) Regulations, 1970 made under the FMA requires the owner of every steam boiler, unfired pressure vessel or hoisting machine other than a hoisting machine driven by manual power to hold a valid certificate of fitness in respect thereof as long as such machinery remains in service.

The FMA further provides that no person shall install or caused to be installed any machinery in any factory except with a written approval of the inspector, failing which, the person shall be guilty of an offence and shall on conviction, be liable to a fine not exceeding RM100,000 or to imprisonment for a term not exceeding 2 years or to both.

Please refer to the table in the paragraph headed “Licences, permits and approvals — Summary” in this section for details of our key licences, permits and approvals obtained under the FMA.

During the Track Record Period and up to the Latest Practicable Date, our Group had not operated any machinery that would require the certificate of fitness under the FMA. Each of HH Metal, HH Hardware and HH Metal (Johor) had also obtained the requisite approval in respect of the operation of its machinery under the FMA as at the Latest Practicable Date.

### Consumer Protection Act 1999

The Consumer Protection Act 1999 (the “CPA”) regulates the standards that a seller must adhere to in order to protect the interest of consumers. The CPA protects consumers from, among others, misleading and deceptive conduct, false representation and unfair practice by sellers and goods and services that do not comply with the required safety standards. In the event such issues occur, the consumer is entitled to make a claim against the seller to the Tribunal for Consumer Claims established under the CPA.

Under the CPA, a body corporate which is convicted of an offence under the CPA for which no penalty is expressly provided shall be liable to a fine not exceeding RM100,000 and for a second or subsequent offence to a fine not exceeding RM200,000.

### TRANSFER PRICING

The transfer pricing in Malaysia is generally regulated by the ITA, the Income Tax (Transfer Pricing) Rules 2012 and the Transfer Pricing Guidelines 2012 (the “Guidelines”). The Guidelines provides guidance for persons involved in transfer pricing arrangement, *inter alia*, the administrative requirements of the Inland Revenue Board of Malaysia (the “IRB”) on the types of records and documentations to maintain in respect of transfer pricing arrangement.

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## REGULATIONS

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The Guidelines is applicable to a person carrying on a business where the gross income of the business exceeding RM25 million and the total amount of related party transactions exceeding RM15 million.

Under the ITA, taxpayers are required to keep sufficient records for a period of 7 years from the end of the year to which income from the business relates to enable the Director General of IRB to ascertain income or loss from the business. For transfer pricing purposes, a tax payer who has entered into a transaction with an associated person in the basis year for a year of assessment is required to not only maintain the records but also prepare and keep contemporaneous documentations.

Pursuant to the Tax Audit Framework 2013 issued by the IRB, if it is discovered during a transfer pricing audit that there has been an understatement or omission of income, a penalty rate equals to the amount of tax undercharged (100%) would be imposed on the taxpayer.

A concessionary penalty rate may be imposed in a case where the taxpayer makes a voluntary disclosure. The concessionary penalty rates for voluntary disclosure for transfer pricing issues are as follows:

<b>Condition</b>	<b>Normal case (Penalty rate)</b>	<b>Voluntary disclosure after taxpayer has been informed but before commencement of the audit visit (Penalty rate)</b>	<b>Voluntary disclosure before case is selected for audit (Penalty rate)</b>
Understatement or omission of income	45%	35%	15%
Taxpayer did not prepare transfer pricing documentation	35%	30% <i>(Note)</i>	15% <i>(Note)</i>
Taxpayer prepared transfer pricing documentation but did not fully comply with the requirements under the Guidelines	25%	20%	10%
Taxpayer prepared a comprehensive, good quality, contemporaneous transfer pricing documentation in accordance with existing regulations	0%	0%	0%

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*Note:* Upon voluntary disclosure, the taxpayer is still required to prepare the transfer pricing documentation.

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## REGULATIONS

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During the Track Record Period, as the gross income of HH Metal and HH Metal (Johor) exceeded RM25 million and the intragroup transactions entered into by HH Metal and HH Metal (Johor) exceeded RM15 million in FY2017, such intragroup transactions are subject to transfer pricing related laws and guidelines in Malaysia. Our transfer pricing arrangement has complied with the relevant laws, rules and regulations in Malaysia on the basis that (a) our Group's transfer pricing policies and the transfer pricing documentation were prepared by our tax advisers based on the standard as required under the relevant transfer pricing guidelines, laws, rules and regulations in Malaysia; and (b) our transfer pricing arrangement can be concluded to be on an arm's length basis from the Malaysian transfer pricing perspective.

### ENVIRONMENTAL, SAFETY AND HEALTH

#### Occupational Safety and Health Act 1994

The Occupational Safety and Health Act 1994 (the “OSHA”) is an act to make provisions for securing the safety, health, welfare of persons at work, for protecting others against risks to safety or health in connection with the activities of persons at work.

The OSHA requires that it shall be the duty of every employer and every self-employed person to prepare and as often as may be appropriate revise a written statement of his general policy with respect to the safety and health at work of his employees and the organisation and arrangements for the time being in force for carrying out that policy, and to bring the statement and any revision of it to the notice of all of his employees.

Our Group had since 1 January 2017 prepared and circulated a safety and health policy in respect of work to all the employees of our Group.

### EMPLOYMENT

#### Employment Act 1955

The Employment Act 1955 (the “EA”) provides minimum work requirements and benefits of employment, such as maximum working hours, overtime entitlement, leave entitlement, maternity protection and termination benefits. The EA applies only to employees earning monthly wages of not more than RM2,000.00 or to employees, irrespective of their monthly wages, who are engaged in manual labour, including artisan or apprentice, or who are engaged in the operation of maintenance of mechanically propelled vehicles operated for the transport of passengers or goods or for commercial purposes, or who supervise or oversee other employees engaged in manual labour or who are engaged in any capacity in any vessel registered in Malaysian or who are engaged as a domestic servant.

#### Employment (Restriction) Act 1968 and Immigration Act 1959/63

The Employment (Restriction) Act 1968 prohibits the employment of non-citizen of Malaysia unless there has been issued in respect of that person a valid employment permit. Failing which, it is an offence and shall, upon conviction, be liable to a fine not exceeding RM5,000 or to imprisonment for a term not exceeding 1 year or to both.

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## REGULATIONS

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The Immigration Act 1959/63 on the other hand restricting a person other than a citizen entering Malaysia unless he is in possession of a valid entry permit. Any person who employs such person without a valid entry permit commits an offence and shall, upon conviction, be liable to a fine not less than RM10,000 but not more than RM50,000 or to imprisonment for a term not exceeding 1 year or to both for each such employee.

### **National Wages Consultative Council Act 2011 and Minimum Wages Order 2016**

The Minimum Wages Order 2016 (the “**MWO**”) is made under the National Wages Consultative Council Act 2011 (the “**NWCCA**”) where it provides that the minimum wages rates payable to an employee shall be RM1,100 per month or RM5.29 per hour in Peninsular Malaysia.

Under the NWCCA, an employer who fails to pay the basic wages as specified in the MWO to his employees commits an offence and shall upon conviction, be liable to a fine of not more than RM10,000 for each employee.

### **Employees’ Provident Fund Act 1991**

The Employees’ Provident Fund Act 1991 (the “**EPFA**”) imposes the statutory obligations on employers and employees to make contribution towards the Employees’ Provident Fund, which is essentially a fund established as a scheme of savings for employees’ retirement and the management of savings for the retirement purposes.

Under the EPFA, any employer who fails to contribute to the Employees Provident Fund on behalf of each of his employee shall be liable to a fine not exceeding RM10,000 or imprisonment term not exceeding 3 years or both.

## **FOREIGN EXCHANGE CONTROL**

### **Financial Services Act 2013**

The Financial Services Act 2013 provides regulation and supervision of financial institutions, payment systems and other relevant entities and the oversight of the money market and foreign exchange market to promote financial stability and for related, consequential or incidental matters.

Pursuant to the Foreign Exchange Administration Rules, a resident entity with domestic ringgit borrowing is only allowed to invest abroad up to RM50 million per calendar year (the “**Maximum Foreign Investment**”). For the avoidance of doubt, the limit of such Maximum Foreign Investment applies to the resident entities within the group of companies. As such, if our operating subsidiaries intend to invest exceeding the Maximum Foreign Investment, we are required to seek approval from the controller of Foreign Exchange, Central Bank of Malaysia.

Notwithstanding the above, the Foreign Exchange Administration Rules allows non-residents to remit out divestment proceeds, profits, dividends or any income arising from investments in Malaysia. Repatriation, however, must be made in foreign currency. Therefore, our operating subsidiaries are free to remit out divestment proceeds, profits, dividends or any income arising from the investments in Malaysia to HH (BVI) and our Company.

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## REGULATIONS

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### TAXATION

#### ITA

The ITA imposes a tax, known as income tax, for each year of assessment upon the income accruing in or derived from Malaysia, or received in Malaysia from other countries. A company is a tax resident in Malaysia if its management or control is exercised in Malaysia and generally, the place where directors' meetings are held concerning management and control of the company are considered in determining where the management and control of the company is exercised.

Under the ITA, any person who makes an incorrect tax return by omitting or understating income or gives incorrect information affecting chargeability to tax otherwise than in good faith shall be guilty of an offence and shall upon conviction be liable to a fine not less than RM1,000 and not more than RM10,000 and shall pay a special penalty of double the amount of tax which has been undercharged.

#### GST

The GST was implemented in Malaysia at a rate of 6% under the Goods and Services Tax Act 2014 (the “**GST Act**”) from 1 April 2015. Nevertheless, pursuant to the GST (Rate of Tax) (Amendment) Order 2018, the GST rate has been reduced from 6% to 0% with effect from 1 June 2018. As at the Latest Practicable Date, all companies within our Group were registered under the GST Act.

Following the news that the sales and service tax will be reintroduced and implemented in Malaysia, the GST Act is expected to be repealed. Once the GST is repealed, the companies within our Group (being the GST registered companies under the GST Act) will be automatically deregistered from the GST system and no application for de-registration would be required. The final GST returns should be filed within 120 days from the date on which the GST is repealed and our Group will ensure that all input tax claims are included in the final GST return.

#### Sales and Service Tax

The Minister of Finance of Malaysia has announced on 16 July 2018 that the Sales and Service Tax (the “**SST**”) has been reintroduced in Malaysia and implemented on 1 September 2018 after the necessary laws were passed in the Parliament of Malaysia.

The provision of services is taxed at 6% under the reintroduced SST while the sale of manufactured goods is to incur a 10% of tax.

The new SST is an updated version of the previous SST regime which was a single-stage tax levied on all locally manufactured and imported goods and certain prescribed services. The companies within our Group being the GST registered companies previously would be automatically registered under the SST regime.

Our Directors, after considering the advice from our Malaysian Legal Advisers, do not expect the SST to have any material adverse impact on our product pricing and profit margin as (a) our sales of local scrap materials are not manufactured goods; and (b) we will make selling price adjustments on our products if we need to pay extra tax for selling our imported scrap materials due to SST.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### ESTABLISHMENT AND DEVELOPMENT OF OUR GROUP

#### History and development

Our origin can be traced back to 1996 when Mr. Sia 2 and Mr. Sia 3 formed Heng Hup Hardware (a partnership) in the state of Melaka to carry on the trading of scrap ferrous metals and used batteries before establishing our Group. The partnership was formed with the personal wealth of Mr. Sia 2 and Mr. Sia 3 accumulated over the years. Please refer to the paragraph headed “Directors and Senior Management — Directors” of this prospectus for the background information on our founders. Mr. Sia 1 became a partner to Heng Hup Hardware (a partnership) in 2003. To accommodate our expanding business, Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5 incorporated HH Hardware (formerly known as Heng Hup Recycle Sdn. Bhd.) in the state of Melaka in 2005. Subsequently, Mr. Sia 1, Mr. Sia 2 and Mr. Sia 3 sold all of the assets of Heng Hup Hardware (a partnership) related to its business to HH Hardware in 2008 for a consideration of RM772,769, which was determined based on the carrying value of the underlying assets. Subsequent to the allotment and issue of shares to Mr. Sia 4 in 2010, HH Hardware was held by the Sia Brothers in equal shares. As at the Latest Practicable Date, Heng Hup Hardware (a partnership) was not in operation.

In 2003, we made our foray into the scrap ferrous metal and used battery trading markets in the state of Selangor after the mother of the Sia Brothers, being Ms. Ng Choh, forming Heng Hup Metal (a partnership) in the state of Selangor. Mr. Sia 3 became a partner to Heng Hup Metal (a partnership) in 2005. To accommodate our expanding business, Mr. Sia 1, Mr. Sia 2, Mr. Sia 3, Mr. Sia 5 and Ms. Ng Choh incorporated HH Metal in the state of Selangor in 2008. Subsequent to the transfer of shares from Ms. Ng Choh to Mr. Sia 4 in 2009 and the allotment and issue of shares to Mr. Sia 4 in 2010, HH Metal was held by the Sia Brothers in equal shares. Subsequently, Ms. Ng Choh and Mr. Sia 3 sold all of the assets of Heng Hup Metal (a partnership) related to its business to HH Metal in 2010 for a consideration of RM1,697,768.92, which was determined based on the carrying value of the underlying assets. As at the Latest Practicable Date, Heng Hup Metal (a partnership) was expired.

In 2008, we tapped into the waste paper trading market after Mr. Sia 1, Mr. Sia 2, Mr. Sia 3, Mr. Sia 5 and Ms. Ng Choh incorporating HH Paper in the state of Selangor. Subsequent to the transfer of shares from Ms. Ng Choh to Mr. Sia 4 in 2009, HH Paper was held by the Sia Brothers in equal shares. In 2009, Mr. Sia 2 and Mr. Sia 5 incorporated HH Paper (Melaka) in the state of Melaka. Subsequent to the allotment and issue of shares to the Sia Brothers in 2012, HH Paper (Melaka) was held by the Sia Brothers in equal shares.

In 2009, we made our presence in the scrap ferrous metal and used battery trading markets in the state of Johor after HH Hardware and Mr. Goh Eng Kiat, being the brother-in-law of the Sia Brothers and our regional manager, incorporating HH Metal (Johor) in the state of Johor. Since 2010, we have been an approved scrap metal provider to the Lion Companies, which were the largest steel producers in Malaysia in 2017.

We did not have any major acquisition or disposal during the Track Record Period other than the acquisition of 20% of the issued share capital of HH Metal (Johor) by HH Hardware as described in step 2 and the disposal of our properties as described in step 8 of the Reorganisation below.



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## HISTORY, DEVELOPMENT AND REORGANISATION

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The following table summarises the major milestones for our evolution into the present scale of operations:

1996	Heng Hup Hardware (a partnership) was formed in the state of Melaka
2003	Heng Hup Metal (a partnership) was formed in the state of Selangor
2005	HH Hardware (formerly known as Heng Hup Recycle Sdn. Bhd.) was incorporated in the state of Melaka
2008	All of the assets of Heng Hup Hardware (a partnership) related to its business was sold to HH Hardware  HH Metal was incorporated in the state of Selangor  HH Paper was incorporated in the state of Selangor
2009	HH Paper (Melaka) was incorporated in the state of Melaka  HH Metal (Johor) was incorporated in the state of Johor
2010	All of the assets of Heng Hup Metal (a partnership) related to its business was sold to HH Metal  We became an approved scrap metal provider to the Lion Companies

### **Our subsidiaries**

#### *HH (BVI)*

HH (BVI) was incorporated in the BVI on 17 April 2018. Such company is authorised to issue up to a maximum of 50,000 ordinary shares of a single class with a par value of US\$1 each, among which 10,000 shares are in issue and directly wholly-owned by our Company upon completion of the Reorganisation.

HH (BVI) was an investment holding company and an intermediate holding company of our Group as at the Latest Practicable Date.

#### *HH Holdings*

HH Holdings was incorporated in Malaysia on 22 December 2017. Such company has a share capital of RM22,796,185 divided into 1,560 ordinary shares, all of which are in issue and indirectly wholly-owned by our Company upon completion of the Reorganisation.

HH Holdings was an investment holding company and an intermediate holding company of our Group as at the Latest Practicable Date.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *HH Metal*

HH Metal was incorporated in Malaysia on 3 July 2008. As at 1 January 2015 (being the commencement date of the Track Record Period), HH Metal was held by the Sia Brothers in equal shares. Such company has a share capital of RM14,326,943.1 divided into 3,541,959 ordinary shares, all of which are in issue and indirectly wholly-owned by our Company upon completion of the Reorganisation.

HH Metal commenced business in July 2008 and is mainly engaged in the business of hardware and metal trading.

### *HH Hardware*

HH Hardware was incorporated in Malaysia on 24 March 2005 and is our first operating subsidiary. As at 1 January 2015 (being the commencement date of the Track Record Period), HH Hardware was held by the Sia Brothers in equal shares. Such company has a share capital of RM13,910,225.68 divided into 4,058,774 ordinary shares, all of which are in issue and indirectly wholly-owned by our Company upon completion of the Reorganisation.

HH Hardware commenced business in March 2005 and is mainly engaged in the business of dealings with recycled materials.

### *HH Metal (Johor)*

HH Metal (Johor) was incorporated in Malaysia on 27 May 2009. As at 1 January 2015 (being the commencement date of the Track Record Period), HH Metal (Johor) was held as to 80% by HH Hardware and 20% by Mr. Goh Eng Kiat, the brother in law of the Sia Brothers. Such company has a share capital of RM250,000 divided into 250,000 ordinary shares, all of which are in issue and indirectly wholly-owned by our Company upon completion of the Reorganisation.

HH Metal (Johor) commenced business in May 2009 and is mainly engaged in the dealings of recycled materials.

### *HH Paper (Melaka)*

HH Paper (Melaka) was incorporated in Malaysia on 13 March 2009. As at 1 January 2015 (being the commencement date of the Track Record Period), HH Paper (Melaka) was held by the Sia Brothers in equal shares. Such company has a share capital of RM250,000 divided into 250,000 ordinary shares, all of which are in issue and indirectly wholly-owned by our Company upon completion of the Reorganisation.

HH Paper (Melaka) commenced business in March 2009 and is mainly engaged in the business of trading and recycling of paper and other related products.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### *HH Paper*

HH Paper was incorporated in Malaysia on 3 July 2008. As at 1 January 2015 (being the commencement date of the Track Record Period), HH Paper was held by the Sia Brothers in equal shares. Such company has a share capital of RM1,000,000 divided into 1,000,000 ordinary shares, all of which are in issue and indirectly wholly-owned by our Company upon completion of the Reorganisation.

HH Paper commenced business in July 2008 and is mainly engaged in the dealings of recycle paper and its related products.

### **REORGANISATION**

In preparation for the Listing, our Group underwent the Reorganisation which includes the following steps:

#### **Step 1 — Incorporation of our Malaysian intermediary holding company**

- (a) The Sia Brothers incorporated HH Holdings on 22 December 2017 for the purpose of holding our operating subsidiaries.
- (b) On 22 December 2017, HH Holdings allotted and issued one share, credited as fully paid, to each of the Sia Brothers, all as initial subscribers.

#### **Step 2 — Acquisition of 20% of the issued share capital of HH Metal (Johor)**

On 18 January 2018, HH Hardware acquired 20% of the issued share capital of HH Metal (Johor) from Mr. Goh Eng Kiat, the brother-in-law of the Sia Brothers, for a consideration of RM337,019.64, which was determined based on 20% of the net asset value of HH Metal (Johor) as at 30 November 2017 and settled by HH Hardware in cash in January 2018.

#### **Step 3 — Incorporation of our BVI corporate Shareholder**

- (a) The Sia Brothers incorporated 5S Holdings in the BVI on 10 April 2018 for the purpose of holding part of their Shares.
- (b) On 10 April 2018, 5S Holdings allotted and issued 2,000 shares with par value of US\$1 each, credited as fully paid, to each of the Sia Brothers as initial subscribers.
- (c) On 13 April 2018, 5S Holdings allotted and issued 5,000 shares, 1,250 shares, 1,250 shares, 1,250 shares and 1,250 shares with par value of US\$1 each, credited as fully paid, to Mr. Sia 4, Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5, respectively. Upon completion of the aforesaid allotment, 5S Holdings was owned as to 35% by Mr. Sia 4 and 16.25% by each of the remaining Sia Brothers. The single largest shareholding of Mr. Sia 4 in 5S Holdings is mutually agreed among the Sia Brothers to recognise the contribution made to the business growth by and the strong leadership under Mr. Sia 4, who has been managing our business since 2001.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **Step 4 — Incorporation of our Company**

- (a) 5S Holdings and the Sia Brothers incorporated our Company in the Cayman Islands on 12 April 2018 as the ultimate holding company of our Group.
- (b) On 12 April 2018, our Company allotted and issued one Share, credited as fully paid, to the initial third party subscriber and such Share was transferred to 5S Holdings on the same date, and further allotted and issued 6,799 Shares, credited as fully paid, to 5S Holdings and 640 Shares, credited as fully paid, to each of the Sia Brothers.

### **Step 5 — Incorporation of our BVI intermediary holding company**

- (a) Our Company incorporated HH (BVI) in the BVI on 17 April 2018 for the purpose of holding our Malaysian intermediary holding company and our operating subsidiaries.
- (b) On 17 April 2018, HH (BVI) allotted and issued 10,000 shares with par value of US\$1 each, credited as fully paid, to our Company as the initial subscriber.

### **Step 6 — Acquisition of our operating subsidiaries**

- (a) On 7 May 2018, HH Holdings acquired the entire issued share capital of HH Paper from the Sia Brothers for an aggregate nominal consideration of RM5, which was settled by HH Holdings by allotting and issuing one share, credited as fully paid, to each of the Sia Brothers. Such share swap was completed on 24 May 2018.
- (b) On 7 May 2018, HH Holdings acquired the entire issued share capital of HH Paper (Melaka) from the Sia Brothers for an aggregate nominal consideration of RM5, which was settled by HH Holdings by allotting and issuing one share, credited as fully paid, to each of the Sia Brothers. Such share swap was completed on 24 May 2018.
- (c) On 7 May 2018, HH Holdings acquired the entire issued share capital of HH Metal (Johor) from HH Hardware for a nominal consideration of RM1, which was settled by HH Holdings in cash in May 2018.
- (d) On 1 June 2018, HH Holdings acquired the entire issued share capital of HH Hardware from the Sia Brothers for an aggregate nominal consideration of RM5, which was settled by HH Holdings by allotting and issuing one share, credited as fully paid, to each of the Sia Brothers. Such share swap was completed on 13 June 2018.
- (e) On 3 July 2018, HH Holdings acquired the entire issued share capital of HH Metal from the Sia Brothers for an aggregate nominal consideration of RM5, which was settled by HH Holdings by allotting and issuing one share, credited as fully paid, to each of the Sia Brothers. Such share swap was completed on 12 July 2018.
- (f) Upon completion of the aforesaid acquisitions, each of our operating subsidiaries became a wholly-owned subsidiary of HH Holdings.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Step 7 — Sub-division of shares of HH Holdings

On 31 July 2018, HH Holdings underwent a share sub-division such that every existing share in the capital of HH Holdings was sub-divided into 50 shares.

### Step 8 — Settlement of debts due and owing by (a) HH Metal to the Sia Brothers and Heng Hup Metal and debt due and (b) HH Hardware to the Sia Brothers <sup>(Note)</sup>

- (a) The debts due and owing by HH Metal to the Sia Brothers and Heng Hup Metal in the aggregate amount of RM27,988,501 as at 31 May 2018 were settled by way of (i) transfer of three properties for an aggregate consideration of RM7,845,000 to 5S Unity Properties Sdn. Bhd. (formerly known as Heng Hup Properties Sdn. Bhd.) as nominee of the Sia Brothers on 31 July 2018; (ii) set-off of the debt owing by My Santuariee Sdn. Bhd., 5S Foods & Beverages Sdn. Bhd. (formerly known as Heng Hup F & B Sdn. Bhd.), 5S Battery Sdn. Bhd., Solid Lift Sdn. Bhd., 5S Resources Sdn. Bhd. and 5S Unity Properties Sdn. Bhd. (formerly known as Heng Hup Properties Sdn. Bhd.) (being companies owned by the Sia Brothers) to HH Metal in the aggregate amount of RM8,816,558 as at 31 May 2018 after being novated to the Sia Brothers; (iii) allotment and issue of 541,959 shares of HH Metal to HH Holdings at an issue price of RM20.9 per share on 31 July 2018; and (iv) allotment and issue of 31 shares of HH Holdings to each of the Sia Brothers at an issue price of RM73,536 per share on 31 July 2018.
- (b) The debt due and owing by HH Hardware to the Sia Brothers in the aggregate amount of RM14,193,535 as at 31 May 2018 was settled by way of (i) transfer of one property for a consideration of RM2,650,000 to 5S Unity Properties Sdn. Bhd. (formerly known as Heng Hup Properties Sdn. Bhd.) as nominee of the Sia Brothers on 31 July 2018; (ii) set-off of the debt owing by 5S Unity Properties Sdn. Bhd. and Heng Hup Hardware (being entities owned by the Sia Brothers) to HH Hardware in the aggregate amount of RM133,311 as at 31 May 2018 after being novated to the Sia Brothers; (iii) allotment and issue of 1,558,774 shares of HH Hardware to HH Holdings at an issue price of RM7.32 per share on 31 July 2018; and (iv) allotment and issue of 31 shares of HH Holdings to each of the Sia Brothers at an issue price of RM73,536 per share on 31 July 2018.

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*Note:* The funds borrowed from the Sia Brothers and Heng Hup Metal were utilised as working capital for our business operations.

### Step 9 — Acquisition of our Malaysian intermediary holding company

- (a) On 13 February 2019, HH (BVI) acquired the entire issued share capital of HH Holdings from the Sia Brothers for an aggregate nominal consideration of RM5.
- (b) Upon completion of the aforesaid acquisition, HH Holdings became the wholly-owned subsidiary of HH (BVI).

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### Step 10 — Increase in authorised share capital of our Company

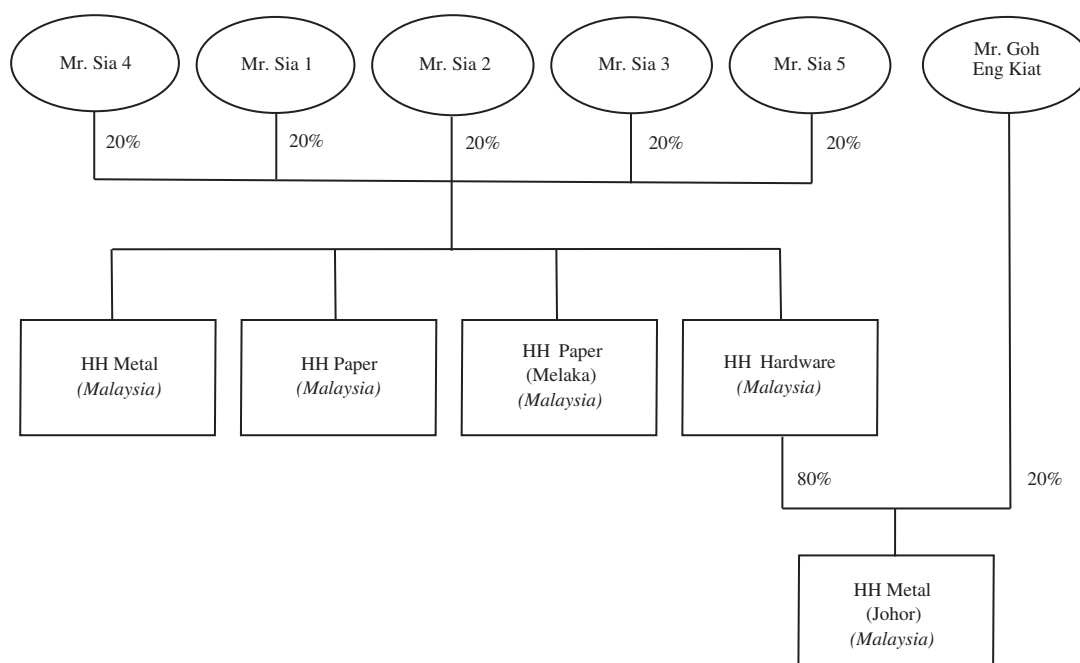
On 19 February 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,962,000,000 Shares in our Company pursuant to a written resolution passed by our Shareholders on 19 February 2019.

As confirmed by our Malaysian Legal Advisers, the Reorganisation is subject to the relevant regulatory approvals as follows:

- (a) the approval in respect of the change of equity structure of HH Metal from the Land Public Transport Commission of Malaysia, which was obtained by HH Metal on 27 July 2018; and
- (b) the approval in respect of the change of equity structure of HH Hardware from the Land Public Transport Commission of Malaysia, which was obtained by HH Hardware on 25 July 2018.

As the relevant regulatory approvals for the Reorganisation have been obtained, the Reorganisation complies with the relevant laws, rules and regulations in Malaysia and all the transfers involving companies incorporated in Malaysia have been properly and legally completed and settled.

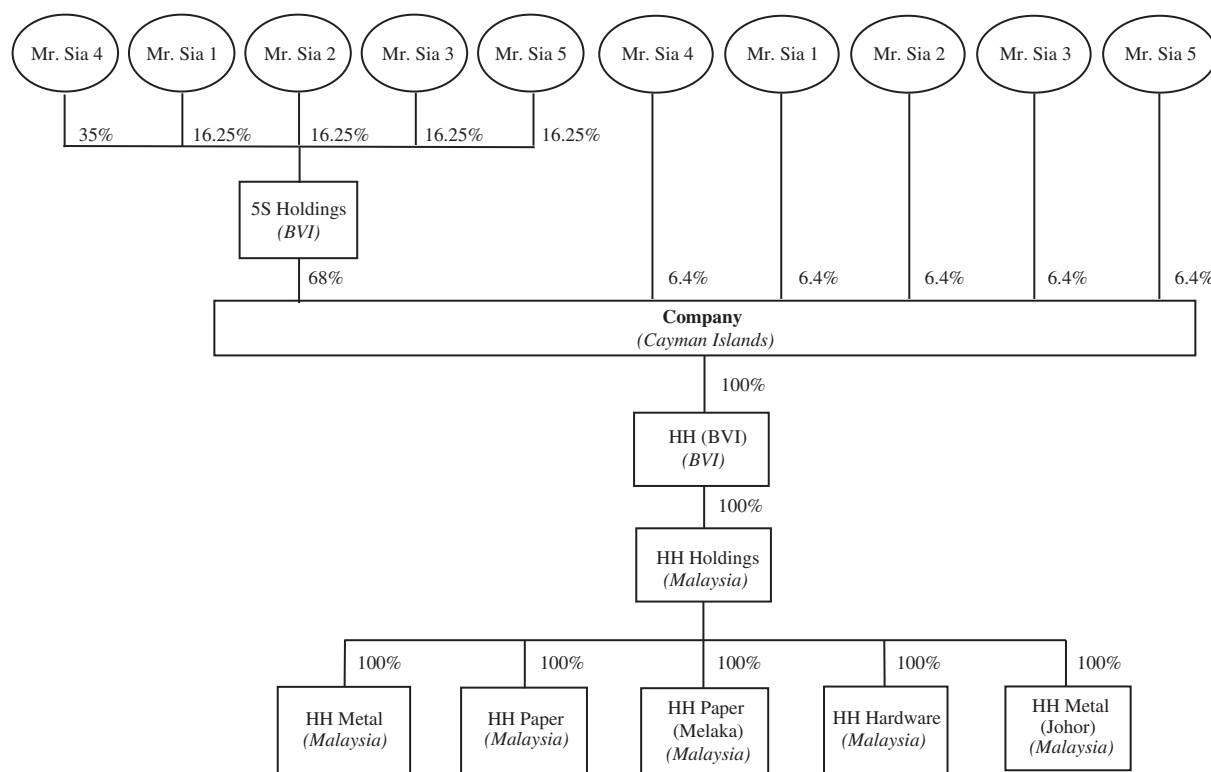
Set out below is the structure of our Group immediately prior to the Reorganisation:



*Note:* Goh Eng Kiat is the brother-in-law of the Sia Brothers.

## HISTORY, DEVELOPMENT AND REORGANISATION

Set out below is the structure of our Group immediately following completion of step 9 of the Reorganisation:



**Note:** Immediately prior to the Reorganisation, each of HH Metal, HH Paper, HH Paper (Melaka) and HH Hardware (with 80% of the issued share capital of HH Metal (Johor) held by HH Hardware) was directly held by the Sia Brothers in equal shares. The Sia Brothers have been directors of each of our operating subsidiaries and each of the Sia Brothers is entitled to one vote at the meetings of the board of directors of each of the aforesaid companies. Immediately after completion of step 6 of the Reorganisation, each of our operating subsidiaries has been directly wholly owned by HH Holdings.

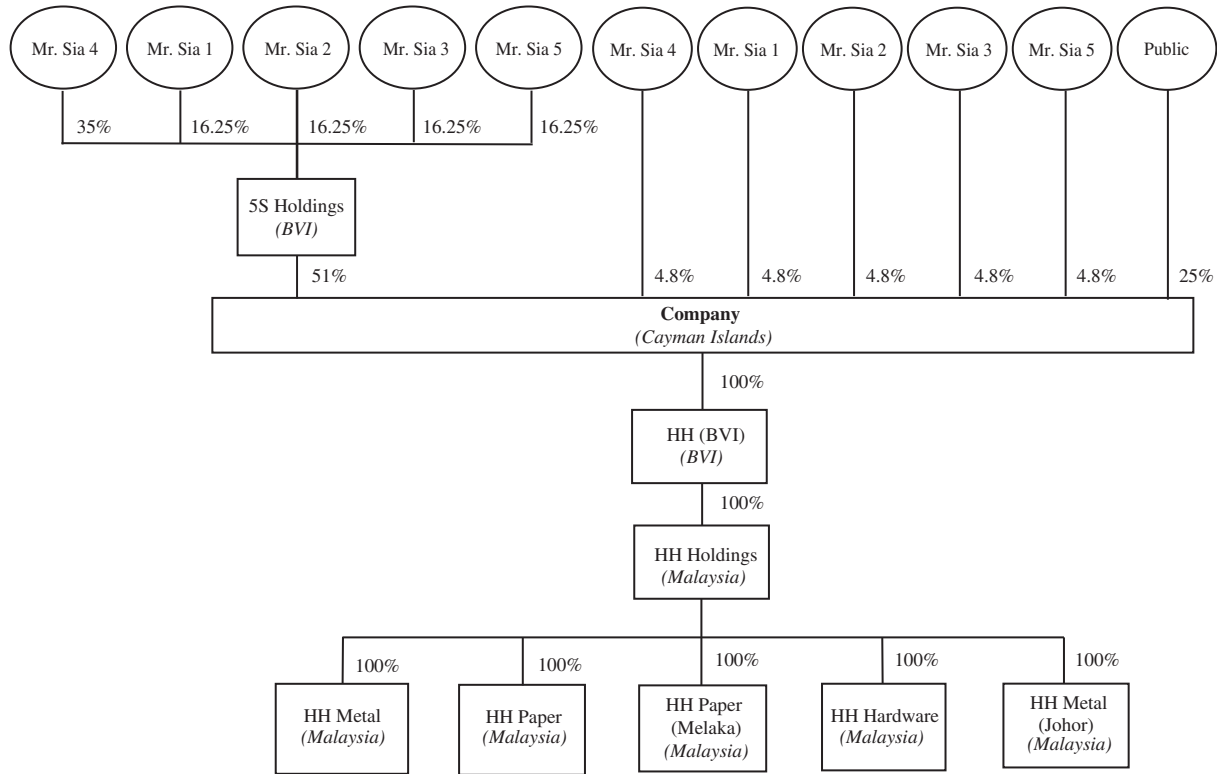
The Sia Brothers entered into a deed of acting in concert confirmation and undertaking dated 20 August 2018, whereby they have, among other things, (a) confirmed and declared that prior to the execution of the deed of acting in concert confirmation and undertaking, they had acted in concert as a group and voted as a group (by themselves and/or through companies controlled by them) in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels; and (b) undertaken that, upon execution of the deed of acting in concert confirmation and undertaking and during the period they (by themselves or together with their associates) remain in control of our Group until the deed of acting in concert confirmation and undertaking is terminated by all of them in writing, they shall continue to act in concert as a group and to vote as a group (by themselves and/or through companies controlled by them and/or their trustees) on an unanimous basis in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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Set out below is the structure of our Group immediately following completion of the Reorganisation, the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme):





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## BUSINESS

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### OVERVIEW

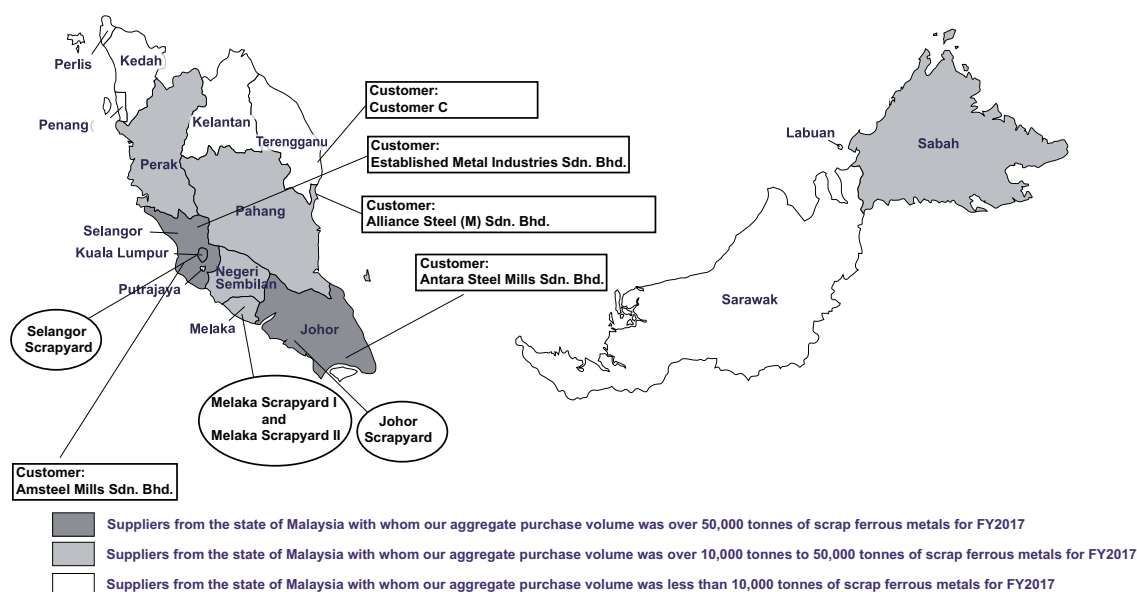
We are a leading scrap ferrous metal trader in Malaysia. According to Frost & Sullivan, we ranked first in terms of trading volume with domestic steel mills in 2017, having a market share of approximately 20.8%. Over the years, we have established a nationwide supplier base of feeder yards from which we source recyclable scrap ferrous metals for sales to steel mills in Malaysia. We also operate three scrapyards equipped with the processing machinery mainly for ferrous metals strategically located in areas where the availability of scrap ferrous metals can be assured and nearby our steel mill customers in the states of Selangor, Melaka and Johor, with an aggregate land area of approximately 35,000 sq.m. In addition, supported by a fleet of 33 self-owned trucks among which, 18 are trucks with laden weight of 20 tonnes or above as at the Latest Practicable Date, we can always respond to the logistics needs of our small and medium-sized suppliers, who have only limited logistics support, on a timely basis.

We always pride ourselves on our capability to source sizeable volume of scrap ferrous metals to meet the production needs of our steel mill customers. For FY2015, FY2016, FY2017 and 8M2018, we sold 464,955 tonnes, 375,998 tonnes, 519,069 tonnes and 365,386 tonnes of scrap ferrous metal, respectively, which accounted for 89.3%, 83.3%, 82.9% and 85.8% of our revenue, respectively. Alongside with the scrap ferrous metal trading, to a lesser extent, we also trade used batteries and waste paper, which, in aggregate, accounted for 10.4%, 15.3%, 12.7% and 13.5% of our total revenue for FY2015, FY2016, FY2017 and 8M2018, respectively. We also operate one scrapyard mainly for waste paper located in the state of Melaka, with a land area of approximately 1,436 sq.m..

In the past, dumping of steel products from the PRC exporters had posed strong headwinds to the steel industry in Malaysia. However, according to Frost & Sullivan, following the PRC's supply-side restructuring to eliminate excess steel manufacturing capacity in 2016 and the implementation of protective measures (such as imposing additional import duties on steel products) for the domestic steel industry by the Malaysian government in April 2017, it is expected that the domestic steel industry will continue to make a strong recovery in the years to come which, in turn, should lead to a greater demand for scrap ferrous metals from domestic steel mills to satisfy their production needs.

## BUSINESS

The following map illustrates the geographical locations of our scrapyards and steel mill customers, and the coverage of our suppliers' presence in Malaysia:



Notes:

1. Amsteel Mills Sdn. Bhd., Antara Steel Mills Sdn. Bhd., Established Metal Industries Sdn. Bhd., Alliance Steel (M) Sdn. Bhd. and Customer C were our steel mill customers for 8M2018.
2. PT. Lautan Steel Indonesia, which was also our steel mill customer for 8M2018, was not shown in the above map as it is located in Indonesia.

The following table shows selected items in combined statements of comprehensive income:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Revenue	429,564	378,529	739,428	420,391	568,756
Gross profit	35,643	31,710	53,791	29,935	36,834
Profit before income tax	18,600	16,058	30,956	18,934	27,949
Profit and total comprehensive income for the year/period	13,672	12,051	23,111	14,269	21,594

## BUSINESS

We principally sell scrap ferrous metals and to a lesser extent, we also trade used batteries and waste paper. The following table shows the breakdown of our total revenue by product types for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2015		2016		2017		2017		2018	
	% of our total		% of our total		% of our total		% of our total		% of our total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
							(Unaudited)			
Scrap ferrous metals	383,799	89.3	315,095	83.3	613,342	82.9	337,424	80.3	487,773	85.8
Used batteries	32,541	7.6	45,499	12.0	69,484	9.4	45,823	10.9	60,467	10.6
Waste paper	12,042	2.8	12,614	3.3	24,474	3.3	14,372	3.4	16,570	2.9
Other materials	1,182	0.3	5,321	1.4	32,128	4.4	22,772	5.4	3,946	0.7
<b>Total</b>	<b>429,564</b>	<b>100.0</b>	<b>378,529</b>	<b>100.0</b>	<b>739,428</b>	<b>100.0</b>	<b>420,391</b>	<b>100.0</b>	<b>568,756</b>	<b>100.0</b>

The following table sets out the revenue, sales volume, average selling price, average cost of trading goods sold and the gross margin of our major product, scrap ferrous metals, for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Revenue	383,799	315,095	613,342	337,424	487,773
(% of total revenue)	(89.3)	(83.3)	(82.9)	(80.3)	(85.8)
Cost of trading goods sold	347,052	285,615	563,167	310,194	453,443
Sales volume of scrap ferrous metals (tonnes)	464,955	375,998	519,069	303,921	365,386
Average selling price (RM per tonne)	825	838	1,182	1,110	1,335
Average cost of trading goods sold (RM per tonne)	746	760	1,085	1,021	1,241
Gross margin (RM per tonne)	<b>79</b>	<b>78</b>	<b>97</b>	<b>89</b>	<b>94</b>

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## BUSINESS

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### MARKET AND COMPETITION

For details of the market and competition, please refer to the paragraph headed “Summary — Market and competition” of this prospectus.

### COMPETITIVE STRENGTHS

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

**We have the capital base to maintain our leading position in the industry.**

In our scrap trading business, we need to have sufficient working capital to operate as we are always required to settle our purchases well before we receive sales proceeds from our customers. For FY2015, FY2016, FY2017 and 8M2018, our trade receivables turnover days was 59.2 days, 77.8 days, 41.1 days and 33.8 days, respectively, while our trade payables turnover days was 17.1 days, 20.7 days, 8.2 days and 5.6 days, respectively.

As at 31 August 2018, our net asset value was RM114.4 million after we capitalised part of the amounts due to Directors who are also our Shareholders. Our capital base has enabled us to operate as the top approved scrap metal provider to the Lion Companies. Our Directors also consider our leading position in the industry has raised our profile in the market which facilitated us to source scrap ferrous metals from various suppliers who often prefer to trade with buyers possessing the financial resources to settle trades readily.

**Our executive Directors and our sourcing team possess extensive scrap ferrous metal trading industry experience.**

Our Directors and our sourcing team have extensive operational expertise and in-depth knowledge of the scrap ferrous metal trading industry in Malaysia. The Sia Brothers possess ferrous metal trading experience ranging from 12 to 21 years with established proven track record in building up supplier network, managing scrapyards operation and securing sizeable steel mill customers. Our sourcing team has an average of 8 years of experience in scrap ferrous metal trading industry. The combination of extensive operational expertise and in-depth knowledge of scrap ferrous metal trading industry have enabled our Directors to secure and develop sustainable business strategies, assess and manage risks and capture profitable opportunities. Our sourcing team communicates with our suppliers daily to assist their daily operations and proactively explores new sources of supply of scrap materials to strengthen our supplier network.

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## BUSINESS

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**Our scrapyards are strategically located in the areas where the availability of scrap ferrous metals can be assured and nearby our steel mill customers.**

Our scrapyards are strategically located in the state of Selangor, Melaka and Johor, among which the states of Selangor and Johor accounted for 28.9% and 12.6% of the total output of manufacturing sector; and 29.0% and 14.2% of the total output of construction sector in Malaysia in 2016, respectively. With such economic activities in Selangor and Johor, the availability of scrap ferrous metals can be assured. In addition, our scrapyards are nearby our steel mill customers in the states of Selangor and Johor. Since the scrap ferrous metals are bulky in terms of size and weight, our location of scrapyard allows us to lower the transportation costs for delivery of scrap ferrous metals.

**We possess our own fleet of trucks to serve our suppliers.**

As at the Latest Practicable Date, we had 33 trucks in use for our collection and delivery of scrap materials, among which 18 trucks were trucks with laden weight of 20 tonnes or above. In addition, we place collection skips at the sites designated by our scrap ferrous metal suppliers to facilitate their disposal and separation of scrap ferrous metals. Such collection skips are collected by our logistic team from the sources of scrap ferrous metals.

In order to maintain a stable and ample supply of scrap ferrous metals, scrap ferrous metals are sourced from a wide range of suppliers across Malaysia, some of which are small and medium-sized suppliers with limited logistics capacity in delivery of scrap ferrous metals. As such, our Directors consider that the logistics support offered to our suppliers for delivery of the scrap ferrous metals is crucial to develop our suppliers' loyalty to supply scrap ferrous metals to us.

Our Directors consider that our logistic arrangement is efficient in responding to our suppliers' logistics needs. Please refer to the paragraph headed "Our logistic arrangement" in this section for details of our logistic arrangement.

**We have been an approved scrap metal provider to the Lion Companies since 2010, which were the largest steel producers in Malaysia in 2017 with stable and significant demand for scrap ferrous metals.**

The Lion Companies account for over 90% of our revenue attributable to the sale of scrap ferrous metals during the Track Record Period. We sold scrap ferrous metals to two steel mills managed under Lion Industries during the Track Record Period. According to Frost & Sullivan, the market share of Lion Industries was estimated to be approximately 21%, 25% and 30% of the total production volume of crude steel in Malaysia for 2015, 2016 and 2017, respectively.

Having the largest steel producers in Malaysia as our customer, we enjoy a stable and significant business flow which has raised our profile in the market and enabled us to establish a nationwide network of suppliers. In addition, being the approved scrap metal provider of the Lion Companies, we have the operational advantage over our competitors that any suppliers who are not on the Lion Companies' approved list of suppliers have to trade through us.

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## BUSINESS

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### BUSINESS STRATEGIES

We plan to continue to strengthen our market leading position in the Malaysian scrap ferrous metal trading industry, by expanding our supplier and customer bases and increasing our business volume of scrap ferrous metals. We plan to achieve our objectives through implementing the following strategies:

#### **Partially replace our fleet of trucks**

As (i) scrap ferrous metals are bulky and heavy and (ii) the source is highly localised and scattered across Malaysia, we usually need trucks (i) with laden weight ranging from 5 tonnes to 10 tonnes to pick up scrap ferrous metals from our small-scaled suppliers to our scrapyards; and (ii) with laden weight ranging from 20 tonnes to 50 tonnes to deliver scrap ferrous metals from our scrapyards/ third-party scrapyards in larger scale to steel mills. During the Track Record Period, we used our own fleet of trucks and also hired external trucks to fulfill the above functions.

As at the Latest Practicable Date, we had 33 trucks in our own fleet providing pick-up and delivery services, among which 19 of them are over seven years old and have been fully depreciated in our accounts. These trucks occasionally suffered down time due to mechanical problems, which affected our business adversely, and we had to incur truck hire expenses to arrange third-party trucks to fulfill our logistical requirement. The utilisation rate of the trucks was 84%, 82%, 76% and 84% for FY2015, FY2016, FY2017 and 8M2018 respectively. Taking into account the fully loaded capacity of our fleet and the down time caused by mechanical problems, there is a need to purchase new trucks to avoid any potential logistical shortfall.

Under the Direct Delivery Sales, whilst the delivery of scrap ferrous metals is generally handled by the relevant third-party scrapyard to our customers directly, these suppliers may sometimes request truck services from us to deliver the scrap ferrous metals from their scrapyards to our customers in the event that their own transportation means are not available. In such case, we shall offer a lower buying price for the scrap ferrous metals to such suppliers to cover our transportation costs in association with our logistics support offered. Therefore, there are situations where we have to mobilise our trucks to assist our suppliers in their delivery of scrap ferrous metals in Direct Delivery Sales transactions. During the Track Record Period, 17.2%, 17.0%, 18.0% and 17.5% of the total number of trips of our trucks were utilised to offer logistics support to our suppliers under the Direct Delivery Sales. Our Directors believe such assistance offered to suppliers under Direct Delivery Sales serves as a value-added service to facilitate the delivery of scrap ferrous metals from our suppliers to our steel mill customers when needed and is conducive to the growth of our business as Direct Delivery Sales have been accounting for a significant portion of our revenue and it helps promote the loyalty of our suppliers. Therefore, we intend to utilise HK\$8.3 million or 8.8% of the net proceeds of the Share Offer to purchase 12 new trucks (9 of them will replace the trucks which are over seven years old and fully depreciated in our accounts). Among the 12 new trucks we intend to purchase, nine of them are with laden weight of 20 tonnes or above.

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## BUSINESS

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### Enhance our processing abilities

Our largest customer, the Lion Companies, has agreed to offer us a higher procurement price for oversized scrap ferrous metals which are cut into the prescribed size. As such, we intend to utilise approximately HK\$6.7 million or approximately 7.1% of the net proceeds of the Share Offer to purchase two metal cutters, one for each of our Selangor Scrapyard and Melaka Scrapyard I. We estimate such metal cutters would have a payback period of around 3.2 years, based on the quantity of oversized scrap ferrous metals we sold to the Lion Companies in 2017.

### Set up our enterprise resources planning system

Given the favourable backdrop of the steel industry for domestic steel mills in Malaysia, we believe our business will continue to grow and the amount of transaction data and financial records to be processed will also increase. Therefore, we intend to utilise HK\$2.2 million or 2.3% of the net proceeds of the Share Offer to set up our own enterprise resources planning system which would enable us to process such data and records on a timely basis, to improve our operational efficiency and to reduce our administrative costs in the long run.

### Set up a new scrapyard in the state of Pahang on the east coast of Peninsular Malaysia

We were engaged by a new steel mill customer, Alliance Steel (M) Sdn. Bhd., as its approved scrap metal provider in April 2018. Alliance Steel (M) Sdn. Bhd. is located in the state of Pahang, the east coast of Peninsular Malaysia, and we plan to set up a new scrapyard to mainly serve this customer, as well as to expand our network of sourcing on the east cost of Peninsular Malaysia.

The principal reasons for setting up this new scrapyard are as follows:

- a. We started to sell scrap ferrous metals to Alliance Steel (M) Sdn. Bhd. since April 2018. A large majority of the scrap ferrous metals which we supplied to Alliance Steel (M) Sdn. Bhd. were through Direct Delivery Sales sourced mainly from the states of Selangor and Johor (accounted for approximately 27.1% and 49.5% of the sales of scrap ferrous metals to Alliance Steel (M) Sdn. Bhd. respectively for the eleven months ended 30 November 2018), with the transportation arranged by us, as most of our established suppliers had difficulties in securing the necessary logistical means due to the long distance. The detailed analysis of the delivery of scrap ferrous metals from suppliers in different locations to Alliance Steel (M) Sdn. Bhd. is as follows:

	From suppliers/scrapyards located in		
	Selangor	Johor	Pahang <sup>(Note)</sup>
Distance from the scrapyards to Alliance Steel (M) Sdn. Bhd. (approximate)	Over 250km	Over 350km	Within 30km
Costs per delivery (approximate)	RM50 per tonne	RM50 per tonne	RM10 per tonne
Length of time per delivery (approximate)	2 days	2 days	half a day

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## BUSINESS

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*Note:* The distance from scrapyards to Alliance Steel (M) Sdn. Bhd., the costs per delivery and the length of time per delivery from scrapyards located in the state of Pahang are estimated by our Directors for illustration purpose and based on the location of our proposed new scrapyard.

We expect we will continue to conduct our business with Alliance Steel (M) Sdn. Bhd. mainly under Direct Delivery Sales with our logistical support, until we have fully set up our own scrapyard in the state of Pahang. We believe the new scrapyard can increase the supply from the state of Pahang and reduce our reliance on the scrap ferrous metals supply from the states of Selangor and Johor insofar as our sales to Alliance Steel (M) Sdn. Bhd. is concerned and divert the supply from the states of Selangor and Johor to the steel mills nearby to minimise transportation costs and improve the delivery efficiency.

- b. The steel mill operated by Alliance Steel (M) Sdn. Bhd. (with a total investment of RM4.2 billion) is a project in the Malaysia-China Kuantan Industrial Park under the cooperation between the Malaysian and the Chinese government as part of the Belt and Road Initiative. It has an annual production capacity of 3.5 million tonnes of steel product per annum for export and the domestic use in Malaysia. For 8M2018, our sales of scrap ferrous metals to Alliance Steel (M) Sdn. Bhd. amounted to RM18.5 million, which were further increased to RM28.0 million (involving approximately 20,000 tonnes of scrap ferrous metals), for the three months ended 30 November 2018. To the best knowledge of our Directors, Alliance Steel (M) Sdn. Bhd. experienced a shortfall of scrap ferrous metals supply of 30,000 tonnes per month and such shortfall was satisfied by using higher proportion of iron ore as raw materials in its operation which incurred higher production costs. In November 2018, we entered into a framework agreement with Alliance Steel (M) Sdn. Bhd. to supply 7,000 tonnes of scrap ferrous metals on a monthly committed basis. Please refer to the paragraph headed “Customers” for further details of the framework agreement and the paragraph headed “Customers — Analysis of our sustainability” for details of Alliance Steel (M) Sdn. Bhd. Therefore, we believe our trading volume with Alliance Steel (M) Sdn. Bhd. can certainly be increased once the operation of our new scrapyard is underway.
- c. Presently, the three scrapyards for scrap ferrous metals are located on the west coast of Peninsular Malaysia. The setup of a new scrapyard in the state of Pahang could expand our geographical footprint of our sourcing network to the state of Pahang and the nearby Terengganu, especially from such small and medium-sized suppliers. For FY2015, FY2016, FY2017 and 8M2018, our volume of scrap ferrous metals purchased from the states of Pahang and the nearby Terengganu was low and amounted to an aggregate of 18,907, 10,196, 15,957 and 12,601 tonnes only, representing 4.1%, 2.7%, 3.1% and 3.4% of our total volume of scrap ferrous metals purchased, respectively. To the best understanding of our Directors, most existing suppliers in the states of Pahang and Terengganu have limited machinery to process the scrap ferrous metals to meet the required specification of Alliance Steel (M) Sdn. Bhd.. At present, they mostly deliver their scrap ferrous metals to our competing scrapyards for processing. Therefore, given our fully equipped new scrapyard established and our readiness to settle with suppliers on cash term, we believe that our sourcing capability in the states of Pahang and Terengganu can be strengthened and our market position as the leading scrap ferrous trader can be further consolidated in Malaysia.



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## BUSINESS

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In order to support our business with this customer, we intend to utilise HK\$10.5 million or 11.1% of the net proceeds of the Share Offer to set up a scrapyard with processing capabilities nearby.

It is intended that the new scrapyard to be located on a leased land. The total land area of the new scrapyard is approximately 10,000 sq.m. The new scrapyard is expected to commence operations in July 2019. It is expected that the maximum annual processing capacity of the new scrapyard is 72,000 tonnes of scrap ferrous metals. We will apply for all the necessary licences, approvals and permits under the applicable Malaysian laws and regulations. It is expected that such licences, approvals and permits will be obtained by July 2019. As advised by our Malaysian Legal Advisers, we do not expect any legal impediment in obtaining the relevant licences, approvals and permits.

The breakdown of the capital expenditure on setting up this new scrapyard, which will be funded by net proceeds of the Share Offer, is as follows:

Items	Capital expenditure
<b><i>Acquisition of processing machinery</i></b>	
• Four excavators with magnet	HK\$3.1 million
• One weighbridge	HK\$0.2 million
• One metal bundling machine	HK\$0.7 million
• One cutting machine	HK\$1.3 million
• Nine trucks	HK\$4.2 million
<b><i>Setting up a new scrapyard</i></b>	
• Cost of construction, renovations and others	HK\$1.0 million
<b>Total</b>	<b>HK\$10.5 million</b>

As at the Latest Practicable Date, we did not incur any expenses on the setting up of the new scrapyard. The breakeven period and investment payback period are estimated at approximately eight months and 4.2 years, respectively.

### Expansion of our scrapyard in Selangor

Selangor Scrapyard is presently located on a leased land with the approximate land area of 13,189 sq.m. while we manage our administrative operation of such scrapyard in an office building located around 30 km away. This has sometimes caused certain inconvenience in our daily operation. With the aim of centralising the scrapyard operation and our administrative activities in the same location in Selangor and expanding our existing scrapyard in Selangor, we intend to construct a new scrapyard cum an office building on a piece of land, which is self-owned and adjacent to the existing Selangor Scrapyard. The aggregate land area of the expanded scrapyard will be approximately 20,079 sq.m.. It is expected that the additional maximum annual processing capacity of the expanded scrapyard is 18,000 tonnes of scrap ferrous metals. Our Directors do not consider the expansion would cause any adverse disruption to our operation, as the aforesaid expanded scrapyard is adjacent to the location of the existing Selangor Scrapyard.

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## BUSINESS

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We will apply for all the necessary licences, approvals and permits under the applicable Malaysian laws and regulations. It is expected that such licences, approvals and permits will be obtained by January 2020. As advised by our Malaysian Legal Advisers, we do not expect any legal impediment in obtaining the relevant licences, approvals and permits.

The breakdown of the capital expenditure on the expansion of the existing scrapyards in Selangor, among which HK\$14.7 million will be funded by net proceeds of the Share Offer, representing approximately 15.6% of the net proceeds of the Share Offer and the remainders will be funded by our internal financial resources, is as follows:

Items	Capital expenditure
<b><i>Construction of a new scrapyard cum an office building</i></b>	
• Cost of construction	HK\$13.4 million
<b><i>Acquisition of processing machinery</i></b>	
• One excavator with magnet	HK\$1.0 million
• Four trucks	HK\$1.9 million
<b><i>Miscellaneous</i></b>	
• Professional fees and others	HK\$2.6 million
<b>Total</b>	<b>HK\$18.9 million</b>

Our Directors expect the entire construction and expansion will be completed by September 2020. As at the Latest Practicable Date, we did not incur any expenses on the expansion of the existing scrapyards in Selangor.

### Working capital for our scrap ferrous metal trading business

Cash flow is crucial to the scrap material trading business as working capital is needed to settle the buying price of the scrap materials shortly upon delivery or in some cases, in advance. Our Directors believe that our readiness for settling with our suppliers has boosted our suppliers' confidence in supplying scrap materials to us, both in terms of volume and priority.

For FY2015, FY2016, FY2017 and 8M2018, our trade receivables turnover days was 59.2 days, 77.8 days, 41.1 days and 33.8 days, respectively, while our trade payables turnover days was 17.1 days, 20.7 days, 8.2 days and 5.6 days, respectively. On average, our trade receivable turnover days was longer than our trade payable turnover days by around 40.1 days, with the high at 57.1 days and the low at 28.2 days during the Track Record Period. As our trade receivables turnover days is generally longer than our trade payables turnover days, we require cash flows to settle with our suppliers in advance of the receipts of proceeds from our customers. Please refer to the paragraph headed "Risk Factors — Risks relating to our business — Our trade receivables turnover days is in general longer than our trade payable turnover days." Such mismatch between our trade receivables turnover days and our trade payables turnover days causes a cash flow gap. We may be exposed to risk on working capital and liquidity. As a significant portion of our revenue is generated from sales attributable to the Lion Companies, if the Lion Companies fail to settle our trade receivables in a timely manner, our working capital and liquidity position could be adversely affected" of this prospectus for details of the associated risk.

## BUSINESS

Therefore, we consistently need working capital to finance our operation. If we increase our sales volume, our working capital requirement will increase as well. For the purpose of illustration only, if the scrap metals trading business, based on its revenue of RM488 million recorded for 8M2018, will grow at the CAGR of 10% as forecasted by Frost & Sullivan, our additional annual working capital would amount to approximately RM8 million, which is arrived at using the average difference of 40.1 days between our trade receivable turnover days and our payable turnover days recorded during the Track Record Period.

In this regard, we intend to apply HK\$42.5 million or 45.1% of the net proceeds of the Share Offer as additional working capital for the purchase of scrap ferrous metals as we are going to expand the sales volume in the coming years, of which our Directors are confident, on the back of (i) the favourable fundamentals for the steel industry in Malaysia as outlined by Frost and Sullivan (ii) the demand for scrap metals always outstripping its supply as well as (iii) our top customer, the Lion Companies, having a shortfall in supply of scrap metals amounting to approximately 20,000 tonnes per month and our newly acquired customer, Alliance Steel (M) Sdn Bhd having a shortfall of 30,000 tonnes per month. Please refer to the paragraph headed “Risk Factors — Risks relating to our business — We intend to apply 45.1% of the net proceeds of the Share Offer as additional working capital for our scrap ferrous metal trading business. However, there is no assurance that our business strategy and future plans will bring in the anticipated benefits to our Group” of this prospectus for details of the associated risk.

### Use of proceeds from the Share Offer for our strategies

Please also refer to the section headed “Future Plans and Use of Proceeds” of this prospectus for the net proceeds from the Share Offer which are expected to be used to implement our business strategies set out above.

## OUR PRODUCTS

We principally sell scrap ferrous metals and to a lesser extent, used batteries and waste paper to our customers.

The table below sets out the breakdown of our revenue and volume sold by product types and the respective percentage of total revenue for the periods indicated:

	Year ended 31 December									Eight months ended 31 August					
	2015			2016			2017			2017			2018		
	Revenue	% of our total revenue	Volume sold	Revenue	% of our total revenue	Volume sold	Revenue	% of our total revenue	Volume sold	Revenue	% of our total revenue	Volume sold	Revenue	% of our total revenue	Volume sold
	RM'000	%	tonne	RM'000	%	tonne	RM'000	%	tonne	RM'000	%	tonne	RM'000	%	tonne
										(Unaudited)					
Scrap ferrous metals	383,799	89.3	464,955	315,095	83.3	375,998	613,342	82.9	519,069	337,424	80.3	303,921	487,773	85.8	365,386
Used batteries	32,541	7.6	12,403	45,499	12.0	14,882	69,484	9.4	18,068	45,823	10.9	12,112	60,467	10.6	15,790
Waste paper	12,042	2.8	25,357	12,614	3.3	22,847	24,474	3.3	31,770	14,372	3.4	19,277	16,570	2.9	23,535
Other materials	1,182	0.3	N/A <sup>(Note)</sup>	5,321	1.4	N/A <sup>(Note)</sup>	32,128	4.4	N/A <sup>(Note)</sup>	22,772	5.4	N/A <sup>(Note)</sup>	3,946	0.7	N/A <sup>(Note)</sup>
<b>Total</b>	<b>429,564</b>	<b>100.0</b>		<b>378,529</b>	<b>100.0</b>		<b>739,428</b>	<b>100.0</b>		<b>420,391</b>	<b>100.0</b>		<b>568,756</b>	<b>100.0</b>	

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## BUSINESS

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*Note:* In view of the wide product mix of other materials such as lead and steel bars, our Directors consider that the analysis on the volume sold of other materials to be not meaningful.

The table below sets out the key information on our products:

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### Products

Scrap ferrous metals



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### Descriptions

Ferrous metals are widely used due to their strength and durability. Ferrous metals are commonly found in automobile construction, railways, large-scale piping, industrial containers and housing, as well as tools like high-quality chef's knives.

The most negative characteristic of ferrous metals is that they can be susceptible to rust when exposed to air and moisture for a prolonged period of time. The major exceptions are wrought iron, which contains a very low carbon content and resists oxidation, and stainless steel, which is protected due to its high chromium content. Most ferrous metals are magnetic to some extent, making it useful in the creation of electrical appliances and motors.

Scrap ferrous metals are mainly used in steel mills as raw materials in the production of steel products.

Used batteries



Used batteries are mainly used in lead smelting plants as raw materials in the smelting of lead. The sources of used batteries are mainly from used auto mobiles.

Waste paper



Waste paper is mainly used in paper mills as raw materials in the production of recycled paper products. The waste paper is sourced from residential and commercial sectors.

## BUSINESS

The table below sets out our average selling price of scrap ferrous metals, used batteries and waste paper for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
	Average selling price per tonne	Average selling price per tonne	Average selling price per tonne	Average selling price per tonne
	RM	RM	RM	RM
Scrap ferrous metals	825	838	1,182	1,335
Used batteries	2,624	3,057	3,846	3,829
Waste paper	475	552	770	704

*Note:* Average selling price per tonne refers to the average of the monthly average selling price per tonne for the years/ period indicated.

Except for the used batteries and the waste paper which showed a slight drop in the average selling price for 8M2018, the scrap materials exhibited a general price increase over the Track Record Period. Our Directors consider such price increases were in line with the respective market price trend during the period. According to Frost & Sullivan, the price of scrap ferrous metals, used batteries and waste paper is expected to maintain a steady growth in the next five years.

### Other materials

Other materials which we traded during the Track Record Period mainly related to (a) our attempt to start a new business line on the trading of steel bars; and (b) our incidental transaction on the trading of lead to the MNA Group. We soon dropped the new business line after we suffered loss from the trading. Please refer to the paragraph headed “Customers — Major customers with a dual role as our suppliers” in this section for further details.

### Sales seasonality

In general, there is no apparent pattern of seasonality with respect to our sales and purchase throughout the year with the exception that the sales and purchase of scrap materials may be lower during festive month of (a) Ramadan, being the Islamic holy month of fasting; and (b) the Lunar New Year. Please refer to the paragraph headed “Risk Factors — Risks relating to our business — Our sales may fluctuate and be affected by festive month” of this prospectus for details of the risk on seasonality impacts.

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## BUSINESS

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### BUSINESS MODEL

Under the Scrapyard Sales, we purchase scrap ferrous metals from various sources and process them at our scrapyard to the required specification before on selling them to our steel mill customers.

Under the Direct Delivery Sales, we purchase processed scrap ferrous metals from external third-party scrapyards (i.e. our suppliers, who are not approved scrap metal providers of the steel mills) and on sell them to our customers without our processing. The delivery of such scrap ferrous metals is generally handled by the relevant third-party scrapyard to our customers directly. However, in the event that such suppliers have difficulty in arranging the necessary transportation mean, these suppliers may request logistics support from us to deliver the scrap ferrous metals from their scrapyards to our customers. In such case, we shall offer a lower buying price for the scrap ferrous metals to such suppliers to cover our transportation costs in association with our logistics support offered. According to Frost & Sullivan, it is a common industry practice for scrap material traders to request logistical support from external services providers or other scrap material traders when they have difficulty in arranging their own logistical means.

In the Direct Delivery Sales transactions, we consider our role is of significant importance to our suppliers for the following reasons: (a) we provide regular guidance to our suppliers on the specifications of scrap ferrous metals which are up to the acceptance standard of our steel mill customers and this greatly reduces the chance that the scrap ferrous metals being rejected by our customers; (b) we can always mobilise our logistics support, such as our trucks and provide our processing machinery such as excavators to assist our suppliers in their delivery of scrap ferrous metals; and (c) our suppliers who trade through us would have their trade balances settled in around 6 to 7 days as against over 30 days if they were to trade directly with our steel mill customers.

The buying price we offer to our suppliers for scrap ferrous metals under Direct Delivery Sales is generally higher than Scrapyard Sales, as our suppliers have to handle the processing and delivery.

For FY2015, FY2016, FY2017 and 8M2018, our revenue attributable to Direct Delivery Sales accounted for approximately 71.7%, 79.4%, 69.5% and 71.2% of our total revenue attributable to sales of scrap ferrous metals, respectively, while the remainders were all Scrapyard Sales.

## BUSINESS

The following table sets out the breakdown of sales and volume of scrap ferrous metals sold under the Scrapyard Sales and Direct Delivery Sales for the periods indicated:

	Year ended 31 December									Eight months ended 31 August		
	2015			2016			2017			2018		
	Volume of scrap ferrous metals		% of total volume	Volume of scrap ferrous metals		% of total volume	Volume of scrap ferrous metals		% of total volume	Volume of scrap ferrous metals		% of total volume
	Sales	sold		Sales	sold		Sales	sold		Sales	sold	
	<i>RM'000</i>	<i>tonnes</i>	<i>%</i>	<i>RM'000</i>	<i>tonnes</i>	<i>%</i>	<i>RM'000</i>	<i>tonnes</i>	<i>%</i>	<i>RM'000</i>	<i>tonnes</i>	<i>%</i>
Scrapyards Sales	108,712	129,362	27.8	64,921	79,072	21.0	186,970	159,722	30.8	140,368	111,461	30.5
Direct Delivery Sales	275,087	335,593	72.2	250,174	296,926	79.0	426,372	359,347	69.2	347,405	253,925	69.5
<b>Total</b>	<b>383,799</b>	<b>464,955</b>	<b>100.0</b>	<b>315,095</b>	<b>375,998</b>	<b>100.0</b>	<b>613,342</b>	<b>519,069</b>	<b>100.0</b>	<b>487,773</b>	<b>365,386</b>	<b>100.0</b>

### Our scrapyards

We have our scrapyards strategically located in the states of Melaka, Selangor and Johor. All of our scrapyards are rented properties and serve as collection and processing hubs of scrap materials.

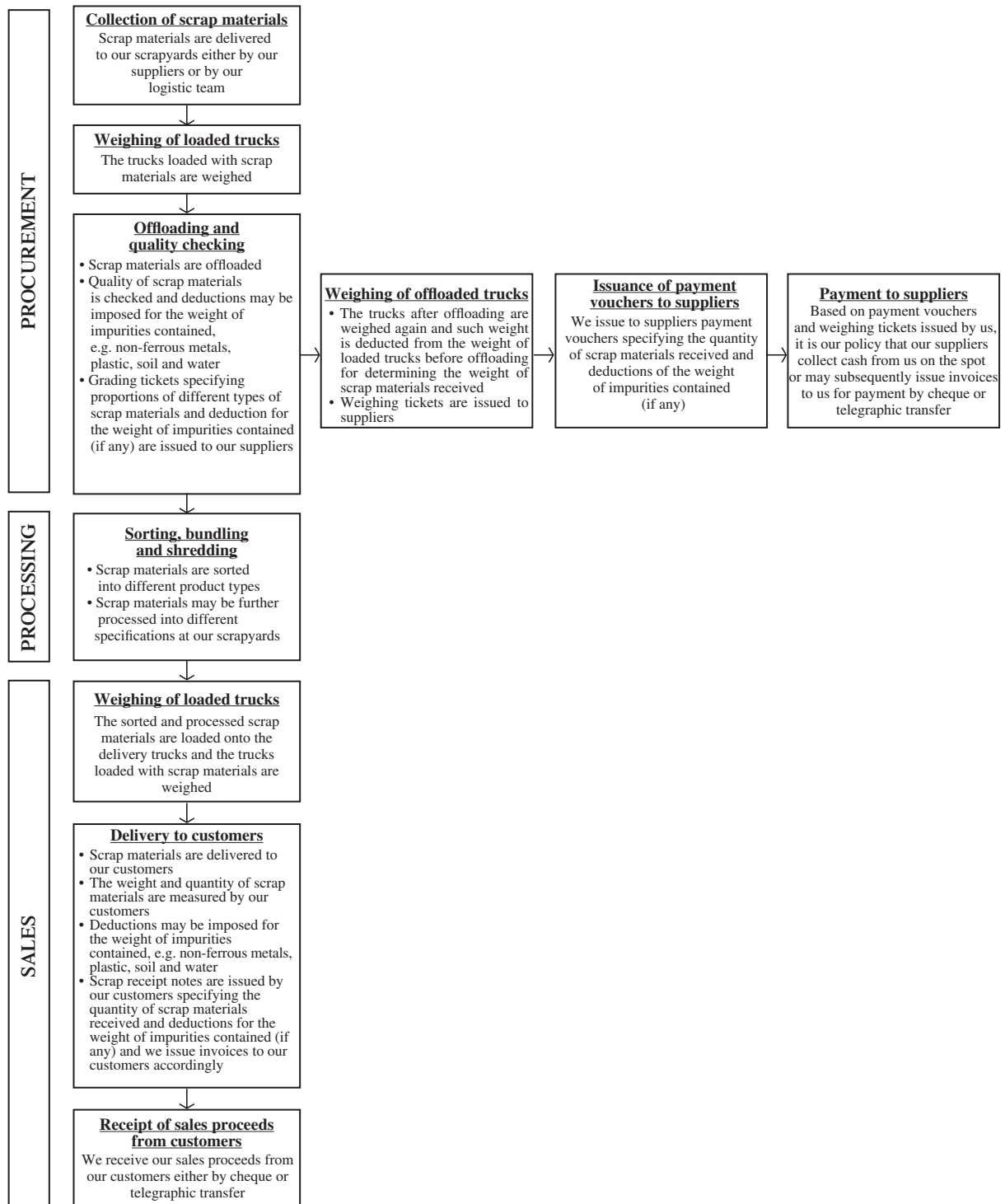
The following table sets out the breakdown of the volume of the scrap ferrous metals purchased by our different scrapyards for further processing and the respective percentage of total volume of scrap ferrous metals for the periods indicated:

	Year ended 31 December						Eight months ended 31 August	
	2015		2016		2017		2018	
	% of total volume of scrap		% of total volume of scrap		% of total volume of scrap		% of total volume of scrap	
	Purchase volume	ferrous metals	Purchase volume	ferrous metals	Purchase volume	ferrous metals	Purchase volume	ferrous metals
	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>	<i>tonnes</i>	<i>%</i>
Selangor Scrapyard	84,902	65.5	53,113	67.0	118,692	72.1	81,793	72.6
Melaka Scrapyard I	33,231	25.6	17,972	22.7	30,082	18.3	19,777	17.5
Johor Scrapyard	11,579	8.9	8,210	10.3	15,765	9.6	11,157	9.9
<b>Total</b>	<b>129,712</b>	<b>100.0</b>	<b>79,295</b>	<b>100.0</b>	<b>164,539</b>	<b>100.0</b>	<b>112,727</b>	<b>100.0</b>

## BUSINESS

### Operation workflow at our scrapyards

The following diagram illustrates a typical operation workflow at our scrapyards:





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## BUSINESS

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### *(a) Weighing*

On arrival at our scrapyards, the trucks loaded with scrap materials are weighed. The unloaded trucks are weighed after the scrap materials are offloaded. After quality checking, we issue payment vouchers, weighing tickets and grading tickets to our suppliers specifying the accepted weight of the scrap materials, the buying price, and any deduction applied for any impurities contained.

### *(b) Quality control*

We have provided guidance to our employees which specifies the ferrous metallic items which we would not accept from our suppliers, such items include manhole covers, drain covers, water metres and telecom wires as they may be properties belonging to the government. Quality of scrap ferrous metals is checked and deductions may be imposed for the weight of impurities contained, e.g. non-ferrous metals, plastic, soil and water.

### *Processing procedures for different types of scrap materials*

We perform the following processing procedures on our scrap materials in accordance with the requirement of our customers.

#### *Scrap ferrous metals*

**Sorting.** Sorting of scrap ferrous metals is performed mechanically by excavators with magnet at our scrapyards. Excavators with magnet are used to sort the ferrous metals from non-ferrous metals and into different product types. It takes approximately eight minutes to sort one tonne of scrap ferrous metals per machinery.

**Bundling.** We process certain grades of scrap ferrous metals into bundles by metal bundling machines. It takes approximately 10 minutes to bundle one tonne of scrap ferrous metals per machinery.

**Shredding.** Shredding is performed mechanically by metal shredders at our scrapyards. Metal shredders are used to shred thick and long scrap ferrous metals into the desired size. It takes approximately 35 minutes to shred one tonne of scrap ferrous metals per machinery.

#### *Used batteries*

Our processing of used batteries consists of filling the used batteries with water and wrapping the used batteries with plastic wrap and placing them onto a pallet for delivery.

#### *Waste paper*

Waste paper is manually sorted and undergoes bundling process, whereby waste paper is processed into highly compact and regular-shaped bale bundles. In general, it takes approximately one minute to press one tonne of waste paper into such bale bundles per machinery.

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## BUSINESS

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### Our processing capacity

Set out below are the average utilisation rates of different processing procedures by different scrapyards of scrap ferrous metals during the Track Record Period:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
Average utilisation rate ( <i>approximately %</i> )				
<b>Selangor Scrapyard</b>				
• Sorting	68	42	87	90
• Bundling	48	29	61	63
• Shredding	70	42	89	90
<b>Melaka Scrapyard I</b>				
• Sorting	54	33	69	68
• Bundling	25	15	31	30
• Shredding	36	22	45	44
<b>Johor Scrapyard</b>				
• Sorting	19	12	24	25
• Bundling	45	28	58	61
• Shredding	17	10	21	22

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*Notes:*

1. The maximum processing capacity of our excavators with magnet for sorting is calculated based on the following assumptions: (a) during the Track Record Period, there were seven, three and four operating excavators with magnet in Selangor Scrapyard; Melaka Scrapyard I, and Johor Scrapyard respectively; (b) it takes approximately 8 minutes to sort one tonne of scrap ferrous metals per excavator with magnet; (c) the processing procedure of sorting can perform non-stop for 8 working hours per day; and (d) there were 300 and 200 working days for the respective year/period.
2. The maximum processing capacity of our metal bundling machines for bundling is calculated based on the following assumptions: (a) during the Track Record Period, there were six, four and one operating metal bundling machines in Selangor Scrapyard; Melaka Scrapyard I, and Johor Scrapyard, respectively; (b) it takes approximately 10 minutes to bundle one tonne of scrap ferrous metals per metal bundling machine; (c) the processing procedure of bundling can perform non-stop for 8 working hours per day; and (d) there were 300 and 200 working days for the respective year/period.
3. The maximum processing capacity of our metal shredders for shredding is calculated based on the following assumptions: (a) during the Track Record Period, there were three, two and two operating metal shredders in Selangor Scrapyard; Melaka Scrapyard I, and Johor Scrapyard, respectively; (b) it takes approximately 35 minutes to shred one tonne of scrap ferrous metals per metal shredder; (c) the processing procedure of shredding can perform non-stop for 8 working hours per day; and (d) there were 300 and 200 working days for the respective year/period.

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## BUSINESS

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4. The average utilisation rate is calculated by dividing the actual processing volume by the maximum processing capacity in the respective year/period.
5. The fluctuation in the average utilisation rate of different processes during the Track Record Period was mainly due to the volume of scrap materials processed during the Track Record Period.
6. These machines were owned by our Group during the Track Record Period.

Our Selangor Scrapyard recorded the highest average utilisation rate among all of our scrapyards during the Track Record Period. In particular, it recorded utilisation rate of approximately 90% for 8M2018 for processing procedures such as sorting and shredding. Our Selangor Scrapyard also recorded the highest purchase volume among all of our scrapyards during the Track Record Period, amounting to 65.5%, 67.0%, 72.1% and 72.6% of the total volume of scrap ferrous metals purchased by our scrapyards. It has a dual function which is to (i) process scrap ferrous metals collected from numerous small-scale suppliers located in Selangor and Kuala Lumpur, both of which are considered to be the areas producing most scrap ferrous metals in Malaysia; and (ii) deliver such processed scrap ferrous metals to our nearby customer, namely Amsteel Mills Sdn. Bhd. under the Lion Companies. We plan to expand our existing scrapyard in Selangor by constructing a new scrapyard cum an office building on a piece of land which is self-owned and adjacent to the existing Selangor Scrapyard. The processing capacity of the expanded scrapyard will be increased by an additional 18,000 tonnes of scrap ferrous metals per year from the existing 144,000 tonnes presently, which, our Directors consider, is necessary in light of the continuous growth of the domestic scrap metal demands as forecast by Frost & Sullivan. For details of the steel industry in Malaysia, please refer to the sections headed “Summary — Business strategies and expansion plans” and “Industry Overview — Overview of steel industry in Malaysia” of this prospectus.

Our Johor Scrapyard recorded the lowest average utilisation rate, as we mainly sold scrap ferrous metals to our customer, namely Antara Steel Mills Sdn. Bhd. under the Lion Companies in Johor through Direct Delivery Sales during the Track Record Period. Considering the state of Johor has a well-established industrial base, we are of the view that it is strategically important that we maintain a scrapyard there.

### **Our processing machinery**

The major machineries used in our processing procedures include excavators with magnet, metal bundling machines and metal shredders. As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 August 2018, the net book value of our plant and machinery amounted to approximately RM4.3 million, RM3.8 million, RM3.5 million and RM3.5 million, respectively.

## BUSINESS

The following table sets out the major operating processing machinery in our processing procedures as at the Latest Practicable Date:

<b>Types of major processing machinery</b>	<b>Number of units of major operating processing machinery</b>	<b>Estimated average age of major operating processing machinery as at the Latest Practicable Date (years)</b>	<b>Estimated average remaining useful lives as at the Latest Practicable Date (years)</b>
Excavators with magnet	14	5	5
Metal bundling machines	11	7	3
Metal shredders	7	5	5

*Notes:*

1. The number of units of major operating processing machinery represents the number of units of major processing machinery aged 10 years or below.
2. As at the Latest Practicable Date, there were two excavators with magnet aged above 10 years, which were used as backup machines and the residual values of which had been fully depreciated using the straight-line method.
3. The actual remaining useful lives of these processing machines may be different from the estimates due to reasons such as periodic maintenance.
4. As at the Latest Practicable Date, we had 14 units of excavators with magnet aged 10 years or below, including two units acquired recently. For the purpose of illustration, we do not include this newly-acquired excavator with magnet when calculating the average utilisation rate(s).

Please refer to the paragraph headed “Financial information — Significant accounting policies — Property, plant and equipment” of this prospectus for detailed depreciation method adopted for our processing machinery and their useful life.

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We carry out regular repair and maintenance of our machinery to ensure that they can function properly. For FY2015, FY2016, FY2017 and 8M2018, our repair and maintenance expenses amounted to approximately RM0.6 million, RM0.4 million, RM0.4 million and RM0.3 million, respectively. Please refer to the paragraphs headed “Financial Information — Description and discussion of the major components of the combined statements of comprehensive income — Distribution and selling expenses” and “Financial Information — Description and discussion of the major components of the combined statements of comprehensive income — Administrative expenses” of this prospectus for details.

During the Track Record Period, we had not experienced any difficulty in sourcing and purchasing our processing machinery, nor had we experienced any processing interruption due to malfunction or breakdown of the machinery.

### SUPPLIERS

During Track Record Period, we purchased scrap ferrous metals from over 3,000 suppliers throughout Malaysia.

Other than those small-scale suppliers with whom we settle our purchases on cash basis (with settlement amount below RM5,000 pursuant to our policy) on the spot under the Scrapyard Sales, we have assessment and selection procedures in place to select our suppliers. We perform an evaluation of a supplier which covers various aspects of such supplier including background of its shareholders and directors, business scale, risk profiles and reputation in the industry, with the support of a background check. Further, we will visit the operation premises of such supplier to assess its business operations, sources of scrap ferrous metals, product quality and logistics capability. If the results of the above assessments are to our satisfaction, we will approve such supplier to supply scrap ferrous metals to us. We also perform periodic re-evaluations of the suppliers approved by us as one of the risk management measures.

For FY2015, FY2016, FY2017 and 8M2018, our purchases attributable to our largest supplier amounted to RM18.2 million, RM15.9 million, RM29.2 million and RM23.0 million, respectively, representing 4.7%, 4.7%, 4.3% and 4.3% of our total purchases, respectively, while our purchases attributable to our five largest suppliers in aggregate amounted to RM72.2 million, RM66.5 million, RM109.0 million and RM95.1 million, respectively, representing approximately 18.6%, 19.4%, 15.9% and 17.9% of our total purchases, respectively. As such, we have no reliance on any particular supplier during the Track Record Period.

## BUSINESS

Our suppliers are predominantly scattered around different states in Malaysia. The following table sets out our purchase volume of scrap ferrous metals based on the suppliers' location of establishment for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
	Volume of scrap ferrous metals purchased	Volume of scrap ferrous metals purchased	Volume of scrap ferrous metals purchased	Volume of scrap ferrous metals purchased
	tonnes	tonnes	tonnes	tonnes
<b>Malaysia</b>				
<b>State</b>				
Selangor <i>(Note 1)</i>	215,572	190,069	217,504	151,202
Johor <i>(Note 1)</i>	89,404	72,592	106,217	67,965
Perak	26,070	16,947	18,858	17,041
Melaka <i>(Note 1)</i>	24,347	15,408	26,494	19,084
Pahang	18,874	9,072	14,718	12,361
Negeri Sembilan	17,066	7,510	12,547	11,214
Penang	6,512	12,206	9,840	1,619
Sarawak	4,469	2,896	8,525	21,858
Sabah	3,235	860	19,901	49
Kedah	1,958	1,806	1,944	1,225
Kelantan	898	474	745	1,479
Terengganu	33	1,124	1,239	240
<b>Federal territory</b>				
Labuan	—	—	—	17,939
Kuala Lumpur	43,317	44,292	52,086	35,509
<b>Sub-total</b>	<b>451,755</b>	<b>375,256</b>	<b>490,618</b>	<b>358,785</b>
<b>Overseas</b> <i>(Note 2)</i>	13,550	965	33,268	7,867
<b>Total</b>	<b>465,305</b>	<b>376,221</b>	<b>523,886</b>	<b>366,652</b>

Notes:

1. We operate our own scrapyards in the state.
2. Our overseas suppliers include suppliers in, among others, Singapore, Australia, the PRC, Timor-Leste, Hong Kong and Philippines.

## BUSINESS

The following tables set out the background information on our five largest suppliers for the periods indicated:

### For FY2015

Ranking	Supplier	Location in Malaysia	Business activities	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our purchase amount	Approximate % of our total purchases
							<i>RM'000</i>	<i>%</i>
1	Siong Ho Enterprise Sdn. Bhd.	Selangor	Trading and transportation of scrap metals and materials	9 years	60 days	Cheque	18,223	4.7
2	LSM Metal Ace Sdn. Bhd.	Johor	Trading of scrap metals	7 years	30 days	Cheque	14,825	3.8
3	Sai Maas Hardware Trading	Selangor	Trading of metal products	3 years	Due upon issue of invoices	Cheque	14,293	3.7
4	Legend Metal Industries (M) Sdn. Bhd.	Selangor	Trading of scrap metals	5 years	Due upon issue of invoices	Telegraphic transfer	12,937	3.3
5	Hong Zhen Industries Sdn. Bhd.	Selangor	Processing and trading of rerolled metal materials	4 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	11,881	3.1
<b>Total:</b>							<b>72,159</b>	<b>18.6</b>

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**For FY2016**

Ranking	Supplier	Location in Malaysia	Business activities	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our purchase amount <i>RM'000</i>	Approximate % of our total purchases <i>%</i>
1	Hong Zhen Industries Sdn. Bhd.	Selangor	Processing and trading of rerolled metal materials	4 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	15,916	4.7
2	NCY Steel Industries Sdn. Bhd.	Selangor	Trading of steel, iron and metal products	3 years	Due upon issue of invoices	Cheque	14,678	4.3
3	Lennor Metal Sdn. Bhd.	Selangor	Trading of scrap metals	3 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	12,130	3.5
4	LSL Recycle Sdn. Bhd.	Johor	Trading of scrap metals	4 years	Due upon issue of invoices	Cheque	12,055	3.5
5	Siong Ho Enterprise Sdn. Bhd.	Selangor	Trading and transportation of scrap metals and materials	9 years	60 days	Cheque	11,750	3.4
<b>Total:</b>							<b>66,529</b>	<b>19.4</b>



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**For FY2017**

Ranking	Supplier	Location in Malaysia	Business activities	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our purchase amount	Approximate % of our total purchases
							<i>RM'000</i>	<i>%</i>
1	Hong Zhen Industries Sdn. Bhd.	Selangor	Processing and trading of rerolled metal materials	4 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	29,208	4.3
2	LSL Recycle Sdn. Bhd.	Johor	Trading of scrap metals	4 years	Due upon issue of invoices	Cheque	25,136	3.7
3	Lennor Metal Sdn. Bhd.	Selangor	Trading of scrap metals	3 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	20,339	3.0
4	Genting Matrix Sdn. Bhd.	Selangor	Trading of scrap metals	5 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	17,864	2.5
5	Westspring Metals Sdn. Bhd.	Kuala Lumpur	Trading of scrap metals, plastics, steels and the related activities	5 years	Due upon issue of invoices	Telegraphic transfer	16,460	2.4
<b>Total:</b>							<b>109,007</b>	<b>15.9</b>

## BUSINESS

### For 8M2018

Ranking	Supplier	Location in Malaysia	Business activities	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our purchase amount	Approximate % of our total purchases
							RM'000	%
1	Utama Venture Sdn. Bhd.	Labuan	Processing and trading of scrap metals	1 year	(i) 10% paid as deposit, (ii) 30% paid before the commencement of loading, (iii) 50% paid upon the issue of bill of lading and (iv) remaining 10% paid within 14 days upon receipt of goods	Telegraphic transfer	23,049	4.3
2	Lennor Metal Sdn. Bhd.	Selangor	Trading of scrap metals	3 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	19,901	3.8
3	Hong Zhen Industries Sdn. Bhd.	Selangor	Processing and trading of rerolled metal materials	4 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	19,257	3.6
4	LSL Recycle Sdn. Bhd.	Johor	Trading of scrap metals	4 years	Due upon issue of invoices	Cheque	18,743	3.5
5	Westspring Metals Sdn. Bhd.	Kuala Lumpur	Trading of scrap metals, plastics, steels and the related activities	5 years	Due upon issue of invoices	Telegraphic transfer	14,143	2.7
<b>Total:</b>							<b>95,093</b>	<b>17.9</b>

Our Directors have confirmed that none of our five largest suppliers during the Track Record Period are connected persons of our Company.

None of our Directors, their close associates, or any Shareholder (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interests in any of our five largest suppliers during the Track Record Period.

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## BUSINESS

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We have not entered into any legally binding long-term agreement with our suppliers. To the best knowledge of our Directors, it is an industry norm not to enter into legally binding long-term agreements with suppliers in the scrap material trading industry.

### **Payment to our suppliers**

In the case of Direct Delivery Sales, our suppliers present their invoice together with the scrap receipt notes issued by our customers to us, and we arrange for payment by cheque or telegraphic transfer accordingly.

In the case of Scrapyard Sales, based on payment vouchers and weighing tickets issued by us, it is our policy that (a) our suppliers which are generally small in scale may collect cash from us on the spot if the settlement amount is below RM5,000 while the remainders were all settled by way of cheque payment; or (b) our suppliers may subsequently issue invoices to us and we shall arrange for payment by cheque or telegraphic transfer accordingly. For FY2015, FY2016, FY2017 and 8M2018, purchases settled in cash amounted to RM57.0 million, RM42.0 million, RM75.0 million and RM44.1 million, representing approximately 14.7%, 12.3%, 11.0% and 8.3% of our total purchases respectively while the remainders were all settled by way of cheque payment. The number of cash purchase transactions during FY2015, FY2016, FY2017 and 8M2018 was approximately 47,000, 36,000, 47,000 and 32,000, respectively. The average value of each cash purchase during FY2015, FY2016, FY2017 and 8M2018 amounted to RM1,200, RM1,210, RM1,595 and RM1,394, respectively. According to Frost & Sullivan, it is common for small-scale suppliers to require payment in cash to facilitate their cash flow since cash settlement reduces the administrative burden of such suppliers having to present the cheque for payment and avoids the time lapse of two business days for clearing the cheque. On the other hand, our Group is in a position to bargain a more favourable buying price with our suppliers, usually 3% to 5% lower, for transactions settled in cash. We have put in place cash management policy to be followed by our employees at each of our scrapyards. We maintain a complete cash payment record, the correctness of which shall be checked by our account executive at the end of each working day. A cash count is performed by our cashiers at the end of each working day and the cash are deposited into a safe.

All payment vouchers issued and cash payment records of our scrapyards are sent to our accounting department within two working days for verification purpose. Any discrepancy in cash reconciliation or non-compliance with the cash management policy shall be immediately reported to our management.

Some of our suppliers are located far away from our steel mill customers or our scrapyards and may require longer time to deliver the scrap ferrous metals to the designated locations. To alleviate the impact of potential price fluctuation in the course of delivery, we may have to pay certain proportion of the agreed buying prices of the scrap ferrous metals prior to their arrival to the designated locations.

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### Major suppliers with a dual role as our customers

The following table sets out the details of our major suppliers with a dual role as our customers during the Track Record Period:

Name of entity	Amount of purchases by us and percentage to our total purchases	Products purchased by us	Amount of sales by us and percentage to our total revenue	Products sold by us	Gross profit from sales to our suppliers and gross profit margin
LSM Metal Ace Sdn. Bhd.	FY2015: RM14.8 million (3.8%) FY2016: RM9.0 million (2.6%) FY2017: RM11.2 million (1.6%) 8M2018: RM4.4 million (0.8%)	Scrap ferrous metal	FY2015: RM9,000 (0.0%) FY2016: RM45,000 (0.0%) FY2017: RM304,000 (0.0%) 8M2018: Nil	Scrap ferrous metal	FY2015: RM800 (8.3%) FY2016: RM4,000 (8.4%) FY2017: RM22,000 (7.3%) 8M2018: N/A
Sai Maas Hardware Trading	FY2015: RM14.3 million (3.7%) FY2016: RM4.8 million (1.4%) FY2017: RM7.5 million (1.1%) 8M2018: RM4.3 million (0.8%)	Scrap ferrous metal	FY2015: RM8,000 (0.0%) FY2016: Nil FY2017: Nil 8M2018: Nil	Scrap ferrous metal	FY2015: RM700 (8.3%) FY2016: N/A FY2017: N/A 8M2018: N/A
Hong Zhen Industries Sdn. Bhd.	FY2015: RM11.9 million (3.1%) FY2016: RM15.9 million (4.7%) FY2017: RM29.2 million (4.3%) 8M2018: RM19.3 million (3.6%)	Scrap ferrous metal	FY2015: RM268,000 (0.1%) FY2016: RM13,000 (0.0%) FY2017: Nil 8M2018: Nil	Scrap ferrous metal	FY2015: RM22,000 (8.3%) FY2016: RM1,000 (8.4%) FY2017: N/A 8M2018: N/A

The above sales transactions related to incidental transactions of ancillary scrap ferrous metals sold by us to our major suppliers at their request in order to fulfill their need. Our Directors have confirmed that during the Track Record Period (a) all transactions with the above major suppliers were conducted on normal commercial terms; and (b) the products we purchased from the above major suppliers were not sold back to them subsequently.

### Sensitivity analysis of average gross margin

For details of the sensitivity analysis of average gross margin for our scrap materials, please refer to the paragraph headed “Financial information — Description and discussion of the major components of the combined statements of comprehensive income — Gross profit and gross profit margin — Sensitivity analysis of average gross margin for all scrap materials” of this prospectus.

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### OUR LOGISTIC ARRANGEMENT

As at the Latest Practicable Date, we had 33 trucks in use for our collection and delivery of scrap materials, among which, 18 were trucks with laden weight of 20 tonnes or above. As at the Latest Practicable Date, the remaining useful life of our 33 trucks were as follows:-

	<b>Fully depreciated</b>	<b>Remaining useful life of one year</b>	<b>Remaining useful life of three years</b>	<b>Remaining useful life of four years</b>	<b>Remaining useful life of five years</b>
Number of trucks ( <i>Note</i> )	20	4	3	3	3

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*Note:* The trucks are depreciated over a five-year useful life.

In addition, we place collection skips at the sites designated by our scrap ferrous metal suppliers to facilitate their disposal and separation of scrap ferrous metals. Such collection skips are collected by us from the sources of scrap ferrous metals. Our logistic team communicates continuously with our sourcing team in arranging delivery services for our suppliers. Besides, our logistic team delivers our scrap materials from our scrapyards to our customers. We prioritise to deliver scrap materials from our suppliers with our fleet of trucks. If our trucks are serviced at full capacity, we may engage external logistic service providers for the delivery. For FY2015, FY2016, FY2017 and 8M2018, our transportation costs payable to external services providers amounted to approximately RM2.4 million, RM1.1 million, RM2.4 million and RM2.1 million, respectively.

### INVENTORY

Our inventory comprises scrap materials stored at our scrapyards. Our inventory remained at a relatively low level at RM1.7 million, RM2.0 million, RM8.5 million and RM12.1 million as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 August 2018, respectively. For FY2015, FY2016, FY2017 and 8M2018, our inventories turnover days was 1.6 days, 1.9 days, 2.8 days and 4.7 days, respectively. Please refer to the paragraph headed “Financial Information — Selected items in the combined statements of financial position — Inventories” of this prospectus for details of our inventories and inventories turnover days.

#### Inventory control measures

We have implemented inventory control measures to track both inflow and outflow of scrap materials in each of our scrapyards.

For incoming scrap materials, after measuring the weight delivered by the trucks of our suppliers, we issue weighing tickets to our suppliers specifying the weight of the accepted scrap materials. The volume of accepted scrap materials shall then be recorded by us at our scrapyards.

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For outgoing scrap materials, after measuring the weight prior to delivery to our end customers, we issue weighing tickets specifying the weight of the scrap materials to be delivered. The volume of scrap materials delivered by our trucks shall then be recorded by us at our scrapyards.

We have maintained records to track the daily inflow and outflow of scrap materials in each of our scrapyards. Our management monitors the inflow and outflow of scrap materials in each of our scrapyards from time to time.

### **Provision for inventory obsolescence**

During the Track Record Period, we had not made any provision for inventory obsolescence since our inventory is not susceptible to obsolescence by the passage of time.

### **OUR SOURCING TEAM**

Our sourcing team, headed by Mr. Sia 4 and Mr. Sia 5, consists of seven experienced members each of whom having an average of eight years of experience in the scrap ferrous metal industry. Through their daily contact with our major scrap ferrous metal suppliers in different states in Malaysia, our sourcing team is responsible for feeding us on the information such as daily supply volume of our scrap ferrous metal suppliers and the latest market prices of scrap materials in Malaysia. Our sourcing team is also responsible for giving notification of our latest buying price to our major scrap ferrous metal suppliers as soon as there is any change in price. Please refer to the paragraphs headed “Risk Factors — Risks relating to our business — Any fluctuation in steel selling prices resulting in the decrease in the procurement price of scrap ferrous metals offered by our customers could adversely affect our business, financial condition and results of operations” and “Risk Factors — Risks relating to our industry — Our business and operations could be adversely affected by a decline in steel prices” of this prospectus for details of the risk on fluctuations of the market prices of scrap ferrous metals and the paragraph headed “Customers — Pricing” in this section for details of our pricing mechanism. Our sourcing team constantly liaises with our logistic team in arranging delivery services for our suppliers.

Our sourcing team visits our suppliers across Malaysia from time to time to ascertain whether they face any delivery difficulty or machinery shortage in supplying scrap materials to us. Our sourcing team brings up the problems faced by our suppliers to our management and we use our best endeavour to assist our suppliers. For example, we may provide them with processing machinery if needed so that their daily trading operations are not affected. Our sourcing team also explores new sources of supply of scrap materials by visiting factories and constructions sites across Malaysia and overseas.

### **CUSTOMERS**

Our customers for scrap ferrous metals are mainly steel mills which rely on our Group for a stable and ample supply of scrap ferrous metals. Our customers for used batteries and waste paper are mainly lead smelting plants and paper mills, respectively. During the Track Record Period, save for PT. Lautan Steel Indonesia, all the scrap materials were sold to our customers in Malaysia.

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Generally, in the scrap ferrous metal trading industry, the steel mills do not place orders with scrap ferrous metal providers on a daily basis. Instead, the steel mills inform us of their target procurement quantity and their latest procurement price as determined and adjusted from time to time in response to the changes in the operating environment. We then deliver and sell the scrap ferrous metals to the steel mills at the agreed procurement price according to our planned schedule. For the avoidance of doubt, there is no commitment on both sides in terms of the quantity of scrap ferrous metals purchased or supplied.

However, in November 2018, we entered into a framework agreement with Alliance Steel (M) Sdn. Bhd. for supplying scrap ferrous metals to them. Alliance Steel (M) Sdn. Bhd. is a new comer in the steel industry in Malaysia and is owned by an entity based in the PRC. The steel mill operated by Alliance Steel (M) Sdn. Bhd. is part of the Belt and Road Initiative. For details about Alliance Steel (M) Sdn. Bhd., please refer to the paragraph headed “Customers — Analysis of our sustainability — Sales to other steel mills” in this section. In order to have a guaranteed supply of scrap metals for its production needs, Alliance Steel (M) Sdn. Bhd. preferred to have a framework agreement with us in relation to the supply of scrap ferrous metals. Pursuant to such agreement, our Group was committed to sell, and Alliance Steel (M) Sdn. Bhd. was committed to buy, 7,000 tonnes of scrap ferrous metals at a prescribed procurement price on a monthly basis. Failure to sell the committed volume of scrap ferrous metals is subject to liquidated damages of RM20 per tonne for the undelivered quantity falling short of the committed volume. On the other hand, Alliance Steel (M) Sdn. Bhd. offered us incentives in the event that the amount of scrap ferrous metals supply exceeds 7,000 tonnes per month.

For FY2015, FY2016, FY2017 and 8M2018, we had two, two, two and five steel mill customers for whom we acted as their approved scrap metal provider, respectively.

For FY2015, FY2016, FY2017 and 8M2018, our revenue from sales attributable to our largest customer amounted to approximately RM379.1 million, RM306.3 million, RM607.6 million, and RM453.9 million, respectively, representing approximately 88.2%, 81.0%, 82.2% and 79.8% of our total revenue, respectively, while our revenue from sales attributable to our five largest customers in aggregate amounted to approximately RM423.8 million, RM360.7 million, RM719.0 million and RM548.9 million, respectively, representing approximately 98.7%, 95.3%, 97.2% and 96.5% of our total revenue, respectively.

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The following table sets out the background information on our five largest customers for the periods indicated:

### For FY2015

Ranking	Customer	Location in Malaysia	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our revenue amount	Approximate % of our total revenue
						RM'000	%
1	The Lion Companies <sup>(Note 1)</sup>	Selangor/Johor	9 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	379,082 <sup>(Note 2)</sup>	88.2
2	Customer A <sup>(Note 3)</sup>	Selangor	8 years	Due upon issue of invoices	Cheque/ Telegraphic transfer	32,737	7.6
3	Upp Pulp & Paper (M) Sdn. Bhd.	Selangor	8 years	15 days	Cheque/ Telegraphic transfer	8,192	1.9
4	Customer B	Selangor	10 years	30 days	Cheque	2,706	0.6
5	Huat Lai Paper Products Sdn. Bhd.	Melaka	5 years	30 days	Cheque	1,113	0.3
Total:						<u>423,830</u>	<u>98.7</u>

#### Notes:

- On 7 June 2018, Mr. Sia 4 disposed of 100,000 shares (representing approximately 0.01% of the total issued shares) of Lion Industries Corporation Berhad in the ordinary course of trading on Bursa Malaysia Securities Berhad and has since then ceased to have any interest in the Lion Companies.
- Revenue attributable to Lion Companies includes (a) sales transactions invoiced directly to the Lion Companies; and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies. Please refer to the paragraph headed “Customers — Our settlement with the Lion Companies” in this section for further details of the Trading Companies. For FY2015, sales transaction invoiced to the Lion Companies and to the designated Trading Company amounted to approximately RM279,533,000 and RM99,549,000, respectively.
- From 30 September 2015 to 14 April 2016, Mr. Sia 4, through a 50% owned entity, held 50.96% interest in Customer A. Mr. Sia 4 disposed of his interest in Customer A as (a) Customer A incurred loss in 2015; (b) Customer A was managed by its minority shareholder; and (c) the MNA Group, being one of our five largest customers for FY2016, FY2017 and 8M2018, approached Mr. Sia 4 to acquire his interest in Customer A as part of its plan of mergers and acquisitions of lead production facilities in Malaysia. Our Directors have confirmed and the Sole Sponsor has concurred, after reviewing the rates of comparable transactions conducted by Customer A with its other suppliers, those transactions with Customer A had been conducted on an arm’s length basis and on normal commercial terms.
- Please refer to the paragraph headed “Detailed background and business activities of our five largest customers” in this section for detailed background and business activities of our five largest customers during the Track Record Period.



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### For FY2016

Ranking	Customer	Location in Malaysia	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our revenue amount	Approximate % of our total revenue
						RM'000	%
1	The Lion Companies <sup>(Note 1)</sup>	Selangor/Johor	9 years	Due upon issue of invoices	Cheque/Telegraphic transfer	306,345 <sup>(Note 2)</sup>	81.0
2	The MNA Group	Negeri Sembilan	7 years	Due upon issue of invoices	Cheque/Telegraphic transfer	43,068	11.4
3	Upp Pulp & Paper (M) Sdn. Bhd.	Selangor	8 years	15 days	Cheque/Telegraphic transfer	5,658	1.5
4	Customer A <sup>(Note 3)</sup>	Selangor	8 years	Due upon issue of invoices	Cheque/Telegraphic transfer	3,406	0.9
5	Established Metal Industries Sdn. Bhd.	Selangor	4 years	Due upon issue of invoices	Cheque/Telegraphic transfer	2,204	0.6
<b>Total:</b>						<b>360,681</b>	<b>95.3</b>

#### Notes:

- On 7 June 2018, Mr. Sia 4 disposed of 100,000 shares (representing approximately 0.01% of the total issued shares) of Lion Industries Corporation Berhad in the ordinary course of trading on Bursa Malaysia Securities Berhad and has since then ceased to have any interest in the Lion Companies.
- Revenue attributable to Lion Companies includes (a) sales transactions invoiced directly to the Lion Companies; and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies. Please refer to the paragraph headed “Customers — Our settlement with the Lion Companies” in this section for further details of the Trading Companies. For FY2016, sales transactions invoiced to the Lion Companies and to the designated Trading Company amounted to approximately RM143,661,000 and RM162,684,000, respectively.
- From 30 September 2015 to 14 April 2016, Mr. Sia 4, through a 50% owned entity, held 50.96% interest in Customer A. Mr. Sia 4 disposed of his interest in Customer A as (a) Customer A incurred loss in 2015; (b) Customer A was managed by its minority shareholder; and (c) the MNA Group, being one of our five largest customers for FY2016, FY2017 and 8M2018, approached Mr. Sia 4 to acquire his interest in Customer A as part of its plan of mergers and acquisitions of lead production facilities in Malaysia. Our Directors have confirmed and the Sole Sponsor has concurred, after reviewing the rates of comparable transactions conducted by Customer A with its other suppliers, those transactions with Customer A had been conducted on an arm’s length basis and on normal commercial terms.
- Please refer to the paragraph headed “Detailed background and business activities of our five largest customers” in this section for detailed background and business activities of our five largest customers during the Track Record Period.

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### For FY2017

Ranking	Customer	Location in Malaysia	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our revenue amount <i>RM'000</i>	Approximate % of our total revenue %
1	The Lion Companies <sup>(Note 1)</sup>	Selangor/Johor	9 years	Due upon issue of invoices	Cheque/Telegraphic transfer	607,613 <i>(Note 2)</i>	82.2
2	The MNA Group	Negeri Sembilan	7 years	Due upon issue of invoices	Cheque/Telegraphic transfer	89,551	12.1
3	Central Malaya Paper Sdn. Bhd.	Selangor	4 years	15 days	Telegraphic transfer	8,629	1.2
4	Singa Trading (Malaysia) Sdn. Bhd.	Selangor	2 year	15 days	Telegraphic transfer	6,814	0.9
5	TWT Hardware Sdn. Bhd.	Selangor	1 year	Due up on issue of invoices	Cheque/Telegraphic transfer	6,392	0.8
<b>Total:</b>						<b>718,999</b>	<b>97.2</b>

#### Notes:

- On 7 June 2018, Mr. Sia 4 disposed of 100,000 shares (representing approximately 0.01% of the total issued shares) of Lion Industries Corporation Berhad in the ordinary course of trading on Bursa Malaysia Securities Berhad and has since then ceased to have any interest in the Lion Companies.
- Revenue attributable to Lion Companies includes (a) sales transactions invoiced directly to the Lion Companies; and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies. Please refer to the paragraph headed “Customers — Our settlement with the Lion Companies” in this section for further details of the Trading Companies. For FY2017, sales transaction invoiced to the Lion Companies and to the designated Trading Companies amounted to approximately RM340,828,000 and RM266,785,000, respectively.
- Please refer to the paragraph headed “Detailed background and business activities of our five largest customers” in this section for detailed background and business activities of our five largest customers during the Track Record Period.

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### For 8M2018

Ranking	Customer	Location in Malaysia	Approximate years of business relationship with us as at the Latest Practicable Date	Credit terms	Payment method	Our revenue amount	Approximate % of our total revenue
						RM'000	%
1	The Lion Companies <sup>(Note 1)</sup>	Selangor/Johor	9 years	Due upon issue of invoices	Cheque/Telegraphic transfer	453,859 <sup>(Note 2)</sup>	79.8
2	The MNA Group	Negeri Sembilan	7 years	Due upon issue of invoices	Cheque/Telegraphic transfer	60,127	10.5
3	Alliance Steel (M) Sdn. Bhd.	Pahang	Less than 1 year	Due upon issue of invoices	Telegraphic transfer	18,499	3.3
4	Central Malaya Paper Sdn. Bhd.	Selangor	4 years	15 days	Telegraphic transfer	10,203	1.8
5	Established Metal Industries Sdn. Bhd.	Selangor	4 years	Due upon issue of invoices	Cheque/Telegraphic transfer	6,254	1.1
<b>Total:</b>						<b>548,942</b>	<b>96.5</b>

#### Notes:

- On 7 June 2018, Mr. Sia 4 disposed of 100,000 shares (representing approximately 0.01% of the total issued shares) of Lion Industries Corporation Berhad in the ordinary course of trading on Bursa Malaysia Securities Berhad and has since then ceased to have any interest in the Lion Companies.
- Revenue attributable to Lion Companies includes (a) sales transactions invoiced directly to the Lion Companies; and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies. Please refer to the paragraph headed “Customers — Our settlement with the Lion Companies” in this section for further details of the Trading Companies. For 8M2018, sales transaction invoiced to the Lion Companies and to the designated Trading Companies amounted to approximately RM205,507,000 and RM248,352,000, respectively.
- Please refer to the paragraph headed “Detailed background and business activities of our five largest customers” in this section for detailed background and business activities of our five largest customers during the Track Record Period.

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Save for Lion Industries and Customer A, none of our Directors, their close associates, or any Shareholder (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interests in any of our five largest customers during the Track Record Period.

Our Directors have confirmed that other than Customer A, none of our five largest customers during the Track Record Period are connected persons of our Company.

### Detailed background and business activities of our five largest customers

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

Customer	Detailed background and business activities
The Lion Companies	Please refer to the paragraph headed “Background of the Lion Companies” in this section.
Customer A <sup>(Note)</sup>	Customer A has been engaged in the production of alloy and pure lead ingots in Malaysia since 1995 with production capacity of approximately 30,000 tonnes per year.
UPP Pulp & Paper (M) Sdn. Bhd.	UPP Pulp & Paper (M) Sdn. Bhd. is engaged in the manufacture and sales of paper products. It is a subsidiary of Avarga Limited (formerly known as UPP Holdings Limited), being a company listed on the Main Board of Singapore Exchange Limited with stock code U09.
Customer B <sup>(Note)</sup>	Customer B is engaged in the manufacture and sales of iron and aluminium die casting products. It is held by a leading producer of consumer electronics in Japan.
Huat Lai Paper Products Sdn. Bhd.	Huat Lai Paper Products Sdn. Bhd. is engaged in the manufacture of egg trays. It is a subsidiary of Huat Lai Resources Berhad, which was incorporated in 1994 and was one of the leading producers of commercial table eggs and poultry in Malaysia.

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*Note:* The identities of Customer A (contributing 7.6% and 0.9% of the total revenue of our Group for FY2015 and FY2016, respectively) and Customer B (contributing 0.6% of the total revenue of our Group for FY2015) are not disclosed as they declined our request to disclose their identities. Customer A and Customer B are, in terms of revenue contribution, relatively insignificant as compared to the Lion Companies. Our Malaysian Legal Advisers are of the view that our Company may face a real risk of legal dispute or a litigation suit by such customers if our Company proceeds to disclose their identities in this prospectus in the absence of their respective consents. Having regard to the risk of legal dispute which our Company may face, the possible negative impact on the business relationship with Customer A and Customer B and the aforesaid disclosure of other background information on such customers, our Directors are of the view that sufficient information which is necessary to enable an investors to make an informed assessment of our business has been disclosed in this prospectus notwithstanding the non-disclosure of the identities of the above customers.

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The MNA Group	The MNA Group is a group of companies engaged in the production and trading of lead, material recovery of secondary lead and plastic and reclamation from scrap batteries and other related rejects. It has been engaged in the manufacture of local automotive batteries in Malaysia since 1967.
Established Metal Industries Sdn. Bhd.	Established Metal Industries Sdn. Bhd. is engaged in the manufacture of steel bars and metal fabrication in Malaysia with annual capacity of 290,000 tonnes. It is located in the state of Selangor.
Central Malaya Paper Sdn. Bhd.	Central Malaya Paper Sdn. Bhd. is engaged in the manufacture of paper products. It is a subsidiary of Muda Holdings Berhad, being a company listed on the Main Market of Bursa Malaysia Securities Berhad with stock code 3883.
Singa Trading (Malaysia) Sdn. Bhd.	Singa Trading (Malaysia) Sdn. Bhd. is one of the largest paper merchants in Malaysia specialising in the import and export of various grades and sizes of paper and boards. It was established over 40 years ago and has diversified its business to include paper manufacturing, paper converting, logistics and warehousing.
TWT Hardware Sdn. Bhd.	TWT Hardware Sdn. Bhd. is a company engaged in the trading of hardware and metallic materials in Malaysia and has an operating history of over 30 years.
Alliance Steel (M) Sdn. Bhd.	Alliance Steel (M) Sdn. Bhd. is located in Kuantan in the state of Pahang and is engaged in the production of high-speed wire rod, bars and H beam with an annual production capacity of approximately 3.5 million tonnes. It was founded in 2014 and is held by a PRC limited liability company principally engaged in the investment of projects in relation to the production and sales of iron and steel products.

### Customer credit risk monitoring

We assess and determine our customers' credit limit according to our internal credit management policy. Further, we have subscribed for the services from a Malaysian credit and business information bureaus such that our management shall receive alerts concerning adverse changes to the credit worthiness of our customers such as lawsuits.

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### Major customers with a dual role as our suppliers

The following table sets out the details of our major customers with a dual role as our suppliers during the Track Record Period:

Name of entity	Amount of sales by us and percentage to our total revenue	Products sold by us	Amount of purchases by us and percentage to our total purchases	Products purchased by us	Gross profit from sales of our purchased products from our customer and gross profit margin
The Lion Companies	FY2015: RM379.1 million (88.2%) <i>(Note)</i>	Scrap ferrous metal	FY2015: Nil		FY2015: N/A
	FY2016: RM306.3 million (81.0%) <i>(Note)</i>		FY2016: RM1.8 million (0.5%)	Steel product residues	FY2016: RM-0.1 million (-7.1%)
	FY2017: RM607.6 million (82.2%) <i>(Note)</i>		FY2017: RM0.9 million (0.1%)	Steel product residues	FY2017: RM25,000 (2.8%)
			FY2017: RM9.1 million (1.3%)	Steel bar	FY2017: RM-0.3 million (-3.3%)
Customer B	8M2018: RM453.9 million (79.8%) <i>(Note)</i>		8M2018: RM1.3 million (0.2%)	Steel product residues	8M2018: RM10,000 (0.7%)
	FY2015: RM2.7 million (0.6%)	Scrap ferrous metal	FY2015: RM204,000 (0.1%)	Scrap ferrous metal	FY2015: RM18,000 (8.3%)
	FY2016: RM1.7 million (0.5%)		FY2016: RM56,000 (0.0%)		FY2016: RM5,000 (8.4%)
	FY2017: RM1.0 million (0.1%)		FY2017: RM30,000 (0.0%)		FY2017: RM2,000 (7.3%)
	8M2018: RM1.1 million (0.2%)		8M2018: RM30,000 (0.0%)		8M2018: RM2,000 (6.3%)

*Note:* Amount of sales by us includes (a) sales transactions invoiced directly to the Lion Companies; and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies.

The above purchase transactions with the Lion Companies included some incidental purchases of steel production residues amounting to RM1.8 million, RM0.9 million, and RM1.3 million in FY2016, FY2017 and 8M2018, respectively. Besides, we attempted to start a new business line on the trading of steel bars we sourced from the Lion Companies, which amounted to RM9.1 million for FY2017. However, since the trading result was not satisfactory and that we suffered loss from the trading, we dropped this new business line in June 2017.

The above purchase transactions with the Customer B related to incidental transactions. As Customer B happened to possess and offer such scrap ferrous metals, which were of the product type we sourced, and were offered at a price commercially viable, we sourced such scrap ferrous metals from Customer B.

### Our business relationship with the Lion Companies

To the best knowledge of our Directors after making all reasonable enquiries, there are three approved scrap metal providers of the Lion Companies and that we are one of such approved scrap metal providers. We have maintained our business relationship with the Lion Companies for over 9 years. For FY2015, FY2016, FY2017 and 8M2018, our revenue from sales attributable to the Lion Companies in aggregate amounted to approximately RM379.1 million, RM306.3 million, RM607.6 million and RM453.9 million, respectively, representing approximately 88.2%, 81.0%, 82.2% and

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79.8% of our total revenue, respectively. To the best knowledge of our Directors, our sales to Lion Industries accounted for approximately 62%, 57% and 62% of the total purchase volume of domestic scrap ferrous metals of Lion Industries for FY2015, FY2016 and FY2017. Despite the substantial revenue contribution by the Lion Companies during the Track Record Period, our Directors consider that the reliance is mutual between our Group and the Lion Companies in terms of the business relationship as the Lion Companies rely on us to (a) reduce the potential liquidity risk if they source the scrap ferrous metals directly from the small-scale traders, (b) enjoy a stable and high-volume supply of scrap ferrous metals for their steel mills' smooth production, and (c) relieve their administrative burden for handling numerous small-scale suppliers.

### *Background of the Lion Companies*

Lion Companies form part of a conglomerate known as the Lion Group which was first established in the 1930s and has its operations in Malaysia, China, Singapore, Indonesia, Vietnam, Hong Kong, Cambodia, Myanmar and US as at the Latest Practicable Date. Its principal business includes retail, property development, mining, steel, agriculture and computer sectors.

The Lion Group has (a) three companies listed on the Main Market of Bursa Malaysia Securities Berhad, namely Lion Forest Industries Berhad (stock code: 8486), Lion Industries Corporation Berhad (i.e. Lion Industries) (stock code: 4235) and Parkson Holdings Berhad (stock code: 5657); (b) two companies listed on the Main Board of Singapore Exchange Limited, namely Lion Asiapac Limited (stock code: BAZ) and Parkson Retail Asia Limited (stock code: O9E); and (c) one company listed on the Main Board of the Stock Exchange, namely Parkson Retail Group Limited (stock code: 3368) and provides employment for more than 17,500 people. The revenue of the Lion Group amounted to RM15,763 million for the year ended 30 June 2017.

The steel mill operations of the Lion Group are managed under Lion Industries, which is principally engaged in the manufacturing and marketing of steel products and, to a very small extent, property management, trading and distribution of building materials and other steel products. We sold scrap ferrous metals to two steel mills managed under Lion Industries during the Track Record Period. According to Frost & Sullivan, the market share of Lion Industries was estimated to be approximately 21%, 25% and 30% of the total production volume of crude steel in Malaysia for 2015, 2016 and 2017, respectively.

For the three years ended 30 June 2017, the revenue of Lion Industries amounted to RM2,782.4 million, RM2,514.9 million and RM2,667.5 million, respectively, while it recorded loss after tax of RM287.9 million and RM905.8 million for the two years ended 30 June 2016, respectively, and profit after tax of RM113.5 million for the year ended 30 June 2017. Dumping of steel products from the PRC has led to depressed steel price and squeezed operating margin of steel mills in Malaysia. Lion Industries shut down certain production lines in the face of the unfavourable business environment and as a result, Lion Industries incurred significant loss in 2015 and 2016.

As at 30 September 2017, Tan Sri Cheng Heng Jem was the ultimate controlling shareholder of Lion Industries, holding approximately 31.85% direct interest thereof.

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As at the Latest Practicable Date and to the best knowledge of our Directors, in addition to our Group, Lion Industries had two other approved scrap metal providers (with business relationships of over 15 years and one year with Lion Industries, respectively) which together accounted for approximately 38%, 43% and 38% of the total purchase volume of domestic scrap ferrous metals of Lion Industries for FY2015, FY2016 and FY2017, respectively. To the best knowledge of our Directors, Lion Industries did not sign any long-term agreement with any of its approved scrap metal providers.

### *Incentive Scheme*

In order to incentivise us to supply scrap ferrous metals in larger quantities, apart from Alliance Steel (M) Sdn. Bhd., the Lion Companies also offer us incentives by raising the procurement price on a progressive tiered scale for different quantity brackets.

### **Analysis of our sustainability**

Notwithstanding that the majority of our revenue during the Track Record Period was mainly attributable to the Lion Companies, our Directors consider that our business is sustainable for the following reasons:

#### **(a) *Industry practice of the scrap metal industry***

According to Frost & Sullivan, in Malaysia, it is common for steel mills to engage a few large-scale scrap ferrous metal traders as their approved consolidated points of contact (known as approved scrap metal providers) to reduce the administrative burden of having to deal with numerous suppliers. Further, to ensure there is sufficient supply of the feedstock for its operation, the steel mill may offer incentive to encourage its approved scrap metal providers in prioritising their supply to it. Therefore, it is common for an approved scrap metal providers, for the purpose of maximising its profitability through earning the incentive from the steel mill, to supply scrap metals as much as possible to the relevant steel mill.

#### **(b) *Overall prospects of the scrap metal trading industry***

According to Frost & Sullivan, following the expected decrease in PRC steel production capacity and the implementation of protective measures for domestic steel industry by the Malaysian government, crude steel production in Malaysia is expected to increase at a CAGR of 10.2% from 2018 to 2022, which, in turn, will drive the demand of scrap ferrous metal to fulfill the increase in steel production and consequently lead to business growth in the scrap ferrous metal trading market.

Furthermore, the domestic supply of scrap metal has not been sufficient to satisfy the demands from steel mills and the imported scrap metals have been used to fill the shortfall, though they incur higher transportation than domestic scrap metals. Hence, given the commodity nature of scrap metals, and the assured market demand for domestic supply of scrap metals, suppliers can easily identify alternative buyers if needed.



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### (c) *Sales to other steel mills*

Since the beginning of 2018, we have expanded our steel mill customer base from two to five. The new customers are Alliance Steel (M) Sdn. Bhd., PT. Lautan Steel Indonesia, and Customer C.

#### *Background of the new customers*

Alliance Steel (M) Sdn. Bhd. was established in 2014 by a PRC limited liability company principally engaged in the investment of projects in relation to the production and sales of iron and steel products. The steel mill is located in the state of Pahang, the east coast of Peninsular Malaysia. The steel mill operated by Alliance Steel (M) Sdn. Bhd. is the first project (with total investment of RM4.2 billion) in the Malaysia-China Kuantan Industrial Park to build a competitive iron and steel enterprise under the cooperation between the Malaysian and the Chinese government and the Belt and Road Initiative. Alliance Steel (M) Sdn. Bhd. has an annual production capacity of 3.5 million tonnes of steel products per annum for export and domestic use in Malaysia. Alliance Steel (M) Sdn. Bhd. commenced its operations in March 2018. To the best knowledge of our Directors, the monthly shortfall of the supply of scrap ferrous metal of Alliance Steel (M) Sdn. Bhd. was approximately 30,000 tonnes per month for November 2018 and such shortfall was satisfied by the utilisation of higher proportion of iron ore as raw materials in its operations which incurred higher production costs. For 8M2018, our sales of scrap ferrous metals to Alliance Steel (M) Sdn. Bhd. amounted to RM18.5 million which further increased to RM28.0 million (involving approximately 20,000 tonnes of scrap ferrous metals) for the three months ended 30 November 2018. In view of the large production and operation scale of Alliance Steel (M) Sdn. Bhd. and its revenue contribution to our Group for the eleven months ended 30 November 2018, we intend to expand our geographical footprint to the east coast of Peninsular Malaysia to better serve this customer. To be able to secure more scrap ferrous metals locally, particularly for supplying to this customer, we intend to utilise HK\$10.5 million or 11.1% of the net proceeds of the Share Offer to set up a scrapyard with an annual processing capacity of 72,000 tonnes and a total land area of approximately 10,000 sq. m. in the state of Pahang. For details, please refer to the paragraph headed “Business strategies — Set up a new scrapyard in the state of Pahang on the east coast of Peninsular Malaysia” in this section.

Given the large production and operation scale of Alliance Steel (M) Sdn. Bhd., its significant demand for scrap ferrous metals to fulfill its steel production and the insufficient domestic supply of scrap ferrous metals to satisfy its demand, this new customer is reliant on large-scale scrap ferrous metal traders to ensure stable supply of the feedstock for its operations. Our Directors are of the view that given:

- (i) our leading position as the top scrap ferrous metal trader in Malaysia; and
- (ii) our comparative advantages: (a) our capital base which facilitates us to settle trades readily with our suppliers who often prefer to trade with buyers possessing the financial resources; (b) the nationwide supplier base of feeder yards we established over the year; (c) the extensive operational expertise and in-depth industry knowledge of our management and sourcing team to strengthen our supplier network; (d) the strategic location of our scrapyards in areas where the availability of scrap ferrous metals can be assured, and (e)

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our fleet of trucks to respond to the logistics needs of our small and medium-sized suppliers, which in turn develop their loyalty to supply scrap ferrous metals to us. For details of our competitive strengths, please refer to the paragraph headed “Competitive strengths” in this section.

We should be able to source sizeable volume of scrap ferrous metals and win recurring orders from Alliance Steel (M) Sdn. Bhd.

PT. Lautan Steel Indonesia is a well-established steel producer in Indonesia, with a working staff of over 1,000 employees and covering a site area of 260,000 sq. m. We started to export scrap ferrous metals to this customer in June 2018 after the Malaysian government has granted scrap ferrous metal export permit to us. But, more importantly, the procurement price paid by PT. Lautan Steel Indonesia was more competitive than those offered by our existing customers. For 8M2018, our sale to PT. Lautan Steel Indonesia amounted to RM5.4 million, accounting for 1.1% of our revenue attributable to sale of scrap ferrous metals.

Customer C has an annual production capacity of 0.7 million tonnes and its steel mill is located in the state of Terengganu. The steel mill was temporarily closed due to the difficult steel market conditions in previous years but reopened in mid-2018. We started to supply scrap ferrous metals to this customer in August 2018 and sold RM0.8 million worth of goods to it.

In view of our heavy reliance on the Lion Companies, our management understands the importance of expanding our customer base and will continue to make efforts to do so. However, at the same time, in order to maximise our revenue, we would mainly choose to sell scrap ferrous metals to the customers who can offer us the highest price. Therefore, the Lion Companies remained to account for a very significant portion, though on a decreasing trend, of our revenue attributable to sale of scrap ferrous metals as we increased our number of steel mill customers from two to five.

Nevertheless, taking into account the foregoing nature of the scrap metal industry particularly the fact that the demand from steel mills outstrips the domestic supply of scrap ferrous metals, anticipated growth in steel and scrap ferrous metals industry, the commodity nature of the scrap ferrous metals and our efforts in expansion of client base in the event that the Lion Companies reduce or cease to purchase from us, our Directors are of the view that our business will continue to be sustainable in the future.

### **Pricing**

The value of scrap ferrous metals in the market to a large extent is dictated by the steel mills. Steel mills determine and adjust their procurement prices from time to time in response to the changes in the operating environment. Having been informed by steel mills of their procurement price, we work out our optimal buying price, to secure the required quantity of scrap ferrous metals on one hand, and to maximise the gross margin we can earn on the other hand. In addition, we communicate with steel mills regularly to ensure that they are aware of the latest market situation, in particular price, supply and demand on scrap materials.

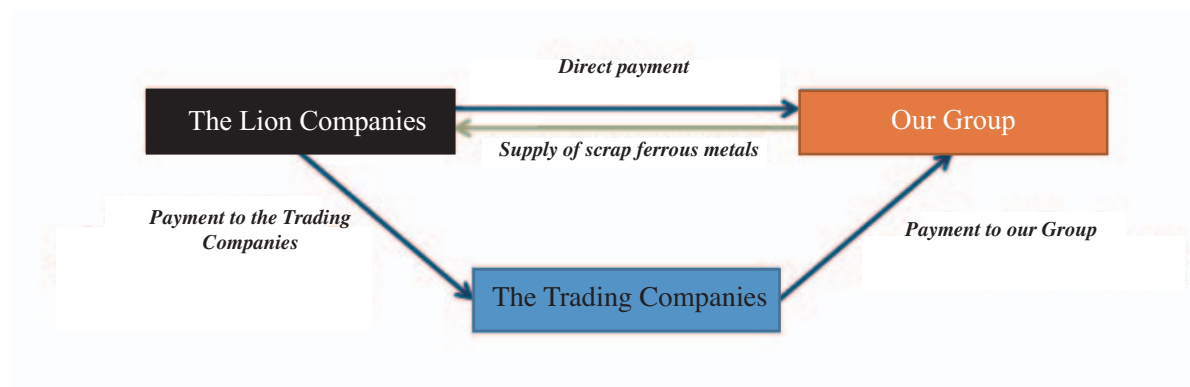
Similar pricing policy also applies to our trading business of used batteries and waste paper.

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### Our settlement with the Lion Companies



As part of the Lion Companies' cash management planning, the Lion Companies introduce independent Trading Companies to settle their purchases with us directly from time to time, on shorter terms as compared to the terms on which Lion Companies would normally settle with us. During the Track Record Period, the Lion Companies brought in two Trading Companies, being Trading Company A<sup>(Note)</sup> and Itochu Malaysia Sdn. Bhd.. Trading Company A is a well-established Malaysian trading company and forms part of a conglomerate in Malaysia with business focuses covering minerals and mining, hotel, resort and spa, manufacturing, and trading of various products. Itochu Malaysia Sdn. Bhd. is an international trading house and forms part of a conglomerate known as Itochu Corporation, being one of the largest globally integrated corporations that has grown over 150 years with approximately 130 bases in 65 countries and operations that cover a broad spectrum of industries. The business area of Itochu Malaysia Sdn. Bhd. covers machinery, metals and minerals, chemical and plastics, foods and general merchandise.

Revenue attributable to the Lion Companies includes (a) sales transactions invoiced directly to the Lion Companies; and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies. For FY2015, FY2016, FY2017 and 8M2018, sales transaction invoiced to the Trading Companies amounted to approximately RM99.5 million, RM162.7 million, RM266.8 million and RM248.4 million, representing approximately 23.2%, 43.0%, 36.1% and 43.7% of our total revenue (or 26.3%, 53.1%, 43.9% and 54.7% of the total revenue attributable to the Lion Companies), respectively.

Our Directors have confirmed that save for the two Trading Companies brought in by the Lion Companies, our Group has not adopted similar third party payment arrangement with any other customers, and to the best knowledge of our Directors, the Lion Companies had also engaged third party trading company to settle with other approved scrap metals providers via the same payment arrangement. As confirmed by Frost & Sullivan, this is a common industry practice for sizeable steel

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*Note:* The identity of Trading Company A is not disclosed as it declined our request to disclose its identity. Our Malaysian Legal Advisers are of the view that our Company may face a real risk of legal dispute or a litigation suit by such company if our Company proceeds to disclose its identity in this prospectus in the absence of its consent. Having regard to the risk of legal dispute which our Company may face, the possible negative impact on the business relationship with Trading Company A and the Lion Companies and the aforesaid disclosure of other background information on such company, our Directors are of the view that sufficient information which is necessary to enable an investors to make an informed assessment of our business has been disclosed in this prospectus notwithstanding the non-disclosure of the identity of the above company.

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mills to have third party trading companies to settle scrap ferrous metals purchases on their behalf. In addition, based on the understanding obtained from the Trading Companies that they also enter into similar settlement arrangements with other steel mills in Malaysia, the Sole Sponsor concurs with the above view expressed by Frost & Sullivan.

### *Benefits of the settlement arrangement with the Trading Companies*

Steel production from raw materials to finished steel products takes time. The tenor of credit term for the Lion Companies to pay us depends on how fast the Lion Companies can move its inventory and its own cash flow position. On the other hand, we trade with our suppliers on a deal by deal basis and the buying price of the scrap materials are usually settled with our suppliers upon physical delivery or shortly afterwards, leading to a mismatch between our trade receivables turnover days and our trade payable turnover days. Therefore, if we plan to increase our sales volume, we need to have additional working capital or to have our customer to settle its purchases on shorter credit terms.

As a result, the Lion Companies from time to time bring in the Trading Companies to settle their purchases with us directly on their behalf and the Trading Companies pay us on shorter credit terms than that of the Lion Companies. Such settlement arrangement provides an additional source of credit to the Lion Companies on the one hand, whilst enabling us to recover our trade receivables earlier so that we can have the working capital to increase our business volume with the Lion Companies on the other hand. For FY2015, FY2016, FY2017 and 8M2018, the trade receivables turnover days of the Lion Companies (taking into account the sales transaction invoiced to the Lion Companies only) were 80.8, 173.3, 68.9 and 66.1 days, respectively, whilst that of the Trading Companies were 9.0, 17.0, 13.7 and 10.5 days, respectively. As a result, we can turn around to deploy such cash flow to source scrap ferrous metals in order to increase the trading volume with the Lion Companies. The procurement price of scrap ferrous metals offered by the Trading Companies and the Lion Companies are the same. As such, our Directors consider that this settlement arrangement is beneficial to both of the Lion Companies and us, and we intend to continue such settlement arrangement going forward so long as such arrangement is preferred by the Lion Companies.

Under the settlement arrangement, the Trading Companies will place a purchase order with our Group, which constitutes a contractual relationship between both parties. Our Group will then deliver scrap ferrous metals to the Lion Companies at a designated location as instructed by the Trading Companies. Our Group's obligations shall be fully discharged upon the delivery of scrap ferrous metals, and the Trading Companies shall settle the transaction with us accordingly and have no legal rights to seek any refund from our Group thereafter. On the other hand, the Lion Companies would subsequently settle with the Trading Companies for such purchases with a mark-up mutually agreed by both parties to reflect the net income accrued to the Trading Companies in this arrangement.

### *Legal and tax implications under Malaysian law*

As advised by our Malaysian Legal Advisers, this settlement arrangement is in compliance with the applicable laws, rules and regulations in Malaysia, including the foreign exchange related laws,

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rules and regulations, as (a) all the relevant payments under this settlement arrangement are made in Malaysia; and (b) to the best knowledge of our Malaysian Legal Advisers, there is no provision in the relevant laws, rules and regulations in Malaysia, whether expressly or impliedly, that prohibits such settlement arrangement.

In addition, as the sales to the Trading Companies and the Lion Companies are subject to the same procurement price and applicable tax rate, our Malaysian Legal Advisers consider and the Sole Sponsor concurs that there is no tax implications under the applicable laws, rules and regulations in Malaysia as the tax expenses incurred with or without the settlement arrangement is the same.

### PRODUCT RETURN AND WARRANTY

On arrival of the scrap materials at the locations designated by our end customers, our end customers shall inspect the quality and quantity of such scrap materials. In case we receive a complaint from our customer, the matter will be referred to our management to follow up and to resolve it to our customer's satisfaction. During the Track Record Period, we had not experienced any material customer complaint, product recall or product liability claim. We do not offer any product return or product warranty after our sales.

### INSURANCE

We have insurance policies which are necessary to our operations, including insurance against fire, fidelity, business (money in transit and in premises), public liability and theft/burglary.

We do not have product liability insurance for the scrap materials we sell as it is not required under Malaysian law. During the Track Record Period, we had not experienced any material product liability claim. After taking into consideration the costs and benefits of taking out product liability insurance, our Directors consider that our existing policy coverage is adequate and is in line with the industry norm. Please refer to the paragraph headed "Risk Factors — We may not have sufficient insurance coverage for our potential losses and liabilities" of this prospectus for the relevant risk.

### RESEARCH AND DEVELOPMENT MATTERS

During the Track Record Period, we had not engaged in any research and development activity.

### HEALTH AND WORK SAFETY

We have established procedures for enhancing health and work safety of our employees. The aforesaid procedures cover the following areas:

- (a) General safety rules
- (b) Electrical safety
- (c) Welding and oxyacetylene cutting

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- (d) Compressed gas cylinders
- (e) Fire prevention
- (f) Overhead cranes and lifting equipment
- (g) Forklifts
- (h) Machine safety
- (i) Hand tools
- (j) Powered tools
- (k) Safety on using of ladders
- (l) Procedures to make accident report

Please refer to the paragraph headed “Regulations — Environmental, safety and health — Occupational Safety and Health Act 1994” of this prospectus for details of the applicable Malaysian laws, rules and regulations concerning health and work safety of our employees.

In October 2016, a fire broke out at part of the Melaka Scrapyard I, being our scrapyard of waste paper at that time, due to an electrical short-circuit of electric wiring (the “**Fire Incident**”). Our processing machinery, documents and accounting related documents were destroyed while there was no casualty of our employees. The operations of the Melaka Scrapyard I was suspended for about three weeks. Our processing of waste paper has been carried out at the Melaka Scrapyard II after the Fire Incident.

The Fire Incident was reported to the police authority and our insurance company promptly. The amount of property, plant and equipment written off and the loss of inventory in relation to the Fire Incident amounted to RM184,000 and RM370,000, respectively, which was not fully covered by the insurance compensation of approximately RM453,000 we received. After the Fire Incident, we have implemented the following measures to prevent the recurrence of similar incident:

- (a) we have installed additional hydrants and stationed water supply vehicles at our scrapyards for any emergency; and
- (b) we have fire drill training to our employees.

During the Track Record Period and up to the Latest Practicable Date, save for the Fire Incident, there had been no material accidents in the course of our operations, and there had been no material claims for personal or property damage and no compensation paid to our employees in relation to accidents arising out of and in the course of their employment. There had been no material interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months.

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### SOCIAL AND ENVIRONMENTAL

Due to the nature of our business that only sorting, bundling and shredding are involved in our processing, our Group does not generally generate industrial pollutants and had not incurred any cost of compliance with applicable Malaysian environmental protection laws, rules and regulations during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, our Group had no material non-compliance issue in respect of any applicable Malaysian environmental protection laws, rules and regulations. As advised by our Malaysian Legal Advisers, our Directors do not expect any environmental issue in relation to the scrapyards where our Group carries out processing.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had registered a number of trademarks in Malaysia and Hong Kong. Please refer to the paragraph headed “B. Further information about our business — 2. Intellectual property rights” in Appendix VI to this prospectus for details of our trademarks.

During the Track Record Period and up to the Latest Practicable Date, there had been no material dispute or infringement of our trademarks by third parties, nor had we infringed any trademarks and patents owned by third parties.

### EMPLOYEES

As at the Latest Practicable Date, we had a total of 109 employees with various job functions in our scrapyards and office in Malaysia. The following table sets out an analysis of our employees by functions:

	<b>As at the Latest Practicable Date</b>
Logistics	34
Processing	31
Finance	13
Administration	10
Sales and procurement	8
Quality control	13
<b>Total</b>	<b>109</b>

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### **Relationship with our employees**

Our management considers our employees as key assets which play a pivotal role in our continuous growth. It is our policy to maximise the potential of our employees through training and development. We provide a series of training and development programmes including in-house workshops and external training programmes covering various aspects of safety and emergency procedures. Our employee training and development aim at equipping our employees with the knowledge and skills necessary to perform their job functions and enhance their capability.

We have a recruitment policy in place to maintain a fair and effective recruitment procedure. Under such policy, we normally recruit employees with the appropriate skills, both technical and personal, in order to meet our current and future needs and to ensure that the employees appointed are qualified and competent to carry out the duties.

We have always maintained a good working relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, none of our employees was member of any labour union, nor was there any labour dispute involving us.

### **Employee benefits**

Our employees are entitled to participate in the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix VI to this prospectus.

We have complied with the contribution obligation of the employees provident fund in accordance with Malaysian law. The employees provident fund provides a convenient framework for employers to meet their statutory and moral obligations to their employees. The amount of contribution is calculated based on the monthly wage/salary of an employee. For employees who receive wage/salary of RM5,000 and below, the portion of employee’s contribution is 11% of their monthly wage/salary while the employer contributes 13%. For employees who receive wage/salary exceeding RM5,000, the employee’s contribution of 11% remains, while the employer’s contribution is 12%.

To recognise the contribution of our Directors and senior management personnel, it is intended that a maximum of 5% of the profit before tax may be paid to our Directors and senior management personnel each year as discretionary bonus.



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### PROPERTIES

As at the Latest Practicable Date, we owned the following premises:

Location	Registered proprietor	Type and tenure of ownership	Expiry date of tenure	Building/ Land area (approximate sq.m.)	Current status	Intended usage
HSD 180940, PT 148, Pekan Subang, Daerah Petaling, Selangor, Malaysia (the “Self-Use Property 1”)	HH Metal	Leasehold for 60 years	3 September 2063	9,105	Vacant land	Plan to convert the land into industrial land for scrapyards after the commencement of operation of the Self-Use Property 2 as scrapyards
PM 4274, Lot 43698, Pekan Baru Subang, Tempatan Kampung Baru Subang, Daerah Petaling, Selangor, Malaysia (the “Self-Use Property 2”)	HH Metal	Leasehold for 60 years	3 August 2049	6,889	Vacant land	As expansion of the existing Selangor Scrapyard. Please refer to the paragraph headed “Business strategies — Expansion of our scrapyards in Selangor” in this section for details
PN 54168, Lot 19466, Mukim Cheng, Daerah Melaka Tengah, Melaka, Malaysia (the “Self-Use Property 3”)	HH Hardware	Leasehold for 99 years	14 August 2096	13,355	Vacant land	Land converted into industrial land. Plan to operate as scrapyards in 2021
GM 225, Lot 236 and GM 226, Lot 237, both in Mukim Bukit Rambai, Daerah Melaka Tengah, Melaka, Malaysia (the “Investment Property 1”)	HH Metal	Freehold	Not applicable	16,451	Vacant land	No current plan to convert into industrial land. At the discretion to hold as investment or utilise as scrapyards depending on the future property market condition
GRN 333528, Lot 87545, Mukim Rawang, Daerah Gombak, Selangor, Malaysia (the “Investment Property 2”)	HH Metal	Freehold	Not applicable	5,391	Vacant land	No current plan to convert into industrial land. At the discretion to hold as investment or utilise as scrapyards depending on the future property market condition

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Location	Registered proprietor	Type and tenure of ownership	Expiry date of tenure	Building/ Land area (approximate sq.m.)	Current status	Intended usage
D-34-11 @ Parisien Tower — I City on that piece of land held under the master title Geran 311884, Lot 16964, Seksyen 7, Bandar Shah Alam, Daerah Petaling, Selangor, Malaysia (the “Investment Property 3”)	HH Metal	Freehold	Not applicable	71.40	Vacant land	At the discretion to hold as investment or utilise as staff quarter depending on the property market condition

The Self-Use Property 1, the Self-Use Property 2 and the Self-Use Property 3 are held by our Group for our own use. Based on the most recent audited combined statements of financial position of our Group as at 31 August 2018, as the carrying amount of our interest in each of the Self-Use Property 1, the Self-Use Property 2 and the Self-Use Property 3 is below 15% of our total assets, we are not required to include a valuation report of our interest in the Self-Use Property 1, the Self-Use Property 2 and the Self-Use Property 3 in this prospectus pursuant to Rules 5.01A(2) and 5.01B(2) of the Listing Rules.

The Investment Property 1, the Investment Property 2 and the Investment Property 3 are held by our Group for investment purpose. Based on the most recent audited combined statements of financial position of our Group as at 31 August 2018, as the carrying amount of our interest in each of the Investment Property 2 and the Investment Property 3 is below 1% of our total assets, while that in the Investment Property 1 is above 1% of our total assets, we are only required to include a valuation report of our interest in the Investment Property 1 in this prospectus pursuant to Rules 5.01A(1) and 5.01B(1) of the Listing Rules.

As the valuation report which relates to our interest in the Investment Property 1 and complies with section 6(3)(a) and (b) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice is set out in Appendix IV to this prospectus, and an overview specified in section 6(5) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice with respect to our interest in the Self-Use Property 1, the Self-Use Property 2, the Self-Use Property 3, the Investment Property 2 and the Investment Property 3 is set out above, this prospectus is exempted from compliance with the 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 require a valuation report with respect to all our Group’s interests in land or buildings.

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As at the Latest Practicable Date, we rented the following premises:

Location	Landlord	Tenant	Building/ Land area <i>(approximate sq.m.)</i>	Key terms of tenancy	Usage
<b>Melaka Scrapyard I</b>					
GM 28, Lot 694, Mukim Cheng, Daerah Melaka Tengah, Melaka, Malaysia	Independent third party	HH Paper (Melaka)	5,993	Tenancy term expiring on 30 September 2019 at monthly rent of RM12,000 <i>(Note)</i>	Storage, production and office
PM 14, Lot 695, Mukim Cheng, Melaka, Malaysia	Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5	HH Hardware	5,105	Tenancy term expiring on 28 February 2019 at a monthly rent of RM10,000 <i>(Note)</i>	Storage, production and office
<b>Melaka Scrapyard II</b>					
PN 20151, Lot 4862, Mukim Cheng, Melaka, Malaysia	Mr. Sia 5	HH Paper (Melaka)	1,436	Tenancy term expiring on 25 October 2019 at a monthly rent of RM3,800 <i>(Note)</i>	Storage, production and office
<b>Selangor Scrapyard</b>					
PN 92794, Lot 43181 and PN 92795, Lot 37589, Pekan Baru Subang, Daerah Petaling, Selangor, Malaysia	Independent third party	HH Metal	13,189	Tenancy term expiring on 30 November 2020 at a monthly rent of RM17,500	Storage, production and office
<b>Johor Scrapyard</b>					
GM 3418, Lot 8742, Mukim Sungai Terap, Daerah Muar, Johor, Malaysia	Independent third party	HH Metal (Johor)	10,710	Tenancy term expiring on 28 February 2019 at a monthly rent of RM3,200 <i>(Note)</i>	Storage, production and office
<b>Office</b>					
HSD 145288, PT 71159, Mukim Kapar, Daerah Klang, Selangor, Malaysia	Independent third party	HH Metal	2,203	Tenancy term expiring on 30 June 2019 at a monthly rent of RM12,000	Office

*Note:* Our Directors have obtained understanding from the respective owner that the relevant tenancy will be renewed for a further three years upon their expiry.

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On 19 February 2019, a tenancy agreement was entered into between Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5 as landlords and HH Hardware as tenant in respect of the tenancy of PM14, Lot 695, Mukim Cheng, Melaka, Malaysia, i.e. part of the Melaka Scrapyard I. Please refer to the paragraph headed “Connected Transactions — Exempt continuing connected transactions — (a) Tenancy agreement in respect of the tenancy of part of the Melaka Scrapyard I by HH Hardware” of this prospectus for details of the such tenancy arrangement.

On 19 February 2019, a tenancy agreement was entered into between Mr. Sia 5 as landlord and HH Paper (Melaka) as tenant in respect of the tenancy of PN 20151, Lot 4862, Mukim Cheng, Melaka, Malaysia, i.e. the Melaka Scrapyard II. Please refer to the paragraph headed “Connected Transactions — Exempt continuing connected transactions — (b) Tenancy agreement in respect of the tenancy of the Melaka Scrapyard II by HH Paper (Melaka)” of this prospectus for details of such tenancy arrangement.

### COMPLIANCE MATTERS

#### Non-compliance incident No. 1

During the Track Record Period, there was an incident of our non-compliance with the by-laws made under the SDBA as follows:

Nature and extent of the non-compliance incident:	No temporary permits were obtained in respect of movable structures (i.e. containers used as our offices) located at (a) the Melaka Scrapyard I and the Melaka Scrapyard II; (b) the Selangor Scrapyard; and (c) the Johor Scrapyard, as required under the by-laws made under the SDBA.
Reason for the non-compliance:	The non-compliance was due to the lack of the relevant knowledge of our staff in charge of our scrapyard on the requirements of the by-laws in relation to movable structures.
Legal consequence and penalty:	We could be fined for a statutory fine of RM1,000 for the non-compliance and could be ordered by the Magistrate’s Court of Malaysia on application of the local authority to remove such movable structures.
Rectification action taken and measures adopted by our Group to prevent re-occurrence of the non-compliance and ensure continuing compliance:	In January 2018, temporary permits for the movable structures erected on the Melaka Scrapyard I, the Melaka Scrapyard II and the Johor Scrapyard were obtained by us. In August 2018, we relocated our office for the Selangor Scrapyard to new premises with building certificate.

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Given (a) the above rectification actions implemented; and (b) the advice of our Malaysian Legal Advisers that they were verbally confirmed by the competent officer of the relevant local authorities that it is unlikely that the relevant local authorities would take any actions against our Group for the past non-compliance when we had subsequently obtained the temporary permits, our Directors are of the view that the non-compliance incident will not have any material adverse impact on our business operations and financial results.

We have established policies and procedures to govern the setting up a new scrapyards. Our Directors will ensure all the licences, permits and certifications are obtained before the commencement of operation of a new scrapyards.

We have engaged and will continue to retain our Malaysian Legal Advisers to advise us on the Malaysian legal and regulatory requirements applicable to our business operations and will seek legal advice where necessary.

### Non-compliance incident No. 2

Prior to the Track Record Period, there was an incident of our non-compliance with the ITA which had been rectified by us in early 2015 as follows:

Nature and extent of the non-compliance incident:

In 2015, our taxable income was assessed by the Director of Inland Revenue of Malaysia (the “**MIRB**”) as having been understated by approximately RM13.9 million for the years of tax assessment from 2011 to 2013 (each YA2011, YA2012 and YA2013) prior to the Track Record Period.

Reason for the non-compliance:

We engaged accounting staff and tax agents (which are local tax advisory firms in Malaysia) to handle the preparation and review of our accounts and tax returns for filing with the MIRB. Heavy reliance was placed by us on the professional advice and services of the accounting staff and tax agents engaged in the handling of our tax compliance matters and in ensuring that our tax returns filed were in compliance with the ITA.

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Malaysia adopts the self-assessment system whereby upon the submission of tax return to the MIRB by an enterprise, the tax return submitted is deemed to be a notice of assessment served by the MIRB on that enterprise on the date that the tax return is submitted. In consequence of subsequent differences in view taken by our tax agents with those of the MIRB, the MIRB took the view that there had been an understatement of our taxable income contained in our tax returns filed for the years of tax assessment from 2011 to 2013. The differences in view were mainly attributable to the following in relation to transactions which were transacted close to the end of the relevant year of tax assessment in question:

- (a) understatement of the revenue derived from the Incentive Scheme for YA2013 by recognising such revenue at the time when we invoiced a customer in the year of tax assessment 2014, which, based on the view of the MIRB, should have been recognised in YA2013 when our goods sold were delivered to the customer;
- (b) disallowing our claim of cost of trading goods sold (in the form of accrued incentive payment to our suppliers) for each of the YA2011, YA2012 and YA2013 which, based on the view of the MIRB, should have been recognised in subsequent year of tax assessment when we were invoiced by our suppliers or able to demonstrate such costs have been incurred; and
- (c) understatement of our inter-company sales for YA2013 by recognising such sales in the year after the year of assessment in which they were recognised as purchases by our Group company.

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Legal consequence and penalty:

We were charged with and had paid a penalty of approximately RM1.57 million to the MIRB apart from payment of tax of approximately RM3.5 million which had been understated.

We entered into several settlement agreements with the MIRB dated 30 October 2015 in respect of the full settlement of the above tax liabilities and penalty of approximately RM5.07 million. Pursuant to sections 112 and 113 of the ITA, our Company shall not be liable to be charged on the same fact and the same offence once the payment is settled. Accordingly, no further liabilities arise from this incident.

We were advised by our Malaysian Legal Advisers that the settlement agreements with the MIRB in respect of the penalty are legally valid, effective and enforceable under the Malaysian laws and that the above payments were in full discharge of all our liabilities under the ITA in consequence of the understatement of our taxable income. No further provision was therefore made in our accounts in respect of the non-compliance incident.

Rectification action taken and measures adopted by our Group to prevent re-occurrence of the non-compliance and ensure continuing compliance:

We had rectified the non-compliance incident since 2015 in the preparation of our financial statements and tax return for the financial year 2014 and onwards. The tax agents engaged by our Group to handle the preparation of tax return has adopted the same approaches as those taken and adopted by the MIRB. We have also since the non-compliance incident retained a new qualified accounting staff in early 2015 in handling the preparation and review of our financial statements and tax returns before submission to the MIRB.

As the years of tax assessments were relating to 2011 to 2013 (which were before the Track Record Period) notwithstanding that the settlement agreements were finalised in year 2015, the tax adjustments and penalty payments were charged to the profit or loss in the respective companies' financial statements in the corresponding financial years and the cumulative impact has been included in the opening balance of the retained earnings as of 1 January 2015.

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We were further advised by our Malaysian Legal Advisers that (a) to the best of their knowledge, there was no element of fraud, wilful default or dishonesty involved in the non-compliance incident as had it been otherwise, prosecution would have been instituted by the MIRB against our Group or our Directors instead of allowing payment of the above penalty and the tax understated; (b) our Group has no record of similar non-compliance incident or tax related non-compliance incident ever since the above non-compliance incident; (c) there is no existing, pending or threatened tax disputes with the MIRB involving our Group nor all or any of our Directors; and (d) none of the members of our Group nor all or any of our Directors have been convicted of any offence involving fraud, wilful default or dishonesty.

We have recently appointed an international tax firm in managing and advising us on the many tax compliance requirements in connection with the preparation of our financial statements and tax returns.

On the basis of the above, our Directors are of the view that, and the Sole Sponsor concurs:

- (a) our Directors are suitable to act as directors of our Company under Rules 3.08 and 3.09 of the Listing Rules and we and our business are suitable for listing under Rule 8.04 of the Listing Rules as the non-compliance incident (i) did not involve any element of fraud, wilful default or dishonesty on the part of our Directors; (ii) did not involve deliberate intent on the part of our Directors or any member of our Group not to comply with the relevant requirements of the Malaysian laws, rules and regulations; and (iii) does not cast doubt on the integrity or competence of our Directors nor their suitability to act as our Directors; and
- (b) our internal controls, which had been adopted since 2015, are adequate and effective in preventing recurrence of similar non-compliance incident.

## LITIGATION OR CLAIMS

As at the Latest Practicable Date, no member of our Group was subject to any actual, pending or threatened litigation or claims of material importance which would have a material impact on our operations, financials and reputation.

## TRANSFER PRICING ARRANGEMENT

For the sake of administrative convenience and to reduce the administrative burden of having to deal with numerous market participants, the Lion Companies strictly controls the number of its approved scrap metal provider accounts as consolidated points of contact. As such, for trading of scrap ferrous metals, only HH Metal and HH Hardware, which trade significant volume of scrap ferrous metals with the Lion Companies, maintain approved scrap metal provider accounts at the Lion Companies for the ease of supplier management. Any company of our Group without such scrap metal provider account, such as HH Metal (Johor) which trade relatively insignificant volume of scrap ferrous metals with the Lion Companies, has to sell scrap ferrous metals sourced by it to either HH Metal or HH Hardware before HH Metal or HH Hardware on sell those scrap ferrous metals to the Lion Companies.



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Similarly, for the sake of administrative convenience and to reduce the administrative burden of having to deal with numerous market participants, for trading of waste paper, only HH Paper (Melaka) and HH Paper, which trade significant volume of waste paper with our paper mill customers, maintain waste paper supplier accounts at their respective paper mill customers for the ease of supplier management. Any group company of our Group without such supplier account, such as HH Hardware which trade relatively insignificant volume of waste paper with our paper mill customers, has to sell waste paper sourced by it to HH Paper (Melaka) or HH Paper before HH Paper (Melaka) or HH Paper on sell those waste paper to their respective paper mill customers.

The aforementioned transactions (a) sale of scrap ferrous metals from HH Metal (Johor) to either HH Metal or HH Hardware before HH Metal or HH Hardware on sell those scrap ferrous metals to the Lion Companies; and (b) sale of waste paper from HH Hardware to either HH Paper (Melaka) or HH Paper before HH Paper (Melaka) or HH Paper on sell those waste paper to the respective paper mill customers, are regarded as intragroup transactions (the “**Intragroup Transactions**”), and are subject to transfer pricing related laws and guidelines in Malaysia. Further, in accordance with the Transfer Pricing Guidelines issued by MIRB, when an entity with gross income exceeding RM25 million (the “**Gross Income Threshold**”) and the transactions entered into by entities managed by the same persons exceeding RM15 million (the “**Transaction Threshold**”), such entity is required to maintain transfer pricing documentation. Such transfer pricing documentation includes organisation structure, financial report, nature of business/ industry and market conditions, nature of the Intragroup Transactions, etc. As such, whilst all our Group companies involved in the aforesaid Intragroup Transactions, including HH Metal, HH Hardware, HH Metal (Johor), HH Paper (Melaka) and HH Paper, are subject to transfer pricing related laws and guidelines in Malaysia, only HH Metal and HH Metal (Johor) are required to maintain transfer pricing documentation as they are the only Group companies exceeding both the Gross Income Threshold and the Transaction Threshold in FY2017.

We have engaged Baker Tilly Monteiro Heng Tax Services Sdn. Bhd. as our tax advisers, to prepare the documentation in relation to the transfer pricing for HH Metal and HH Metal (Johor). After seeking the views of our Malaysian Legal Advisers and our tax advisers, our Director have confirmed that the transfer pricing arrangement has complied with the relevant laws, rules and regulations in Malaysia on the basis that (a) our Group’s transfer pricing policies and the transfer pricing documentation were prepared by our tax advisers based on the standard as required under the relevant transfer pricing guidelines, laws, rules and regulations in Malaysia; and (b) our tax adviser has further confirmed that the transfer pricing arrangement can be concluded to be on an arm’s length basis from the Malaysian transfer pricing perspective.

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

We have engaged an independent internal control consultant to conduct an internal control review to evaluate the overall adequacy and effectiveness of our system of internal controls in conjunction with the Listing by identifying inherent process risks and related key controls in the areas of review; testing key controls to ensure controls are operating effectively and consistently; analysing and evaluating findings, identifying any opportunities for improvement in controls; and reviewing the overall control environment where there is a significant amount of implementation lapses.

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As a result of the review of our internal control measures over financial reporting by our internal control consultant, we identified certain areas in our internal control system, policies and procedures that require improvements. Our Directors considered that none of these issues were material. Our internal control consultant subsequently completed a follow up review to review the status of the rectification actions taken by our Group. The work performed and the follow up review in July 2018 did not identify any material internal control deficiencies.

### **Risk management and internal control**

Our Directors believe that effective risk management is crucial to our business. We are exposed to various types of risks during the course of our business operations. Key operational risks we face include the following:

- (a) we depend heavily on the performance of steel and steel consuming industries in Malaysia. If the scrap ferrous metal trading market in Malaysia does not continue to grow, grows more slowly than expected or declines, our business, financial condition and results of operations could be adversely affected;
- (b) as a significant portion of our revenue is generated from the sales attributable to the Lion Companies, any downturn of the business, closure of any steel mills, slight decline in the demand for scrap ferrous metals from the Lion Companies or financial difficulties of the Lion Companies could have an adverse impact on our business, financial condition and results of operations;
- (c) one of our competitive strengths lies in our nationwide supplier base of scrap materials. If we fail to purchase stable and high-volume supply of scrap materials to satisfy the demand of our customers, our reputation, business, financial condition and results of operations could be adversely affected;
- (d) our failure to obtain financing to pursue our growth and to remain competitive could adversely affect our prospects; and
- (e) if our Group is unable to maintain our net profit margin or compete successfully against other market players, our business, financial condition and results of operations may be adversely affected.

Please refer to the section headed “Risk Factors” of this prospectus for details of the various risks and uncertainties we face.

In addition, we face foreign exchange risk, interest rate risk, credit risk and liquidity risk. Please refer to note 3.1 to the accountant’s report set out in Appendix I to this prospectus for details.

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In order to practise effective risk management, we have in place or are in the course of adopting the following measures:

- (a) our Company has established an audit committee consisting only of our independent non-executive Directors to review our financial controls, risk management and internal control systems. Please refer to the paragraph headed “Directors and Senior Management — Directors” of this prospectus for the backgrounds of the members of our audit committee;
- (b) our management closely monitors our foreign exchange risk exposure and we will consider to enter into foreign currency forward contract should the need arise;
- (c) we only transact with reputable commercial banks which are all high-credit-quality financial institutions in order to manage the credit risk arising from cash and bank deposits;
- (d) our management monitors rolling forecasts of our liquidity requirements to ensure that we have sufficient cash to meet our operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we will not breach borrowing limits or covenants (where applicable) on any of our borrowing facilities. Such forecast takes into consideration our debt financing plans, covenant compliance, compliance with internal combined statements of financial position ratio targets and, if applicable, external regulatory or legal requirements, such as currency restrictions; and
- (e) we assess and determine our customers’ credit limit according to our internal credit management policy to minimise our customer credit risk. Further, we have subscribed for the services from a Malaysian credit and business information bureaus such that our management will receive alerts concerning adverse changes to the credit worthiness of our customers such as lawsuits.

### **Hedging**

We have not engaged in any hedging activity.

Our Directors consider that hedging is not practicable to our Group because our Directors are not aware of any specific forward contracts designated for scrap ferrous metals in Malaysia. While there are futures contracts for scrap ferrous metals on two major futures exchange, namely the London Metal Exchange and the New York Mercantile Exchange, the movement of the index price which the aforesaid futures are based may not be in line with the scrap ferrous metal price in Malaysia in view of the difference in, among other things, macro-economic environment, local supply and demand for scrap ferrous metals and steel products, and government policies. As such, our Directors consider that the aforesaid futures contracts may not be able to fully hedge our scrap ferrous metal position, and therefore is not an appropriate tool for hedging purpose. Our Directors are also of the view that the prices of iron and steel may not be totally in line with the scrap ferrous metal and the hedging tools of iron and steel may not be able to fully hedge our scrap ferrous metal position. Our Directors are not aware of any financial instrument in the market available to hedge the price risk of the domestic price of used batteries and waste paper.

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As a result, rather than entering into any hedge position, our management examines the market prices of scrap materials from time to time to ensure the selling prices offered to our customers and the buying prices offered to our suppliers allow sufficient spread to our Group to derive reasonable profit margin to cater for any sudden fluctuation of market prices of scrap materials.

Given our relatively short inventories turnover days of scrap materials during the Track Record Period, our Directors are of the view that fluctuations in the prices of scrap ferrous metals during such relatively short time frame would not generally be significant.

### LICENCES, PERMITS AND APPROVALS

As at the Latest Practicable Date, we had obtained all the requisite licences, permits and approvals which are material to our business operations in Malaysia. We will renew all such licences, permits and approvals upon their expiry, the renewal of which is procedural only and there is no legal impediment to renewing such licences, permits and approvals as advised by our Malaysian Legal Advisers. Please refer to the paragraph headed “Regulations — Licences, permits and approvals” of this prospectus for details.

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*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited combined financial statements for each of FY2015, FY2016, FY2017 and 8M2018 together with the accompanying notes, set out in the accountant's report in Appendix I to this prospectus. Our combined financial statements have been prepared in accordance with IFRSs. You should read the accountant's report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.*

*The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by our Company in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet the expectations and predictions of our Company depends on a number of factors over which our Company has no control. Factors that could cause or contribute to such differences included those discussed in the sections headed "Forward-Looking Statements", "Risk Factors" and "Business" of this prospectus as well as those discussed elsewhere of this prospectus.*

*Unless the context otherwise requires, financial information described in this section is described on a combined basis.*

### OVERVIEW

We are principally engaged in trading of scrap ferrous metals, used batteries and waste paper in Malaysia. Having a nationwide supplier base, certain scrapyards located nearby our steel mill customers, our own fleet of delivery trucks, and sufficient working capital, we are one of the few approved scrap metal providers of the Lion Companies and a leading scrap ferrous metal trader in Malaysia. According to Frost & Sullivan, we ranked first in the trading of scrap ferrous metals and used batteries industry in Malaysia in terms of trading volume within 2017, with a market share of 20.8% and 15.3%, respectively.

Our Group benefited from the PRC's supply-side restructuring to eliminate excess steel manufacturing capacity in 2016 and the implementation of protective measures (such as imposing additional import duties on steel products) for the domestic steel industry by the Malaysian government in April 2017, which facilitated a recovery of domestic steel industry and has thus led to greater demand for our scrap ferrous metals. Therefore, we achieved remarkable growth in our revenue and net profit since FY2017.

For FY2015, FY2016, FY2017 and 8M2018, our revenue amounted to RM429.6 million, RM378.5 million, RM739.4 million and RM568.8 million, respectively, and the profit attributable to owners of our Company amounted to RM13.6 million, RM12.1 million, RM22.8 million and RM21.6 million, respectively.

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### KEY FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and are expected to be continuously affected by a number of principal factors as described below:

#### Demand for steel products in Malaysia

For FY2015, FY2016, FY2017 and 8M2018, our revenue amounted to RM429.6 million, RM378.5 million, RM739.4 million and RM568.8 million, respectively, of which sales to steel mill customers accounted for 88.4%, 81.6%, 82.3% and 85.2% of our total revenue for the corresponding periods, respectively. Therefore, our revenue is largely influenced by the sales performance of these steel mill customers. The higher market demand for steel products these steel mill customers experience, the more scrap ferrous metals they would require to satisfy their production needs. The market demands for domestically produced steel materials is mainly influenced by factors such as the government policies in Malaysia, the import volume of steel products from the PRC and the country's economic growth.

According to Frost & Sullivan, the volume of crude steel production in Malaysia is expected to grow at a CAGR of 10.2% from 2018 to 2022. Hence, we believe the steel industry prospects will continue to provide a favourable backdrop to the development of our business. However, if there is any deterioration in the steel industry in Malaysia or any of the steel mills we are serving suffers major setback in their sales performance, our financial condition or results of operations may be adversely affected.

#### Gross margin of our scrap ferrous metal trading business

Our scrap ferrous metals trading business earned a gross margin on a per ton basis of RM79, RM78, RM97 and RM94 during the Track Record Period, respectively. Our Directors attributed such improvement in the gross margin earned to two factors: (a) the incentive scheme offered by our top steel mill customer is to encourage us to sell scrap ferrous metals in larger quantities. The procurement price the steel mill pays us is calculated under a progressive tiered scale based on different quantity brackets on a monthly basis. From time to time, the steel mill adjusts the incentive scheme in response to changes in its own operating environment. In general, on a monthly basis, the more scrap ferrous metals we sell to the steel mill, the higher the average procurement price we can fetch; and (b) the operating environment of the steel industry greatly improved in 2017 as the steel price continued to go up. As a result, steel mills could offer a higher procurement price to us with the intention to obtain their target quantity. Depending on our competitors' behaviour, in some cases, we might not need to pass on the entire increment in buying price to our suppliers.

Therefore, if the steel mill cuts back or even cancels the incentive scheme, or reduces the procurement price in response to changes in its operating environment, our gross margin and results of operations would likely be adversely affected.

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### **Our ability to secure the required quantity of scrap metals in the market**

During the Track Record Period, we were able to purchase the quantity of the scrap metals which enabled us to be the top approved scrap metal provider of the Lion Companies and to have the largest market share in terms of trading volume with steel mills. Our Directors consider that the quantity of scrap metals we can secure in the market is always a function of the buying price we pay to our suppliers. In our industry, transactions are generally done on an order-by-order basis. If we pay a buying price which is higher than our competitors, supplier would certainly be willing to sell to us first. However, this would increase our cost of purchases and reduce our profitability. Therefore, our sourcing team has to regularly find out the up-to-date rates offered by our competitors so as we can determine the buying price which works the best for us.

However, if any of our competitors, purely for the sake of squeezing out players out of the market to increase its market share, raises its buying price well above the general market rate, we may lose our market share if we do not follow to increase our buying price. On the other hand, if we are to follow, our gross margin and profitability would be adversely affected.

### **Timely settlement of trade receivables by our customers**

We need working capital to sustain our operation, as we always have to settle our purchases well before we receive the sale proceeds from the steel mills. Therefore, if there is any delay in customers settling our trade receivables, we may not have the cash flow to make purchases of scrap ferrous metals for on selling to our steel mill customers. As a result, our sales volume, revenue, and results of operations may be adversely affected.

### **Our ability to retain key customers**

For FY2015, FY2016, FY2017 and 8M2018, the revenue we derived from our top five customers accounted for 98.7%, 95.3%, 97.2% and 96.5% of our sales revenue, respectively. Revenue derived from our largest customer, accounted for 88.2%, 81.0%, 82.2% and 79.8% of our sales revenue for the corresponding periods. Our top five customers have relationships with us ranging from one to ten years, and we have established business relationship with our largest customer (i.e. the Lion Companies) for nine years.

We believe we have established stable relationship with our major customer, as a result of our ability to fulfil their purchase needs in the past. Nevertheless, most of our sales are generally concluded on an order-by-order basis. Therefore, there is no assurance that our key customers will consistently purchase scrap materials from our Group in the future. If there is any change in relationships with our key customers, our results of operations and financial condition will be materially affected.

### **Malaysian government's control and policies**

Our principal operating subsidiaries are established in Malaysia and are subject to the laws, regulations and policies of the Malaysian government. Changes in the level of government control over, and the policies applicable to, the industries in which we and our customers (such as steel mills)

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operate have a direct impact on our business. For instance, the Malaysia International Trade and Industry Ministry imposed additional import duties on steel products such as steel concrete reinforcing bar, steel wire rods and deformed bar in coils in April 2017 for three years ending in April 2020. With the implementation of these protective measures adopted by the Malaysian government, the demand for the steel materials produced in Malaysia and our scrap ferrous metals increased. However, in the event of abandonment of such protective measures in the future, our financial condition and results of operations could be adversely affected.

### BASIS OF PRESENTATION

Immediately prior to and after the Reorganisation and during the Track Record Period, the business of trading of scrap ferrous metals, used batteries, waste paper and other scraps (the “**Listing Business**”) was primarily conducted by the Heng Hup Metal, Heng Hup Paper, Heng Hup Paper (Melaka), Heng Hup Hardware and Heng Hup Metal (Johor) (collectively the “**Operating Companies**”). Pursuant to the Reorganisation, the Listing Business was transferred to and held by our Company. Our Company has not been involved in any other business prior to the Reorganisation and the transfer does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management and the ultimate owners of the Listing Business remain substantially the same. The Reorganisation is more particularly set out in the paragraph headed “History, Development and Reorganisation — Reorganisation” of this prospectus.

Accordingly, our Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under the Operating Companies. The acquisitions of the equity interests owned by the Sia Brothers in the Operating Companies through cash considerations and share swaps as described in the Reorganisation steps in the paragraph headed “History, Development and Reorganisation — Reorganisation” of this prospectus have been accounted for as recapitalisation of the single business by pooling the interests of the Sia Brothers in the Listing Business.

The non-controlling interests in the Listing Business represented equity interests other than that of the Sia Brothers. During the Reorganisation, our Group acquired these non-controlling interests in the Listing Business.

As such,

- (a) the historical financial information of our Group has been prepared and presented as a continuation of the combined financial statements of the Operating Companies, with the assets and liabilities of our Group recognised and measured at the carrying amounts of the Listing Business for all periods presented.
- (b) the excess of the cash considerations of RM56,000 over the carrying amounts of the non-controlling interests acquired during the Reorganisation have been accounted as equity transactions.

Our financial information has been prepared by including the historical financial information of the companies engaged in the Listing Business, under the common control of the Sia Brothers immediately before and after the Reorganisation and now comprising our Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of the Sia Brothers, whichever is a shorter period.



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### SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of our financial information which are in accordance with the IFRS issued by the International Accounting Standards Board are set out below. Our financial information has been prepared under the historical cost convention.

We have identified below the accounting policies that we believe are the most critical to our combined financial statements. Our significant accounting policies are set out in note 2 of the accountant's report in Appendix I to this prospectus.

We adopted a full retrospective application of IFRS 9 and IFRS 15, which were applied on a consistent basis throughout the Track Record Period. We believe that the adoption of IFRS 9 and IFRS 15, as compared to the requirements of IAS 18 and IAS 39, would not have any significant impact on our financial position and performance during the Track Record Period.

#### Revenue recognition

Revenue is recognised when or as the control of the goods is transferred to the customers, being when the goods are delivered to the customers. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statements of comprehensive income during the financial period in which they are incurred.

Depreciation on our property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated lives as follows:

Leasehold land	Over unexpired lease period between 60 to 94 years
Buildings	2%
Plant and machinery	10% - 20%
Office furniture and equipment	10% - 40%
Motor vehicles	20%
Leasehold improvements	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses), net' in the combined statements of comprehensive income.

### **Trade and other receivables**

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### **Impairment of trade and other receivables**

For trade receivables only, our Group applies the simplified approach permitted by IFRS 9, which requires to recognise the lifetime expected credit losses. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to its recognised amount is recognised in profit or loss, as an impairment loss or a reversal of an impairment loss.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of our trade receivables. Expected credit losses on our trade receivables are calculated by using the provision matrix approach. Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. Impairment on our other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Our trade and other receivables are written off (either partially or in full) when there is no reasonable expectation of recovery.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the 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 sales.

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Our cost of trading goods comprises the actual cost of purchase plus the costs of bringing the inventories to their present location and condition.

### **Assets classified as held for sale**

Non-current assets are classified as held for sale when their carrying amount are to be recovered principally through sale transactions and sales are considered highly probable. It is stated at the lower of carrying amount and fair value less costs to sell.

### **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Our Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are related to current income tax.

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Our Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

## FINANCIAL INFORMATION

### SUMMARY OF RESULTS OF OPERATIONS

The selected financial information of our audited combined statements of comprehensive income for the Track Record Period are set out in the accountant's report set out in Appendix I to this prospectus. The following table sets out our results of operations for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
	<i>(Unaudited)</i>				
Revenue	429,564	378,529	739,428	420,391	568,756
Cost of sales	(393,921)	(346,819)	(685,637)	(390,456)	(531,922)
Gross profit	35,643	31,710	53,791	29,935	36,834
Other income	252	99	1,073	510	95
Other gains/(losses), net	1,799	(554)	253	75	9,397
Distribution and selling expenses	(7,697)	(5,778)	(7,570)	(4,747)	(5,863)
Administrative expenses	(10,319)	(8,616)	(15,905)	(6,395)	(12,452)
Operating profit	19,678	16,861	31,642	19,378	28,011
Finance income	365	215	224	144	344
Finance costs	(1,443)	(1,018)	(910)	(588)	(406)
Finance costs, net	(1,078)	(803)	(686)	(444)	(62)
Profit before income tax	18,600	16,058	30,956	18,934	27,949
Income tax expense	(4,928)	(4,007)	(7,845)	(4,665)	(6,355)
Profit and total comprehensive income for the year/period	<u>13,672</u>	<u>12,051</u>	<u>23,111</u>	<u>14,269</u>	<u>21,594</u>
Profit attributable to:					
Owners of our Company	13,634	12,061	22,835	14,065	21,594
Non-controlling interests	38	(10)	276	204	—
	<u>13,672</u>	<u>12,051</u>	<u>23,111</u>	<u>14,269</u>	<u>21,594</u>

## FINANCIAL INFORMATION

### DESCRIPTION AND DISCUSSION OF THE MAJOR COMPONENTS OF THE COMBINED STATEMENTS OF COMPREHENSIVE INCOME

#### Revenue

Our Group generates revenue primarily from the sales of scrap materials, which consist of (a) scrap ferrous metals; (b) used batteries; (c) waste paper; and (d) other materials. Our total revenue decreased by RM51.1 million or 11.9% from RM429.6 million in FY2015 to RM378.5 million in FY2016, and increased by RM360.9 million or 95.4% to RM739.4 million in FY2017. Between 8M2017 and 8M2018, our revenue increased by RM148.4 million or 35.3% from RM420.4 million in 8M2017 to RM568.8 million in 8M2018.

The table below sets out the breakdown of our total revenue by product types for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2015		2016		2017		2017		2018	
	Revenue	% of our total revenue	Revenue	% of our total revenue	Revenue	% of our total revenue	Revenue	% of our total revenue	Revenue	% of our total revenue
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
							(Unaudited)			
Scrap ferrous metals	383,799	89.3	315,095	83.3	613,342	82.9	337,424	80.3	487,773	85.8
Used batteries	32,541	7.6	45,499	12.0	69,484	9.4	45,823	10.9	60,467	10.6
Waste paper	12,042	2.8	12,614	3.3	24,474	3.3	14,372	3.4	16,570	2.9
Other materials										
(Note)	1,182	0.3	5,321	1.4	32,128	4.4	22,772	5.4	3,946	0.7
<b>Total</b>	<b>429,564</b>	<b>100.0</b>	<b>378,529</b>	<b>100.0</b>	<b>739,428</b>	<b>100.0</b>	<b>420,391</b>	<b>100.0</b>	<b>568,756</b>	<b>100.0</b>

*Note:* Other materials mainly include the sale of lead and steel bars. The significant amount of other materials sold in FY2017 was mainly due to a non-recurring sale of lead to a customer of approximately RM20.1 million.

The table below sets out the volume sold and average selling price by product types for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2015		2016		2017		2017		2018	
	Average selling		Average selling		Average selling		Average selling		Average selling	
	Volume sold	price per tonne	Volume sold	price per tonne	Volume sold	price per tonne	Volume sold	price per tonne	Volume sold	price per tonne
	tonnes	RM	tonnes	RM	tonnes	RM	tonnes	RM	tonnes	RM
Scrap ferrous metals	464,955	825	375,998	838	519,069	1,182	303,921	1,110	365,386	1,335
Used batteries	12,403	2,624	14,882	3,057	18,068	3,846	12,112	3,783	15,790	3,829
Waste paper	25,357	475	22,847	552	31,770	770	19,277	746	23,535	704

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## FINANCIAL INFORMATION

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### *Scrap ferrous metals*

During the Track Record Period, scrap ferrous metals are our major products and we principally generated revenue from the sales of scrap ferrous metals to steel mills for their production. For FY2015, FY2016, FY2017, 8M2017 and 8M2018, sales of scrap ferrous metals amounted to RM383.8 million, RM315.1 million, RM613.3 million, RM337.4 million and RM487.8 million, accounting for 89.3%, 83.3%, 82.9%, 80.3% and 85.8% of our total revenue for the corresponding periods, respectively.

### *Used batteries*

For FY2015, FY2016, FY2017, 8M2017 and 8M2018, the revenue from the sales of used batteries amounted to RM32.5 million, RM45.5 million, RM69.5 million, RM45.8 million and RM60.5 million, accounting for 7.6%, 12.0%, 9.4%, 10.9% and 10.6% of our total revenue for the corresponding periods, respectively.

### *Waste paper*

For FY2015, FY2016, FY2017, 8M2017 and 8M2018, the revenue from the sales of waste paper amounted to RM12.0 million, RM12.6 million, RM24.5 million, RM14.4 million and RM16.6 million, accounting for 2.8%, 3.3%, 3.3%, 3.4% and 2.9% of our total revenue for the corresponding periods, respectively.

### *Comparison between 8M2017 and 8M2018*

#### *Total sales*

Our total revenue increased by RM148.4 million or 35.3% from RM420.4 million for 8M2017 to RM568.8 million for 8M2018.

#### *Scrap ferrous metals*

Revenue generated from sales of scrap ferrous metals increased by RM150.4 million or 44.6% from RM337.4 million for 8M2017 to RM487.8 million for 8M2018. The increase was primarily attributable to (a) the increase in sales volume of scrap ferrous metals from 303,921 tonne in 8M2017 to 365,386 tonne in 8M2018; and (b) the increase in the average selling price of scrap ferrous metals from RM1,110 per tonne in 8M2017 to RM1,335 per tonne in 8M2018.

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## FINANCIAL INFORMATION

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The increase in sales volume of scrap ferrous metals was primarily attributable to two reasons. Firstly, there was an increase in demand for the scrap ferrous metals in Malaysia in 8M2018. According to Frost & Sullivan, the volume of crude steel production in Malaysia is expected to increase from 3.7 million tonne in 2017 to 4.4 million tonne in 2018, mainly due to the continual recovery of the steel industry. Secondly, the trade receivables turnover days was shortened in 8M2018 as compared to 8M2017 (8M2018: 33.8 days, 8M2017: 43.2 days), which enhanced our capability to purchase more scrap ferrous metals from suppliers for trading purpose. The increase in average selling price of scrap ferrous metals was primarily attributable to the increase in the market price of steel products.

### *Used batteries*

Revenue generated from sales of used batteries increased by RM14.7 million or 32.1% from RM45.8 million for 8M2017 to RM60.5 million for 8M2018. The increase was primarily attributable to (a) the increase in sales volume of used batteries from 12,112 tonne in 8M2017 to 15,790 tonne in 8M2018; and (b) the increase in the average selling price of used batteries from RM3,783 per tonne in 8M2017 to RM3,829 per tonne in 8M2018. There was substantial increase in sales volume of used batteries because we had established trading relationship with few new suppliers in 2017. Thus, we were able to source more used batteries to satisfy the needs of our customers. The increase in average selling price of used batteries was generally in line with the market trend.

### *Waste paper*

Revenue generated from sales of waste paper increased by RM2.2 million or 15.3% from RM14.4 million for 8M2017 to RM16.6 million for 8M2018. The increase was primarily attributable to the increase in sales volume of waste paper from 19,277 tonne in 8M2017 to 23,535 tonne in 8M2018; partially offset by the decrease in the average selling price of waste paper from RM746 per tonne in 8M2017 to RM704 per tonne in 8M2018. The increase in sales volume was mainly attributable to the addition of few new customers in 2017. The decrease in average selling price of waste paper was generally in line with the market trend.

### ***Comparison between FY2016 and FY2017***

#### *Total sales*

Our total revenue increased by RM360.9 million or 95.4% from RM378.5 million for FY2016 to RM739.4 million for FY2017.

#### *Scrap ferrous metals*

Revenue generated from sales of scrap ferrous metals increased by RM298.2 million or 94.6% from RM315.1 million for FY2016 to RM613.3 million for FY2017. The increase was primarily attributable to (a) the increase in sales volume of scrap ferrous metals from 375,998 tonne in FY2016 to 519,069 tonne in FY2017; and (b) the increase in the average selling price of scrap ferrous metals from RM838 per tonne in FY2016 to RM1,182 per tonne in FY2017.

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## FINANCIAL INFORMATION

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The increase in sales volume of scrap ferrous metals was primarily attributable to two reasons. Firstly, there was an increase in demand for the scrap ferrous metals in Malaysia in FY2017. According to Frost & Sullivan, the volume of crude steel production in Malaysia increased from 2.8 million tonne in 2016 to 3.7 million tonne in 2017, mainly due to the reduction in steel imports resulted from the additional import duties on steel products and the PRC's supply-side restructuring to eliminate excess steel manufacturing capacity in 2016. Secondly, the trade receivables turnover days was shortened in FY2017 as compared to FY2016 (FY2017: 41.1 days, FY2016: 77.8 days), which enhanced our capability to purchase more scrap ferrous metals from suppliers for trading purpose. The increase in average selling price of scrap ferrous metals was primarily attributable to the increase in the market price of steel products.

### *Used batteries*

Revenue generated from sales of used batteries increased by RM24.0 million or 52.7% from RM45.5 million for FY2016 to RM69.5 million for FY2017. The increase was primarily attributable to (a) the increase in sales volume of used batteries from 14,882 tonne in FY2016 to 18,068 tonne in FY2017; and (b) the increase in the average selling price of used batteries from RM3,057 per tonne in FY2016 to RM3,846 per tonne in FY2017. The increase in both sales volume and average selling price of used batteries was mainly due to the fact that our Group managed to deliver more used batteries to a customer who offered us a higher price when the volume of used batteries supplied by our Group reached an agreed level.

### *Waste paper*

Revenue generated from sales of waste paper increased by RM11.9 million or 94.4% from RM12.6 million for FY2016 to RM24.5 million for FY2017. The increase was primarily attributable to (a) the increase in sales volume of waste paper from 22,847 tonne in FY2016 to 31,770 tonne in FY2017; and (b) the increase in the average selling price of waste paper from RM552 per tonne in FY2016 to RM770 per tonne in FY2017. The increase in sales volume of waste paper was mainly attributable to the addition of few new customers of waste paper in 2017. The increase in average selling price of waste paper was generally in line with the market trend.

### ***Comparison between FY2015 and FY2016***

#### *Total sales*

Our total revenue decreased by RM51.1 million or 11.9% from RM429.6 million for FY2015 to RM378.5 million for FY2016.

#### *Scrap ferrous metals*

Revenue generated from sales of scrap ferrous metals decreased by RM68.7 million or 17.9% from RM383.8 million for FY2015 to RM315.1 million for FY2016. The decrease was primarily attributable to the decrease in sales volume of scrap ferrous metals from 464,955 tonne in FY2015 to 375,998 tonne in FY2016, while the average selling price of scrap ferrous metals remained relatively stable at RM825 and RM838 for FY2015 and FY2016, respectively.



## FINANCIAL INFORMATION

The decrease in sales volume of scrap ferrous metals was primarily attributable to two reasons. Firstly, there was a decrease in demand for the scrap ferrous metals in Malaysia in FY2016. According to Frost & Sullivan, the volume of crude steel production decreased from 3.8 million tonne in 2015 to 2.8 million tonne in 2016, mainly due to the increase in steel products imported from the PRC at a competitive price. Secondly, the trade receivables turnover days was longer in FY2016 as compared to FY2015 (FY2016: 77.8 days, FY2015: 59.2 days), which diminished our capability to purchase more scrap ferrous metals from suppliers for trading purpose.

### *Used batteries*

Revenue generated from sales of used batteries increased by RM13.0 million or 40.0% from RM32.5 million for FY2015 to RM45.5 million for FY2016. The increase was primarily attributable to (a) the increase in sales volume of used batteries from 12,403 tonne in FY2015 to 14,882 tonne in FY2016; and (b) the increase in the average selling price of used batteries from RM2,624 per tonne in FY2015 to RM3,057 per tonne in FY2016. The increase in both sales volume and average selling price of used batteries was mainly attributable to the commencement of selling our used batteries to a new customer since April 2016, who offered us a higher price when the volume of used batteries supplied by our Group reached an agreed level.

### *Waste paper*

Revenue generated from sales of waste paper remained relatively stable at RM12.0 million and RM12.6 million in FY2015 and FY2016, respectively.

### **Cost of sales**

Cost of sales primarily consist of (a) cost of trading goods sold; (b) direct labour costs; and (c) direct overhead costs.

The following table sets out the breakdown of our cost of sales for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2015		2016		2017		2017		2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
							(Unaudited)			
Cost of trading goods sold	388,980	98.8	342,116	98.6	679,679	99.1	386,778	99.1	527,791	99.2
Direct labour costs	1,630	0.4	1,554	0.5	2,254	0.3	1,351	0.3	1,565	0.3
Direct overhead costs	3,311	0.8	3,149	0.9	3,704	0.6	2,327	0.6	2,566	0.5
<b>Total</b>	<b>393,921</b>	<b>100.0</b>	<b>346,819</b>	<b>100.0</b>	<b>685,637</b>	<b>100.0</b>	<b>390,456</b>	<b>100.0</b>	<b>531,922</b>	<b>100.0</b>

Cost of trading goods sold mainly represents the purchase costs of our scrap materials. For FY2015, FY2016, FY2017, 8M2017 and 8M2018, cost of trading goods sold amounted to RM389.0 million, RM342.1 million, RM679.7 million, RM386.8 million and RM527.8 million, accounting for approximately 98.8%, 98.6%, 99.1%, 99.1% and 99.2% of our total cost of sales, respectively.

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## FINANCIAL INFORMATION

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Direct labour costs mainly represent salaries and wages for our labour working in our scrapyards.

Direct overhead costs mainly represent the electricity, water and rental expense for our scrapyards use.

### *Comparison between 8M2017 and 8M2018*

Cost of sales increased by RM141.4 million or 36.2% from RM390.5 million for 8M2017 to RM531.9 million for 8M2018, primarily due to the increase in costs of trading goods sold of RM141.0 million as a result of the increase in both average purchase costs and sales volume of our scrap materials. Such increase was in line with the growth of our sales of 35.3% for 8M2018.

### *Comparison between FY2016 and FY2017*

Cost of sales increased by RM338.8 million or 97.7% from RM346.8 million for FY2016 to RM685.6 million for FY2017, primarily due to the increase in costs of trading goods sold of RM337.6 million as a result of the increase in both average purchase costs and sales volume of our scrap materials. Such increase was in line with the growth of our sales of 95.4% for FY2017.

### *Comparison between FY2015 and FY2016*

Cost of sales decreased by RM47.1 million or 12.0% from RM393.9 million for FY2015 to RM346.8 million for FY2016. Such decrease was due to the decrease in costs of trading goods sold of RM46.9 million, which was attributable to the decrease in our sales volume of scrap materials by 17.5%, partially offset by the slight increase in average purchase costs during FY2016.

### **Gross profit and gross profit margin**

Our gross profit represents our revenue less our cost of sales while our gross profit margin represents our gross profit divided by our revenue.

## FINANCIAL INFORMATION

The following table sets forth a breakdown of our gross profit by product types and gross profit margin for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2015		2016		2017		2017		2018	
	Gross profit		Gross profit		Gross profit		Gross profit		Gross profit	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
							(Unaudited)			
Scrap ferrous metals	32,163	90.2	25,207	79.5	44,774	83.2	24,131	80.6	30,945	84.0
Used batteries	861	2.4	2,358	7.4	3,183	5.9	2,065	6.9	3,342	9.1
Waste paper	2,440	6.8	2,636	8.3	4,750	8.8	2,781	9.3	2,051	5.6
Other materials	179	0.6	1,509	4.8	1,084	2.1	958	3.2	496	1.3
<b>Total</b>	<b>35,643</b>	<b>100</b>	<b>31,710</b>	<b>100</b>	<b>53,791</b>	<b>100</b>	<b>29,935</b>	<b>100</b>	<b>36,834</b>	<b>100</b>
Gross profit margin		8.3%		8.4%		7.3%		7.1%		6.5%

Our gross profit decreased from RM35.6 million for FY2015 to RM31.7 million for FY2016 and then increased to RM53.8 million for FY2017. Between 8M2017 and 8M2018, our gross profit increased from RM29.9 million to RM36.8 million. During the Track Record Period, the fluctuation of our gross profit was generally in line with the change of our revenue.

Our gross profit margin remained relatively stable at 8.3% and 8.4% for FY2015 and FY2016, respectively, and then declined to 7.3% for FY2017. Between 8M2017 and 8M2018, our gross profit margin decreased from 7.1% to 6.5%.

During the Track Record Period, the trading of scrap ferrous metals was our core business which contributed approximately 90.2%, 79.5%, 83.2%, 80.6% and 84.0% of our Group's gross profit for FY2015, FY2016, FY2017, 8M2017 and 8M2018. The detailed analysis of gross margin of scrap ferrous metals is set out below.

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### *Analysis of gross margin of scrap ferrous metal trading*

The following table sets out the analysis of our average selling price, average costs of trading goods sold and gross margin of scrap ferrous metals for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
Average selling price of scrap ferrous metals (RM/tonne)	825	838	1,182	1,110	1,335
Average costs of trading goods sold of scrap ferrous metals (RM/tonne)	746	760	1,085	1,021	1,241
<b>Gross margin of scrap ferrous metals (RM/tonne) <sup>(Note)</sup></b>	<b>79</b>	<b>78</b>	<b>97</b>	<b>89</b>	<b>94</b>

*Note:* Gross margin of scrap ferrous metals per tonne = Average selling price of scrap ferrous metals per tonne - Average costs of trading goods sold of scrap ferrous metals per tonne

We do not consider the gross profit margin is a meaningful indicator to analyse our financial performance, as the pricing for scrap ferrous metals is basically dictated by our top steel mill customer, who determines the procurement price at which it agrees to take up scrap ferrous metals from us. Instead, our business objective is to maximise the gross margin between the procurement price set by our customer and the buying price we pay for scrap ferrous metals from our suppliers.

During the Track Record Period, the gross margin we earned improved from RM79 per tonne for FY2015 to RM94 per tonne for 8M2018. The primary reasons were (a) the incentive scheme offered to us by our top steel mill customer where the larger quantity we can sell to it, the higher procurement price we can fetch; and (b) the operating environment of the steel industry improved in 2017 as the steel price continued to go up. As a result, steel mills could offer a higher procurement price to us with the intention to secure their target quantity, while we did not need to pass on the entire increment in the procurement price to our suppliers after taking into account our competitors' behaviour.

### *Comparison between 8M2017 and 8M2018*

Following the continuous improvement of operating environment of steel industry in Malaysia and the implementation of protective measures on steel products adopted by the Malaysian government in April 2017, the average selling price of scrap ferrous metals increased from RM1,110 per tonne for 8M2017 to RM1,335 per tonne for 8M2018, while we did not pass on the entire increment in the procurement price to our suppliers. As such, the gross margin improved from RM89 per tonne for 8M2017 to RM94 per tonne for 8M2018. Besides, the sales volume increased from 303,921 tonnes to 365,386 tonnes.

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### *Comparison between FY2016 and FY2017*

The operating environment of the steel industry started to improve in 2017. Steel mills increased their procurement price in order to secure scrap ferrous metals and we also managed to increase the sales volume from 375,998 tonnes for FY2016 to 519,069 tonnes for FY2017.

### *Comparison between FY2015 and FY2016*

The gross margin for both years was rather stable, maintaining at approximately RM78/79 per tonne. The sales volume dropped from 464,955 tonnes for FY2015 to 375,998 tonnes for FY2016 as the steel industry still faced significant headwinds in FY2016.

### *Sensitivity analysis of average gross margin for all scrap materials*

Gross margin accounted for most of our gross profit and is subject to the general market conditions of the steel market. The following tables demonstrate the sensitivity analysis of our profit before tax in relation to changes of gross margin assuming all other factors being constant:

Impact on profit before tax:					
	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
<i>Change of gross margin by:</i>					
+10%	4,058	3,641	5,975	3,361	4,097
+5%	2,029	1,821	2,987	1,681	2,048
-5%	(2,029)	(1,821)	(2,987)	(1,681)	(2,048)
-10%	(4,058)	(3,641)	(5,975)	(3,361)	(4,097)

### *Breakeven analysis*

The following table sets out the decrease in gross margin in terms of percentage and RM which would entirely eliminate our profit before tax for the periods indicated, assuming all other factors being constant:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
<i>Gross margin decrease</i>					
— percentage	45.6%	43.9%	51.7%	56.6%	68.2%
— RM	37	39	54	55	69

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## FINANCIAL INFORMATION

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### Other income

The following table sets out the breakdown of our other income for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Compensation received	174	18	952	472	59
Rental income	6	2	19	13	5
Others	72	79	102	25	31
<b>Total</b>	<b>252</b>	<b>99</b>	<b>1,073</b>	<b>510</b>	<b>95</b>

Compensation received mainly represented insurance compensation during the Track Record Period and a compensation received in FY2017 regarding the termination of a sale and purchase agreement of a piece of land by such vendor. The termination of the sale and purchase agreement was mainly attributable to the non-performance of the vendor of his contractual obligation to transfer the relevant land, as it sold such land to another party for a higher consideration subsequently.

#### *Comparison between 8M2017 and 8M2018*

Our other income decreased from RM510,000 for 8M2017 to RM95,000 for 8M2018, primarily due to a decrease in insurance compensation received.

#### *Comparison between FY2016 and FY2017*

Our other income increased by RM1.0 million from RM99,000 in FY2016 to RM1.1 million in FY2017, primarily due to (a) partial insurance compensation received of RM453,000 in relation to the fire incident occurred in October 2016 (please refer to the section headed “Business — Health and Work Safety” of this prospectus for further details); and (b) the compensation of RM314,000 received from a vendor regarding the termination of a sale and purchase agreement of a piece of land by such vendor.

#### *Comparison between FY2015 and FY2016*

Our other income remained relatively stable at RM252,000 and RM99,000 for FY2015 and FY2016, respectively.

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### Net other gains/(losses)

The following table sets out the breakdown of our net other gains/(losses) for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i> <i>(Unaudited)</i>	<i>RM'000</i>
Gain on disposal of property, plant and equipment	2,022	1	225	47	151
Gain on disposal of assets classified as held for sale	—	—	—	—	9,274
Downpayment to suppliers written-off	(233)	(377)	—	—	—
Property, plant and equipment written-off	—	(184)	(3)	(2)	(38)
Foreign exchange gains	10	6	31	30	10
<b>Total</b>	<b>1,799</b>	<b>(554)</b>	<b>253</b>	<b>75</b>	<b>9,397</b>

Our gain on disposal of property, plant and equipment of RM2.0 million in FY2015 was mainly attributable to the disposal to an independent third party of an industrial land and the associated warehouse erected thereon, which we had taken from our then customer to offset the trade balance due to us. In addition, gain on disposal of assets classified as held for sale of RM9.3 million in 8M2018 was attributable to the disposal of our investment properties located in Malaysia to our Directors for an aggregate consideration of RM11.0 million based on market valuation. Please refer to the paragraph headed “Financial Information — Selected items in the combined statements of financial position — Investment properties” for further details.

Our downpayment to suppliers written-off represented the loss resulting from the non-fulfilment of supply obligations from two suppliers after we had made advance payments to them, which suffered financial difficulties due to the difficult steel market conditions in FY2015 and FY2016.

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### Distribution and selling expenses

The following table sets out the breakdown of our distribution and selling expenses for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i> <i>(Unaudited)</i>	<i>RM'000</i>
Truck hire expenses	2,430	1,064	2,375	1,309	2,067
Petrol and travelling	2,108	1,562	2,112	1,385	1,519
Staff costs	1,778	1,838	1,712	1,285	1,295
Repair and maintenance	870	664	709	460	567
Others	511	650	662	308	415
<b>Total</b>	<b>7,697</b>	<b>5,778</b>	<b>7,570</b>	<b>4,747</b>	<b>5,863</b>

Truck hire expenses mainly represent the costs incurred to engage external logistics companies to deliver our scrap materials.

Petrol and travelling mainly represent the costs incurred by our fleet of trucks in collecting scrap materials from suppliers and delivering scrap materials to customers.

Staff costs are salaries and other staff benefits for our logistics, sales and procurement personnel.

Repair and maintenance represent the expenses in relation to the repair and maintenance of our trucks.

Others mainly represent insurance, rental and entertainment expenses.

### *Comparison between 8M2017 and 8M2018*

Our distribution and selling expenses increased by RM1.2 million from RM4.7 million for 8M2017 to RM5.9 million for 8M2018, primarily due to the increase in truck hire expenses of RM0.8 million following the increase in our purchase and sales volume in 8M2018.

### *Comparison between FY2016 and FY2017*

Our distribution and selling expenses increased by RM1.8 million from RM5.8 million for FY2016 to RM7.6 million for FY2017, primarily due to (a) the increase in truck hire expenses of RM1.3 million; and (b) the increase in petrol and travelling of RM0.5 million. Such increase was generally in line with the increase in volume of scrap materials delivered from our scrapyard for FY2017.



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### *Comparison between FY2015 and FY2016*

Our distribution and selling expenses decreased by RM1.9 million from RM7.7 million for FY2015 to RM5.8 million for FY2016, primarily due to (a) the decrease in truck hire expenses of RM1.3 million; and (b) the decrease in petrol and travelling of RM0.5 million. Such decrease was generally in line with the decrease in volume of scrap materials delivered from our scrapyards for FY2016.

### **Administrative expenses**

The following table sets out the breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Directors' remuneration	4,316	3,513	8,934	2,991	3,355
Staff costs	1,898	1,896	2,649	1,295	1,520
Depreciation	1,935	1,737	1,458	1,023	1,081
Listing expenses	—	—	1,152	—	4,046
Legal and professional fees	350	140	291	154	474
Repair and maintenance	248	212	244	130	299
Petrol and travelling	220	144	324	241	187
Insurance	89	163	140	105	275
Others	1,263	811	713	456	1,215
<b>Total</b>	<b>10,319</b>	<b>8,616</b>	<b>15,905</b>	<b>6,395</b>	<b>12,452</b>

Directors' remuneration represents the salaries and bonus of our Directors, accounting for 41.8%, 40.8%, 56.2%, 46.8% and 26.9% of our total administrative expenses for FY2015, FY2016, FY2017, 8M2017 and 8M2018, respectively. Our Directors' remuneration is adjusted in accordance with the operation results and financial performance of our Group from time to time.

Staff costs mainly represents the salaries and bonus of our administrative personnel.

Depreciation mainly represents our depreciation expenses of motor vehicle for administration use, office furniture and equipment and investment properties.

Listing expenses primarily consist of professional fees in connection with the Listing.

Legal and professional fees mainly include fees paid to auditors for statutory audit and services fee to legal advisers for general legal advice and disposal of properties.

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### *Comparison between 8M2017 and 8M2018*

Our administrative expenses increased by RM6.1 million or 95.3% from RM6.4 million for 8M2017 to RM12.5 million for 8M2018, primarily due to the recognition of the Listing expense of RM4.0 million.

### *Comparison between FY2016 and FY2017*

Our administrative expenses increased by RM7.3 million or 84.9% from RM8.6 million for FY2016 to RM15.9 million for FY2017, primarily due to (a) the increase in Directors' remuneration (in particular the performance bonus) of RM5.4 million following the improvement of the results of operation as reflected by the increase in profit for the year by RM11.0 million; (b) the recognition of the Listing expense of RM1.2 million; and (c) the increase in salaries and bonus of our administrative personnel of RM0.7 million.

### *Comparison between FY2015 and FY2016*

Our administrative expenses decreased by RM1.7 million or 16.5% from RM10.3 million for FY2015 to RM8.6 million for FY2016, primarily due to (a) the decrease in Directors' remuneration of RM0.8 million as a result of the decline of our financial performance in FY2016; and (b) the general decrease in our legal and professional fees, petrol and travelling and sundry expenses.

### **Net finance costs**

The following table sets out the breakdown of our net finance costs for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Interest income from bank deposits	365	215	224	144	344
Interest expense on loans	(1,092)	(823)	(801)	(529)	(339)
Interest expense on finance leases	(147)	(116)	(49)	(19)	(20)
Interest expense on bank overdrafts	(204)	(79)	(60)	(40)	(47)
<b>Total</b>	<b>(1,078)</b>	<b>(803)</b>	<b>(686)</b>	<b>(444)</b>	<b>(62)</b>

Our net finance costs mainly consist of interest expense on loans, finance lease and bank overdrafts, partially offset by the interest income from bank deposits. During the Track Record Period, our borrowings were subject to interest ranging from 4.75% to 8.10% per annum, while our finance leases were fixed at respective contract rates ranging from 2.27% to 6.54% per annum.

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### *Comparison between 8M2017 and 8M2018*

Our net finance costs decreased by RM0.3 million or 86% from RM0.4 million for 8M2017 to RM0.1 million for 8M2018, primarily due to the increase in interest income from bank deposits of RM0.2 million.

### *Comparison between FY2016 and FY2017*

Our net finance costs remained relatively stable at RM0.8 million and RM0.7 million for FY2016 and FY2017, respectively.

### *Comparison between FY2015 and FY2016*

Our net finance costs decreased by RM0.3 million or 27.3% from RM1.1 million for FY2015 to RM0.8 million for FY2016, primarily due to the decrease in interest expense on loans of RM0.3 million since our Group repaid the borrowings of RM3.8 million during FY2016.

### **Income tax expense**

Income tax expenses represent our total current and deferred tax expenses. The current taxes are calculated based on taxable profits at the applicable tax rates for the relevant periods. Deferred tax is recognised based on temporary differences associated with depreciation of property, plant and equipment.

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
Malaysian corporate income tax:					
Current tax	4,491	4,060	7,695	4,734	5,712
(Over)/under provision in prior periods	(19)	16	—	(181)	238
	4,472	4,076	7,695	4,553	5,950
Malaysian real property gains tax	334	—	—	—	441
Deferred tax	122	(69)	150	112	(36)
	<u>4,928</u>	<u>4,007</u>	<u>7,845</u>	<u>4,665</u>	<u>6,355</u>

Malaysian corporate income tax has been provided at the rate of 25%, 24%, 24%, 24% and 24% of the estimated assessable profit for FY2015, FY2016, FY2017, 8M2017 and 8M2018.

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Our effective tax rate for FY2015, FY2016, FY2017, 8M2017 and 8M2018 was 26.5%, 25.0%, 25.3%, 24.6% and 22.7%, respectively. The relatively lower effective tax rate of 22.7% for 8M2018 was mainly attributable to the gain on disposal of assets classified as held for sale of RM9.3 million, which was subject to lower tax rate of 5%. Such effect was partially offset by the non-deductible Listing expenses of RM4.0 million incurred during the period.

### ***Comparison between 8M2017 and 8M2018***

Our income tax expense increased by RM1.7 million or 36.2% from RM4.7 million for 8M2017 to RM6.4 million for 8M2018, primarily due to the increase in profit before tax of RM9.0 million for 8M2018.

### ***Comparison between FY2016 and FY2017***

Our income tax expense increased by RM3.8 million or 95.0% from RM4.0 million for FY2016 to RM7.8 million for FY2017, primarily due to the increase in profit before tax of RM14.9 million for FY2017.

### ***Comparison between FY2015 and FY2016***

Our income tax expense decreased by RM0.9 million or 18.4% from RM4.9 million for FY2015 to RM4.0 million for FY2016, primarily due to the (a) decrease in profit before tax of RM2.5 million for FY2016; and (b) the decline of Malaysian corporate income tax rate from 25% for FY2015 to 24% for FY2016.

### **Profit for the period**

### ***Comparison between 8M2017 and 8M2018***

As a result of the growth in our gross profit by RM6.9 million and the increase in gain on disposal of assets classified as held for sale of RM9.3 million, our profit for the period increased by RM7.3 million or 51.0% from RM14.3 million for 8M2017 to RM21.6 million for 8M2018.

### ***Comparison between FY2016 and FY2017***

As a result of the growth in our gross profit by RM22.1 million, our profit for the period increased by RM11.0 million or 90.9% from RM12.1 million for FY2016 to RM23.1 million for FY2017.

### ***Comparison between FY2015 and FY2016***

Profit for the period decreased by RM1.6 million or 11.7% from RM13.7 million for FY2015 to RM12.1 million for FY2016, primarily due to the decline in our gross profit of RM3.9 million.

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### SELECTED ITEMS IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	19,546	18,342	17,386	17,163
Investment properties	3,766	5,297	3,654	4,075
	<u>23,312</u>	<u>23,639</u>	<u>21,040</u>	<u>21,238</u>
<b>Current assets</b>				
Inventories	1,656	1,975	8,542	12,129
Trade and other receivables	78,225	90,389	97,870	87,853
Amounts due from related parties	10,062	2,050	8,773	—
Pledged bank deposits	6,691	6,901	7,103	9,158
Cash and cash equivalents	4,566	3,144	14,140	13,160
	<u>101,200</u>	<u>104,459</u>	<u>136,428</u>	<u>122,300</u>
Assets classified as held for sale	<u>—</u>	<u>—</u>	<u>1,686</u>	<u>—</u>
<b>Total assets</b>	<u>124,512</u>	<u>128,098</u>	<u>159,154</u>	<u>143,538</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of our Company</b>				
Combined capital	6,750	6,750	6,750	112,313
Capital reserve	—	—	—	(82,826)
Retained earnings	36,337	40,398	63,233	84,883
	<u>43,087</u>	<u>47,148</u>	<u>69,983</u>	<u>114,370</u>
Non-controlling interests	<u>127</u>	<u>117</u>	<u>393</u>	<u>—</u>
<b>Total equity</b>	<u>43,214</u>	<u>47,265</u>	<u>70,376</u>	<u>114,370</u>

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	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>Non-current liabilities</b>				
Finance lease liabilities	865	542	382	243
Borrowings	7,153	6,124	6,409	4,131
Deferred income tax liabilities	<u>555</u>	<u>486</u>	<u>636</u>	<u>600</u>
	<u>8,573</u>	<u>7,152</u>	<u>7,427</u>	<u>4,974</u>
<b>Current liabilities</b>				
Trade and other payables	31,774	24,577	28,346	19,706
Current income tax liabilities	3,710	1,455	3,761	3,290
Finance lease liabilities	1,348	531	196	176
Borrowings	7,262	6,080	5,525	1,022
Amounts due to related parties	6,550	6,376	6,382	—
Amounts due to Directors	<u>22,081</u>	<u>34,662</u>	<u>37,141</u>	<u>—</u>
	<u>72,725</u>	<u>73,681</u>	<u>81,351</u>	<u>24,194</u>
<b>Total liabilities</b>	<u>81,298</u>	<u>80,833</u>	<u>88,778</u>	<u>29,168</u>
<b>Total equity and liabilities</b>	<u>124,512</u>	<u>128,098</u>	<u>159,154</u>	<u>143,538</u>

### Property, plant and equipment

Our property, plant and equipment consist of land and buildings, plant and machinery, motor vehicles, office furniture and equipment and leasehold improvements. As at 31 December 2015, 2016 and 2017 and 31 August 2018, the balance of our property, plant and equipment amounted to RM19.5 million, RM18.3 million, RM17.4 million and RM17.2 million, respectively.

The decrease in property, plant and equipment by RM1.2 million or 6.2% from 31 December 2015 to 31 December 2016 was primarily attributable to the depreciation of RM2.5 million provided during FY2016, partially offset by the additions of plant and machinery, motor vehicles, office furniture and equipment and leasehold improvements with an aggregate balance of RM1.5 million during FY2016.

Our property, plant and equipment decreased by RM0.9 million to RM17.4 million as at 31 December 2017. Such decrease was primarily due to the depreciation of RM2.3 million provided during FY2017, partially offset by the additions of plant and machinery, motor vehicles, office furniture and equipment and leasehold improvements with an aggregate balance of RM1.3 million during FY2017.

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The balance of our property, plant and equipment further decreased by RM0.2 million to RM17.2 million as at 31 August 2018, primarily due to the depreciation of RM1.5 million provided during 8M2018, partially offset by the additions of plant and machinery, motor vehicles and office furniture and equipment with an aggregate balance of RM1.3 million during 8M2018.

As at 31 December 2015, 2016 and 2017 and 31 August 2018, buildings and plant and machinery with a net book value of RM11.0 million, RM10.8 million, RM10.6 million and RM10.5 million were pledged to banks to secure the banking facilities granted to our Group.

### Investment properties

From time to time, we acquired certain land and buildings from the market, primarily for the purpose of long-term appreciation. In order to focus ourselves on our core business, our Directors have passed a resolution in August 2018 to stop acquiring any investment properties going forward and to continue to dispose of the investment properties on hand.

The following table sets out the details of our investment properties as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Land and buildings</b>				
At 1 January	3,710	3,766	5,297	3,654
Additions	88	1,563	73	433
Depreciation	(32)	(32)	(30)	(12)
Transfer to assets classified as held for sale	—	—	(1,686)	—
At 31 December/August	<u>3,766</u>	<u>5,297</u>	<u>3,654</u>	<u>4,075</u>

Our investment properties represent certain land and buildings located in Malaysia. As at 31 December 2015, 2016 and 2017 and 31 August 2018, the balance of our investment properties amounted to RM3.8 million, RM5.3 million, RM3.7 million and RM4.1 million, respectively.

The increase in investment properties by RM1.5 million or 39.5% from 31 December 2015 to 31 December 2016 was primarily attributable to the addition of a piece of vacant land with consideration of RM1.6 million during FY2016.

Our investment properties decreased by RM1.6 million to RM3.7 million as at 31 December 2017, primarily due to the transfer of investment properties of RM1.7 million as assets held for sale during FY2017. In July and August 2018, our Group entered into certain agreements for the sale of investment properties located in Malaysia to our Directors for an aggregate consideration of RM11.0 million based on market valuation, of which RM10.5 million were offset by the amounts due to Directors pursuant to a settlement agreement dated 31 July 2018. As at 31 August 2018, all transactions were completed.

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The balance of our investment properties remained relatively stable at RM3.7 million and RM4.1 million as at 31 December 2017 and 31 August 2018, respectively.

During the Track Record Period, our investment properties were pledged to banks to secure the banking facilities granted to our Group.

The table below sets forth the reconciliation between the net book value of our investment properties as at 31 August 2018 as extracted from the accountant's report set out in Appendix I to this prospectus and the appraised value of our investment properties as at 31 December 2018 as extracted from the property valuation report set out in Appendix IV to this prospectus:

	<i>RM'000</i>
<b>Net book value of our investment properties as at 31 August 2018 (as set out in the accountant's report in Appendix I to this prospectus)</b>	4,075
<b>Movement of our investment properties from 1 September 2018 to 31 December 2018</b>	
Less: Depreciation	<u>(23)</u>
<b>Net book value of our investment properties as at 31 December 2018</b>	4,052
Less: Net book value of our investment properties not included in the property valuation report in Appendix IV to this prospectus	(2,132)
Valuation surplus	<u>30</u>
<b>Valuation of our investment property as at 31 December 2018 (as set out in the property valuation report in Appendix IV to this prospectus)</b>	<u><u>1,950</u></u>

### **Inventories**

Our inventories mainly represent the scrap materials stored at our scrapyards.

The balance of our inventories remained relatively stable at RM1.7 million and RM2.0 million as at 31 December 2015 and 31 December 2016, respectively. Such balance increased by RM6.5 million from RM2.0 million as at 31 December 2016 to RM8.5 million as at 31 December 2017, and further increased by RM3.6 million to RM12.1 million as at 31 August 2018.

In FY2015 and FY2016, market conditions for the steel industry remained tough. Our Group proactively maintained minimal level of inventories to avoid potential loss resulting from of any further drop in the market price of scrap ferrous metals. The substantial increase in our inventories as at 31 December 2017 and 31 August 2018 was primarily attributable to (a) the increase in volume of inventories maintained at our scrapyard to fulfil the increasing needs of scrap ferrous metals from steel mill customers due to the recovery of the steel industry; and (b) the increase in our purchase price of scrap materials as a result of the general increase in the market price of scrap ferrous metals.



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The following table sets out our inventories turnover days for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
Inventories turnover days <i>(Note)</i>	1.6	1.9	2.8	4.7

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*Note:* The inventories turnover days is based on the average of the beginning and ending balance of inventories of a given year/period divided by cost of sales and multiplied by the number of days for the corresponding year/ period. For 8M2018, the number of days is 243 days.

Our inventories turnover days remained relatively stable at 1.6 days and 1.9 days in FY2015 and FY2016, respectively. The inventories turnover days increased from 1.9 days in FY2016 to 2.8 days in FY2017, and further increased to 4.7 days in 8M2018, primarily due to the increase in volume of inventories maintained at our scrapyards to satisfy the increasing needs of our customers.

If excluding the costs of sales in relation to the Direct Delivery Sales, our inventories turnover days would have been 5.8 days, 9.2 days, 10.4 days and 17.0 days for FY2015, FY2016, FY2017 and 8M2018, respectively.

As at 31 December 2018, all of our inventories as at 31 August 2018 had been sold subsequently.

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### Trade and other receivables

Our trade and other receivables represented 77.3%, 86.5%, 70.9% and 71.8% of our total current assets (including assets classified as held for sale) as at 31 December 2015, 2016 and 2017 and 31 August 2018, respectively. The following table sets out a breakdown of our trade and other receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Trade receivables <i>(Note)</i>	76,320	85,103	81,256	77,092
Other receivables	70	100	280	464
Deposits and prepayments	838	634	1,220	3,424
Downpayment to suppliers	997	4,552	15,114	6,768
Other tax recoverable	—	—	—	105
	<u>78,225</u>	<u>90,389</u>	<u>97,870</u>	<u>87,853</u>
<i>Note:</i>				
Due from the Lion Companies*	74,516	77,039	71,729	61,485
% of the total trade receivables	98%	91%	88%	80%

\* It includes trade receivables arising from (a) sales transactions invoiced directly to the Lion Companies, and (b) sales transactions with the Lion Companies but invoiced to the Trading Companies as designated by the Lion Companies.

### Trade receivables

Our trade receivables represent the outstanding balances due from our customers for the scrap materials we sold. Trade receivables due from the Lion Companies amounted to RM74.5 million, RM77.0 million, RM71.7 million and RM61.5 million, representing 98%, 91%, 88%, and 80% of the total trade receivables as at 31 December 2015, 2016 and 2017 and 31 August 2018, respectively. Although our Group does not have specific credit terms for the Lion Companies, our Directors carry out the following measures to monitor closely the credit risk associated with trades with the Lion Companies as detailed below.

Our Directors determine and adjust, from time to time, the maximum threshold of trade balances due from the Lion Companies taking into account the operating environment of the steel industry, the Lion Companies' procurement quantity and the latest procurement price, as well as our working capital position. The Lion Companies, being our top customer, and we, being the Lion Companies' largest approved scrap metal provider, meet on a weekly basis to discuss its latest procurement plan and procurement price. Most importantly, in the weekly meeting, we update the Lion Companies on the change to the threshold, if any, and its latest aggregate balance of outstanding trade balances due to us. Further, we notify the Lion Companies when the balance is close to the threshold and demand

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payment from the Lion Companies when the balance reaches the threshold in order to reduce the outstanding amount to our required level. Our Directors consider this approach provides us the flexibility to meet our top customer's procurement practice as well as serves an effective measure to monitor the credit risk associated with our trades.

During the Track Record Period, we did not have any bad debt written off against our trade receivables due from the Lion Companies or any other customers.

The following table sets out the ageing analysis of our trade receivables based on invoice date as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
0-30 days	18,868	45,755	59,781	41,574
31-60 days	15,896	15,359	9,258	9,816
61-120 days	21,765	7,718	2,111	11,353
Over 120 days	19,791	16,271	10,106	14,349
	<u>76,320</u>	<u>85,103</u>	<u>81,256</u>	<u>77,092</u>

The following table sets out our trade receivables turnover days during the Track Record Period:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
Trade receivables turnover days <i>(Note)</i>	59.2	77.8	41.1	33.8

*Note:* Trade receivables turnover days is calculated by dividing the average of the beginning and ending trade receivables balances for a given year/period by sales and multiplied by the number of days for the corresponding year/period. For 8M2018, the number of days is 243 days.

Our trade receivables turnover days increased from 59.2 days for FY2015 to 77.8 days for FY2016, primarily due to the longer settlement period from our steel mill customers in FY2016. Our trade receivables turnover days decreased from 77.8 days for FY2016 to 41.1 days for FY2017 and further decreased to 33.8 days for 8M2018. Such decrease was mainly attributable to the prompt payment from our steel mill customers as a result of the improvement in the steel industry.

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Following the PRC's supply-side restructuring to eliminate excess steel manufacturing capacity in 2016 and the imposition of additional import duties on steel products in early 2017, the volume of steel import began to drop from 7.5 million tonnes in 2016 to an estimated 6.2 million tonnes in 2018, and the selling price of steel products also hit the bottom and started to rise in 2016. This has helped the business and cash flow of steel mills in Malaysia and enabled them to settle with their scrap metal suppliers on a shorter turnover days as described above. As forecasted by Frost & Sullivan, the import volume of finished steel products will continue to decrease at a negative CAGR of 2.1% from 2018 to 2022 and the domestic crude steel production will grow at a CAGR of 10.2% during the same period, which is very different from the operating environment the steel industry experienced from 2013 to 2017. Please refer to the section headed "Industry Overview" of this prospectus for further details of the production, import and consumption of steel in Malaysia. On this basis, we are of the view that the improvement in the trade receivables turnover days and cash flow mismatch is sustainable.

As at 31 December 2018, 94.7% of our trade receivables as at 31 August 2018, or RM73.0 million, had been settled.

### ***Downpayment to suppliers***

Our downpayment to suppliers amounted to RM1.0 million, RM4.6 million, RM15.1 million and RM6.8 million as at 31 December 2015, 2016 and 2017 and 31 August 2018, respectively.

Such balance represents in advance payment to suppliers for purchases of scrap materials. Notwithstanding that we did not enter into any long-terms agreements with our suppliers, we had entered into purchase agreements with suppliers on an order-by-order basis in order to secure the volume and buying price of scrap materials, in particular purchase with those suppliers located far from our steel mill customers or our scrapyards. Pursuant to the aforesaid purchase agreements, our Group agreed to make payment before the delivery of scrap materials. The fluctuation of such balances for each period end was mainly due to the movement of purchases of scrap materials we had paid but not yet delivered to our Group.

As at 31 December 2018, 96.9% of our downpayment to suppliers as at 31 August 2018 had been utilised.

### **Amounts due from related parties**

The balance represented the amounts due from those companies controlled by the Sia Brothers. Such balance was mainly attributable to the temporary advances to related parties. As at 31 December 2015, 2016 and 2017, the balance amounted to RM10.1 million, RM2.1 million and RM8.8 million, respectively. Our amounts due from related parties had been fully settled as at 31 August 2018.

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### Trade and other payables

The following table sets out the breakdown of our trade and other payables as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Trade payables	23,250	16,095	14,681	9,783
Other tax payables	286	313	713	—
Accrued salaries	4,659	2,634	7,610	3,108
Other payables and accruals	3,579	5,535	5,342	6,815
	<u>31,774</u>	<u>24,577</u>	<u>28,346</u>	<u>19,706</u>

### Trade payables

Our trade payables mainly relate to the purchase of scrap materials from our suppliers.

Our trade payables decreased by RM7.2 million from RM23.3 million as at 31 December 2015 to RM16.1 million as at 31 December 2016, primarily due to the significant decrease in purchase of scrap materials as a result of the decline in demand for scrap ferrous metals.

Our trade payables decreased by RM1.4 million from RM16.1 million as at 31 December 2016 to RM14.7 million as at 31 December 2017 and further decreased by RM4.9 million to RM9.8 million as at 31 August 2018, primarily due to the prompt payments to our suppliers as a result of the proactive payment from our steel mill customers during FY2017 and 8M2018.

The table below sets out the ageing analysis of our trade payables based on invoice date as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
0-30 days	8,341	11,043	12,506	9,469
31-60 days	1,656	248	831	162
61-120 days	9,880	46	846	152
Over 120 days	3,373	4,758	498	—
	<u>23,250</u>	<u>16,095</u>	<u>14,681</u>	<u>9,783</u>

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## FINANCIAL INFORMATION

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The following table sets out our trade payables turnover days for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
Trade payables turnover days <sup>(Note)</sup>	17.1	20.7	8.2	5.6

*Note:* Trade payables turnover days is calculated by dividing the average of the beginning and ending trade payables balances for the relevant year/period by cost of sales for the relevant year/period by the number of days in the corresponding year/period. For 8M2018, the number of days is 243 days.

With reference to the above, our trade payables turnover days for FY2015, FY2016, FY2017 and 8M2018 was 17.1 days, 20.7 days, 8.2 days and 5.6 days, respectively. As at 31 December 2015, 2016 and 2017 and 31 August 2018, 64.1%, 31.4%, 14.8% and 3.2% of our trade payables were due over 30 days. The longer due days as at 31 December 2015 and 2016 was mainly attributable to the tough market conditions of the steel industry, and thus our Group managed to negotiate with the suppliers for longer settlement periods.

As at 31 December 2018, all of our trade payables as at 31 August 2018 had been settled.

### ***Accrued salaries***

Accrued salaries mainly consist of the accrued salary and bonus.

Our accrued salaries decreased by RM2.1 million or 44.7% from RM4.7 million as at 31 December 2015 to RM2.6 million as at 31 December 2016, primarily due to the decrease in the accrued bonus as a result of the decline of the profit for the year.

Our accrued salaries significantly increased by RM5.0 million or 192.3% from RM2.6 million as at 31 December 2016 to RM7.6 million as at 31 December 2017, primarily due to the increase in accrued bonus to our Directors and staff as a result of the increase in the profit for the year.

Our accrued salaries decreased by RM4.5 million or 59.2% from RM7.6 million as at 31 December 2017 to RM3.1 million as at 31 August 2018, primarily due to the settlement of accrued bonus to our Directors and staff.

### ***Other payables and accruals***

Our other payables and accruals mainly consist of the accruals of the general expenses and professional fees.

## FINANCIAL INFORMATION

### Amounts due to related parties/Directors

The following table sets out a breakdown of our amounts due to related parties/Directors as at the dates indicated:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Related parties	6,550	6,376	6,382	—
Directors	22,081	34,662	37,141	—
	<u>28,631</u>	<u>41,038</u>	<u>43,523</u>	<u>—</u>

The balance represented the amounts due to those companies controlled by the Sia Brothers and our Directors. Such balance was mainly attributable to the temporary advances from Directors and related parties for the purpose of supporting the scrap ferrous metal trading business. Our amounts due to related parties/Directors had been fully settled as at 31 August 2018.

### PLEDGE OF ASSETS

For details of pledge of assets, please refer to note 26 of the accountant's report in Appendix I to this prospectus.

### LIQUIDITY AND CAPITAL RESOURCES

Throughout the Track Record Period and up to the Latest Practicable Date, we have fulfilled our working capital needs primarily through operating cash flows, bank financing and advance from our Directors. We derived our cash inflows from operating activities principally from sales of scrap materials. The sources of our cash outflow from operations mainly included purchase of scrap materials, various operating costs such as truck hire expenses, salaries and allowances, and income tax payment. We incurred capital expenditures mainly for the purchase of plant and machinery and motor vehicles. We monitor our working capital positions from time to time to ensure that we maintain sufficient cash resources for our daily operations and capital expenditure needs.

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## FINANCIAL INFORMATION

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### Cash flows

The following table sets out the cash flows for the periods indicated:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Net cash generated from operating activities	3,420	1,424	11,590	11,073
Net cash generated from/(used in) investing activities	11,451	(2,518)	(807)	(2,741)
Net cash used in financing activities	(12,527)	(215)	(131)	(8,630)
Net increase/(decrease) in cash and cash equivalents	2,344	(1,309)	10,652	(298)
Cash and cash equivalents at beginning of the year/period	1,771	4,115	2,806	13,458
Cash and cash equivalents at end of the year/period	4,115	2,806	13,458	13,160

### Operating activities

Our cash inflow from operating activities is principally generated from our receipt from the sale of scrap materials. Our cash outflow from operating activities is principally used in our purchase of scrap materials and all other operating expenses such as payment of staff costs.

For 8M2018, we had a net cash generated from operating activities of RM11.1 million, which was mainly derived from our profit before tax of RM27.9 million, positively adjusted by (a) the decrease in our trade and other receivables of RM10.5 million; and (b) the depreciation of RM1.6 million, and negatively adjusted by (a) the gain on disposal of assets classified as held for sale of RM9.3 million; (b) the decrease in our trade and other payables of RM8.6 million; (c) the increase in our inventories of RM3.6 million; and (d) the tax paid of RM6.9 million.

For FY2017, we had a net cash generated from operating activities of RM11.6 million, which was mainly derived from our profit before tax of RM31.0 million, positively adjusted by (a) our depreciation of RM2.3 million; and (b) the increase in our trade and other payables of RM3.8 million, and negatively adjusted by (a) the increase in our trade and other receivables of RM7.2 million; (b) the increase in our inventories of RM6.6 million; (c) the decrease in our amounts with related parties of RM6.7 million; and (d) the tax paid of RM5.4 million.



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For FY2016, we had a net cash generated from operating activities of RM1.4 million, which was mainly derived from our profit before tax of RM16.1 million, positively adjusted by our depreciation of RM2.6 million, and negatively adjusted by (a) the decrease in our trade and other payables of RM7.2 million; (b) the increase in our trade and other receivables of RM12.5 million; (c) the increase in our amounts with related parties of RM7.8 million; and (d) the tax paid of RM6.3 million.

For FY2015, we had a net cash generated from operating activities of RM3.4 million, which was mainly derived from our profit before tax of RM18.6 million, positively adjusted by (a) the increase in our trade and other payables of RM13.0 million; (b) our depreciation of RM2.6 million; and (c) our finance costs of RM1.4 million, and negatively adjusted by (a) the increase in our trade and other receivables of RM14.6 million; (b) the increase in our amounts with related parties of RM9.8 million; (c) our gain on disposal of property, plant and equipment of RM2.0 million; and (d) the tax paid of RM6.0 million.

### *Investing activities*

For 8M2018, we had a net cash used in investing activities of RM2.7 million, which was mainly derived from (a) the increase in our pledged bank deposits of RM2.1 million; and (b) the purchases of property, plant and equipment of RM1.2 million.

For FY2017, we had a net cash used in investing activities of RM0.8 million, which was mainly derived from our purchase of property, plant and equipment of RM1.0 million.

For FY2016, we had a net cash used in investing activities of RM2.5 million, which was mainly derived from (a) our purchase of property, plant and equipment of RM1.0 million; and (b) our purchase of investment properties of RM1.6 million.

For FY2015, we had a net cash generated from investing activities of RM11.5 million, which was mainly derived from (a) the proceeds from disposal of property, plant and equipment of RM8.2 million; and (b) the decrease in our pledged bank deposits of RM5.0 million, partially offset by our purchase of property, plant and equipment of RM2.0 million.

### *Financing activities*

For 8M2018, we had a net cash used in financing activities of RM8.6 million, which was mainly derived from (a) the repayments of borrowings of RM6.4 million; (b) the repayments to Directors of RM1.0 million; and (c) the payment of Listing expenses of RM0.5 million.

For FY2017, we had a net cash used in financing activities of RM0.1 million, which was mainly derived from (a) the repayments of borrowings of RM3.5 million; and (b) the interests paid of RM0.8 million, partially offset by (a) the advances from our Directors of RM2.5 million; and (b) the proceeds from borrowings of RM2.0 million.

For FY2016, we had a net cash used in financing activities of RM0.2 million, which was mainly derived from (a) the dividends paid of RM8.0 million; (b) the repayments of borrowings of RM3.8 million; and (c) the interests paid of RM1.0 million, partially offset by the advances from our Directors of RM12.6 million.

## FINANCIAL INFORMATION

For FY2015, we had a net cash used in financing activities of RM12.5 million, which was mainly derived from (a) the repayments of borrowings of RM13.1 million; and (b) the interests paid of RM1.4 million, partially offset by the advances from our Directors of RM1.5 million.

### WORKING CAPITAL

#### Analysis of net current assets

The following table sets out the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 31 August	As at 31 December
	2015	2016	2017	2018	2018
	RM'000	RM'000	RM'000	RM'000	RM'000 (Unaudited)
<b>CURRENT ASSETS</b>					
Inventories	1,656	1,975	8,542	12,129	8,794
Trade and other receivables	78,225	90,389	97,870	87,853	113,126
Amounts due from related parties	10,062	2,050	8,773	—	—
Pledged bank deposits	6,691	6,901	7,103	9,158	5,232
Cash and cash equivalents	4,566	3,144	14,140	13,160	5,572
	<u>101,200</u>	<u>104,459</u>	<u>136,428</u>	<u>122,300</u>	<u>132,724</u>
Assets classified as held for sale	—	—	1,686	—	—
Total current assets	<u>101,200</u>	<u>104,459</u>	<u>138,114</u>	<u>122,300</u>	<u>132,724</u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	31,774	24,577	28,346	19,706	26,536
Current income tax liabilities	3,710	1,455	3,761	3,290	841
Finance lease liabilities	1,348	531	196	176	371
Borrowings	7,262	6,080	5,525	1,022	5,597
Amounts due to related parties	6,550	6,376	6,382	—	—
Amounts due to Directors	22,081	34,662	37,141	—	—
Total current liabilities	<u>72,725</u>	<u>73,681</u>	<u>81,351</u>	<u>24,194</u>	<u>33,345</u>
<b>NET CURRENT ASSETS</b>	<u>28,475</u>	<u>30,778</u>	<u>56,763</u>	<u>98,106</u>	<u>99,379</u>

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We recorded net current assets of RM28.5 million, RM30.8 million, RM56.8 million, RM98.1 million and RM99.4 million as at 31 December 2015, 2016 and 2017, 31 August 2018 and 31 December 2018, respectively.

Our net current assets increased from RM28.5 million as at 31 December 2015 to RM30.8 million as at 31 December 2016, primarily due to (a) an increase of RM12.2 million in our trade and other receivables; (b) a decrease of RM7.2 million in trade and other payables; (c) a decrease of RM2.2 million in current income tax liabilities; and (d) a decrease of RM1.2 million in borrowings, partially offset by (a) an increase of RM 12.6 million in amounts due to Directors, (b) a decrease of RM8.0 million in amounts due from related parties; and (c) a decrease of RM1.5 million in cash and cash equivalents.

Our net current assets increased from RM30.8 million as at 31 December 2016 to RM56.8 million as at 31 December 2017, primarily due to (a) an increase of RM11.0 million in cash and cash equivalents; (b) an increase of RM7.5 million in our trade and other receivables; (c) an increase of RM6.5 million in our inventories; (d) an increase of RM6.7 million in amounts due from related parties; and (e) an increase of RM1.7 million in our assets classified as held for sale, partially offset by (a) an increase of RM3.7 million in trade and other payables; (b) an increase of RM2.4 million in amounts due to Directors; and (c) an increase of RM2.3 million in current income tax liabilities.

Our net current assets increased from RM56.8 million as at 31 December 2017 to RM98.1 million as at 31 August 2018, primarily due to (a) a significant decrease of RM37.1 million in amounts due to Directors; (b) a decrease of RM8.6 million in trades and other payables; (c) a decrease of RM6.4 million in amounts due to related parties; (d) a decrease of RM4.5 million in borrowings; and (e) an increase of RM3.6 million in inventories, partially offset by (a) a decrease of RM10.0 million in trade and other receivables; and (b) a decrease of RM8.8 million in amounts due from related parties.

Our net current assets increased from RM98.1 million as at 31 August 2018 to RM99.4 million as at 31 December 2018, primarily due to (a) an increase of RM25.3 million in trade and other receivables; (b) a decrease of RM2.5 million in current income tax liabilities, partially offset by (a) a decrease of RM3.3 million in inventories; (b) a decrease of RM11.5 million in pledged bank deposits and cash and cash equivalents; (c) an increase of RM6.8 million in trade and other payables; and (d) an increase of RM4.6 million in borrowings.

### **Working capital sufficiency**

Taking into account the cash and cash equivalents on hand, our operating cash flows, banking facilities available to us and the estimated net proceeds from the Share Offer, our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

## FINANCIAL INFORMATION

### INDEBTEDNESS

Our indebtedness mainly included (a) finance lease liabilities; (b) borrowings; (c) amounts due to related parties; and (d) amounts due to Directors. The following table sets forth our indebtedness as of the dates indicated:

	As at 31 December			As at 31 August	As at 31 December
	2015	2016	2017	2018	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i> <i>(Unaudited)</i>
<b>Current liabilities</b>					
Finance lease liabilities	1,348	531	196	176	371
Borrowings	7,262	6,080	5,525	1,022	5,597
Amounts due to related parties	6,550	6,376	6,382	—	—
Amounts due to Directors	22,081	34,662	37,141	—	—
	<u>37,241</u>	<u>47,649</u>	<u>49,244</u>	<u>1,198</u>	<u>5,968</u>
<b>Non-current liabilities</b>					
Finance lease liabilities	865	542	382	243	763
Borrowings	7,153	6,124	6,409	4,131	3,981
	<u>8,018</u>	<u>6,666</u>	<u>6,791</u>	<u>4,374</u>	<u>4,744</u>
<b>Total</b>	<b><u>45,259</u></b>	<b><u>54,315</u></b>	<b><u>56,035</u></b>	<b><u>5,572</u></b>	<b><u>10,712</u></b>

## FINANCIAL INFORMATION

### Borrowings

Our borrowings consisted of (a) term loans, (b) bank overdraft and (c) trust receipt loans. The following table sets out our borrowings as at the dates indicated:

	As at 31 December			As at 31 August	As at 31 December
	2015	2016	2017	2018	2018
	RM'000	RM'000	RM'000	RM'000	RM'000 (Unaudited)
<b>Current</b>					
Term loans	673	601	710	469	489
Bank overdraft	451	338	682	—	232
Trust receipt loans	6,138	5,141	4,133	553	4,876
	<u>7,262</u>	<u>6,080</u>	<u>5,525</u>	<u>1,022</u>	<u>5,597</u>
<b>Non-current</b>					
Term loans	7,153	6,124	6,409	4,131	3,981
<b>Total</b>	<b><u>14,415</u></b>	<b><u>12,204</u></b>	<b><u>11,934</u></b>	<b><u>5,153</u></b>	<b><u>9,578</u></b>

Our total outstanding borrowings amounted to RM14.4 million, RM12.2 million, RM11.9 million, RM5.2 million and RM9.6 million as at 31 December 2015, 2016 and 2017, 31 August 2018 and 31 December 2018, being the Latest Practicable Date for the purpose of indebtedness, respectively. All of our borrowings are denominated in RM. For sake of prudence, our Directors aim to maintain the balance of borrowings at an appropriate level which could lower the gearing ratio of our Group and the exposure of fluctuation of interest rate.

During the Track Record Period and up to the Latest Practicable Date, our borrowings were guaranteed by the personal guarantee provided by the Sia Brothers and/or secured by property, plant and equipment, investment properties, assets classified as held for sale and pledged bank deposits of our Group. The personal guarantee provided by the Sia Brothers will be replaced by corporate guarantee provided by our Company upon the Listing. As at 31 December 2018, we had unutilised banking facilities of RM14.8 million. Since 31 August 2018, the pledge of assets classified as held for sale was released.

### Term loans

Our term loans amounted to RM7.8 million, RM6.7 million, RM7.1 million, RM4.6 million and RM4.5 million as at 31 December 2015, 2016 and 2017, 31 August 2018 and 31 December 2018, respectively. All of our term loans were interest-bearing at floating rates ranging from 4.75% to 8.10%, 4.75% to 8.10%, 5.35% to 7.85%, 5.29% to 7.85% and 5.29% to 7.93% per annum for FY2015, FY2016, FY2017, 8M2018 and FY2018, respectively.

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### ***Trust receipt loans***

Our trust receipt loans amounted to RM6.1 million, RM5.1 million, RM4.1 million, RM0.6 million and RM4.9 million as at 31 December 2015, 2016 and 2017, 31 August 2018 and 31 December 2018, respectively. All of our trust receipt loans mature within one 1 year and are interest-bearing at floating rates ranging from 4.95% to 6.74%, 5.10% to 7.81%, 4.98% to 6.49%, 5.26% to 5.45% and 5.14% to 8.07% per annum for FY2015, FY2016, FY2017, 8M2018 and FY2018, respectively.

### ***Bank overdraft***

Our bank overdraft remained relatively stable at RM0.5 million, RM0.3 million, RM0.7 million, nil and RM0.2 million as at 31 December 2015, 2016 and 2017, 31 August 2018 and 31 December 2018, respectively.

### **Finance lease liabilities**

Our Group has finance leases arrangements for various items of plant and machinery and motor vehicle which bear interest at fixed rates ranging from 2.27% to 6.84% per annum. As at 31 December 2015, 2016 and 2017, 31 August 2018 and 31 December 2018, the balance of our finance lease liabilities (including both current and non-current portions) amounted to RM2.2 million, RM1.1 million, RM0.6 million, RM0.4 million and RM1.1 million, respectively. These finance lease liabilities were secured by the leased assets. Our finance leases liabilities decreased from RM2.2 million as at 31 December 2015 to RM1.1 million as at 31 December 2016, mainly due to the repayment of the lease payment of RM1.1 million. Such balance further decreased to RM0.6 million as at 31 December 2017 and RM0.4 million as at 31 August 2018. Our balance increased from RM0.4 million to RM1.1 million as at 31 December 2018, due to the addition of finance leases for motor vehicles of RM0.7 million.

Save as disclosed herein, we did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgaged and charges, material contingent liabilities or guarantees outstanding as at 31 December 2018.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with each of the lenders mentioned above. Our Directors have confirmed that we were not subject to other material covenants under any agreements with respect to any bank borrowings or other loans. Our Directors have also confirmed we have never delayed or default in the repayment of borrowings during the Track Record Period and up to the Latest Practicable Date. Taking into consideration our financial position, our Directors are of the opinion that our capital raising abilities were not materially affected as at 31 December 2018.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

	Year ended/as at 31 December			Eight months ended/as at 31 August
	2015	2016	2017	2018
<b>Profitability:</b>				
Gross profit margin <i>(Note 1)</i>	8.3%	8.4%	7.3%	6.5%
Net profit margin before interest and tax <i>(Note 2)</i>	4.7%	4.5%	4.3%	5.0%
Net profit margin <i>(Note 3)</i>	3.2%	3.2%	3.1%	3.8%
Return on equity <i>(Note 4)</i>	31.6%	25.5%	32.8%	N/A
Return on total assets <i>(Note 5)</i>	11.0%	9.4%	14.5%	N/A
<b>Liquidity:</b>				
Current ratio <i>(Note 6)</i>	1.4 times	1.4 times	1.7 times	5.1 times
Quick ratio <i>(Note 7)</i>	1.4 times	1.4 times	1.6 times	4.6 times
<b>Solvency:</b>				
Interest coverage ratio <i>(Note 8)</i>	13.9 times	16.8 times	35.0 times	69.8 times
Gearing ratio <i>(Note 9)</i>	0.4 times	0.3 times	0.2 times	0.05 times
Net debt to equity ratio <i>(Note 10)</i>	0.1 times	0.1 times	Net Cash	Net Cash

#### Notes:

- Gross profit margin is calculated based on the gross profit for the year/period divided by total revenue for the year/period multiplied by 100.
- Net profit margin before interest and tax is calculated based on the profit for the year/period netting off interest and tax expenses for the year/period divided by total revenue for the year/period multiplied by 100.
- Net profit margin is calculated based on the profit for the year/period divided by total revenue for the year/period and multiplied by 100.
- Return on equity is calculated based on the profit for the year divided by total equity at the end of the year and multiplied by 100.
- Return on total assets is calculated based on the profit for the year divided by total assets at the end of the year and multiplied by 100.
- Current ratio is calculated based on the total current assets (including assets classified as held for sale) at the date indicated divided by the total current liabilities at the date indicated.
- Quick ratio is calculated based on the total current assets (including assets classified as held for sale and excluding inventories) at the date indicated divided by the total current liabilities at the date indicated.
- Interest coverage ratio is calculated based on the profit before interest and tax for the year/period divided by interest expenses for the year/period.
- Gearing ratio is calculated based on the total debt (i.e. borrowings + finance lease liabilities) at the date indicated divided by the total equity at the date indicated.
- Net debt to equity ratio is calculated based on the net debt (i.e. borrowings + finance lease liabilities – cash and cash equivalent – pledged bank deposits) at the date indicated divided by the total equity at the date indicated.

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### Gross profit margin

Our gross profit margin remained relatively stable from FY2015 to FY2016, then decreased from 8.4% for FY2016 to 7.3% for FY2017, and further decreased to 6.5% for 8M2018. Please refer to the paragraph headed “Description and discussion of the major components of the combined statements of comprehensive income — Gross profit and gross profit margin” in this section for further details.

### Net profit margin before interest and tax

Our net profit margin before interest and tax decreased from 4.7% for FY2015 to 4.5% for FY2016, primarily due to the decrease in our operating profit by RM2.8 million. Our net profit margin before interest and tax further decreased to 4.3% for FY2017 as a result of the drop in gross profit margin. Our net profit margin before interest and tax improved from 4.3% for FY2017 to 5.0% for 8M2018 even though the gross profit margin declined from 7.3% for FY2017 to 6.5% for 8M2018, which was mainly due to the gain on disposal of our assets classified as held for sale of RM9.3 million in 8M2018.

### Net profit margin

Our net profit margin remained relatively stable at 3.2%, 3.2% and 3.1% for FY2015, FY2016 and FY2017, respectively. Our net profit margin increased from 3.1% for FY2017 to 3.8% for 8M2018, mainly attributable to the one-off gain on disposal of assets classified as held for sale amounting to RM9.3 million in 8M2018.

### Return on equity

Our return on equity declined from 31.6% for FY2015 to 25.5% for FY2016, then increased to 32.8% in FY2017. The drop in return on equity in FY2016 was primarily due to (a) the decrease in our net profit of RM1.6 million; and (b) the increase in total equity of RM4.0 million as at 31 December 2016. The increase in return on equity for FY2017 was mainly attributable to the growth in net profit by RM11.0 million or 90.9%, which outpaced the increase in our total equity by RM23.1 million or 48.8%.

### Return on total assets

Our return on total assets decreased from 11.0% for FY2015 to 9.4% for FY2016, then increased to 14.5% for FY2017. The drop in return on assets in FY2016 was mainly attributable to (a) the decrease in our net profit of RM1.6 million; and (b) the increase in total asset of RM3.6 million for the same year. Our return on total assets increased from 9.4% for FY2016 to 14.5% for FY2017, primarily due to the growth in net profit for the year by 90.9% in FY2017 partially offset by the increase in total asset by 24.3% as at 31 December 2017.

### Current ratio

Our current ratio remained relatively stable at 1.4 times as at 31 December 2015 and 2016. The current ratio increased to 1.7 times as at 31 December 2017, primarily due to the increase in our



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current assets by RM33.6 million, which outpaced the increase in current liabilities of RM7.7 million. Our current ratio significantly increased from 1.7 times to 5.1 times as at 31 August 2018, mainly due to the decrease in our current liabilities by RM57.3 million resulting from (a) the settlement of all amounts due to Directors and amounts due to related parties in aggregate of RM43.5 million in 8M2018; (b) the decrease in trade and other payables of RM8.6 million; (c) the decline in borrowing of RM4.5 million; and (d) the decrease in current income tax liabilities of RM0.5 million, which outpaced the decrease in our current assets of RM15.8 million.

### Quick ratio

Our quick ratio was 1.4 times, 1.4 times, 1.6 times and 4.6 times as at 31 December 2015, 2016 and 2017 and 31 August 2018, respectively. Our quick ratio demonstrated a similar trend as our current ratio and the reasons for the fluctuations are also similar to that of our current ratio.

### Interest coverage ratio

Our interest coverage ratio increased from 13.9 times for FY2015 to 16.8 times for FY2016. Such increase was mainly due to (a) the decrease in finance costs from RM1.4 million for FY2015 to RM1.0 million for FY2016, representing a 28.6% drop; and (b) the decrease in operating profit of RM2.8 million for FY2016.

Significant increase in our interest coverage ratio for FY2017 was mainly attributable to (a) the increase in profit before interest and tax by 86.5% for FY2017; and (b) the decrease in our finance costs by 10.0%.

Our interest coverage ratio further increased to 69.8 times for 8M2018 because our profit before interest and tax increased primarily due to (a) the increase in other gain resulted from the disposal of our assets classified as held for sale amounting to RM9.3 million in 8M2018; and (b) the increase in the gross profit by RM6.9 million.

### Gearing ratio

Our gearing ratio was 0.4 times, 0.3 times, 0.2 times and 0.05 times as at 31 December 2015, 2016 and 2017 and 31 August 2018, respectively. The declining trend of our gearing ratio was primarily attributable to the continuous decrease in our borrowings and finance lease liabilities.

### Net debt to equity ratio

Our net debt to equity ratio remained relatively stable at 0.1 times as at 31 December 2015 and 2016. Our net debt to equity ratio improved from 0.1 times as at 31 December 2016 to a net cash position as at 31 December 2017, primarily due to (a) the increase in cash and cash equivalents by RM11.0 million as at 31 December 2017; and (b) the decrease in borrowings and finance lease liabilities as at 31 December 2017.

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## FINANCIAL INFORMATION

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### CAPITAL EXPENDITURES

Our capital expenditure primarily comprises purchase of property, plant and equipment and investment properties. Our capital expenditure was funded by our internal resources, bank borrowings, and advances from our Directors during the Track Record Period. The following table sets forth our Group's capital expenditure during the Track Record Period:

	Year ended 31 December			Eight months ended 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Property, plant and equipment	2,705	1,530	1,321	1,386
Investment properties	88	1,563	73	433
	<u>2,793</u>	<u>3,093</u>	<u>1,394</u>	<u>1,819</u>

### RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors have confirmed that each of the related party transactions set out in note 29 of the accountant's report in Appendix I to this prospectus were carried out in the ordinary course of business on an arm's length basis and on normal commercial terms with the relevant parties. As at 31 August 2018, the balance with related parties had been settled.

From 30 September 2015 to 14 April 2016, Mr. Sia 4, through a 50% owned entity, held 50.96% interest in Customer A. Our Directors have confirmed and the Sole Sponsor has concurred, after reviewing the rates of comparable transactions conducted by Customer A with other suppliers that those transactions with Customer A had been conducted on an arm's length basis and on normal commercial terms.

Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

## FINANCIAL INFORMATION

### CAPITAL COMMITMENTS

Our Group had capital expenditure contracted for but not yet incurred as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Capital expenditure contracted for but not provided in the combined financial statements in respect of:				
— acquisition of investment properties	623	552	481	—
— purchase of plant and machinery	—	—	—	2,429

### OPERATING LEASE COMMITMENTS — AS LESSEE

Our future aggregate minimum lease payments under non-cancellable operating leases in respect of rental of premises are as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
— No later than one year	1	1	1	1
— Later than one year and no later than five years	5	4	3	3
	6	5	4	4

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any material off-balance sheet transaction or arrangement.

### CONTINGENT LIABILITIES

At the end of each of the reporting periods, we did not have any significant contingent liabilities.

### PROPERTY INTERESTS

Please refer to the paragraph headed “Business — Properties” of this prospectus for further details.

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## FINANCIAL INFORMATION

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### QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT FINANCIAL RISKS

#### Foreign currency risk

Our Group operates in Malaysia and our Group's transactions are mainly denominated in RM which is the functional and presentation currency for most of our Group's entities. Therefore, our Group is not exposed to significant foreign currency risk.

#### Interest rate risk

We are exposed to interest rate risk in relation to borrowings from banks. Fluctuations of prevailing market interest rates would result in interest rate risks to our Group. Our Group currently does not have any interest rate hedging policy. However, our management closely monitors its exposure to interest rate risk as a result of change in market interest rate and will consider hedging changes in market interest rates should the need arise.

#### Credit risk

Our Group's exposure to credit risk is primarily attributable to the carrying amount of our financial assets as stated in the combined statements of financial position. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

Our Group has significant concentration of credit risk from customers for scrap ferrous metals such as steel mills and ferrous metal trading companies. As our Group is the few approved scrap metal providers to the steel mill customers and based on the past repayment history, our Directors believe that the credit risk inherent in our Group's outstanding trade receivables from this group of customers is low. In order to minimise the credit risk, our Group monitors the outstanding debts from customers individually.

Our Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because our Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions. In addition, our Group also has concentration credit risk from amounts due from related parties and other receivables. The management of our Group considers that the credit risk of those balances is limited because the counterparties have a strong capacity to meet their contractual cash flow obligations in the near future.

#### Liquidity risk

In order to manage liquidity risk, our Group monitors rolling forecasts of our Group's liquidity requirements on a quarterly basis to ensure we have sufficient cash to meet operational needs. Our management also monitors the utilisation of bank borrowings and ensures that our Group is in compliance with loan covenants. For details of the maturity profile of our Group's financial liabilities, see note 3.1 of the accountant's report in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$0.56 (being the mid-point of the stated range of the Offer Price between HK\$0.50 and HK\$0.62), the total expenses for the Listing (including underwriting fees and commission payable by us) are estimated to be approximately RM22.5 million, of which RM1.2 million and RM4.0 million were charged as part of the administrative expenses for FY2017 and 8M2018, respectively.

We expect approximately RM6.7 million of the Listing expenses to be charged as administrative expenses subsequently of which RM4.3 million will be charged in the remaining four months for FY2018 while the remaining RM2.4 million will be charged for the year ending 31 December 2019. RM10.6 million is expected to be accounted for as deduction from equity upon the Listing. The above total Listing expenses are the latest practicable estimates for reference only, and the final amount to be recognised may differ from these estimates.

### DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 12 April 2018 as an investment holding company and had no reserve available for distributions to our Shareholders as at the Latest Practicable Date.

### DIVIDENDS

Our Company was incorporated on 12 April 2018 and no dividend was paid or declared by our Company since its incorporation. During the year ended 31 December 2016, an interim dividend of RM8.0 million was declared by HH Metal to its then shareholders.

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare dividends of no less than 30% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. Our Board will review dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, and other factors our Board may deem relevant in determining whether dividends are to be declared and paid.

Any declaration and payment as well as the amount of dividends will be subject to the Articles and Cayman Companies Law. No dividend shall be declared or paid except out of our distributable profit and funds that are lawfully available for distribution under the Cayman Companies Law.

### SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

For details of subsequent events, please refer to note 32 to the accountant's report in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2018

Our Directors estimate that, on the bases set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the estimated unaudited combined profit attributable to owners of our Company for the year ended 31 December 2018 is as follows:

Estimated unaudited combined profit attributable to owners of our Company <sup>(Note 1)</sup>	Not less than RM23.5 million
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Unaudited pro forma estimated earnings per Share <sup>(Note 2)</sup>	Not less than RM2.35 cents
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*Notes:*

1. The bases on which the above profit estimate for the year ended 31 December 2018 has been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the estimated combined profit attributable to owners of our Company for the year ended 31 December 2018 based on the audited combined results of our Group for the eight months ended 31 August 2018 and the unaudited combined results based on management accounts of our Group for the four months ended 31 December 2018. The profit estimate has been prepared on the basis that is consistent in all material respects with the accounting policies currently adopted by our Group as set out in note 2 of Section II in Appendix I to this prospectus.
2. The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated combined profit for the year ended 31 December 2018 attributable to owners of our Company by 1,000,000,000 Shares that had been in issue for the year ended 31 December 2018, assuming that the Share Offer and the Capitalisation Issue had been completed on 1 January 2018. The calculation of the estimated earnings per Share does not take into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

### NO MATERIAL ADVERSE CHANGE

Save for the expenses incurred in connection with the Listing, our Directors have confirmed that, since 31 August 2018 and up to the date of this prospectus, there had been no material adverse change in our financial or trading position and no event had occurred that would materially and adversely affect the information shown in our combined financial statements set out in the accountant's report in Appendix I to this prospectus.

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to Appendix II to this prospectus for further details.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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The Sia Brothers entered into a deed of acting in concert confirmation and undertaking dated 20 August 2018, whereby they have, among other things, (a) confirmed and declared that prior to the execution of the deed of acting in concert confirmation and undertaking, they had acted in concert as a group and voted as a group (by themselves and/or through companies controlled by them) in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels; and (b) undertaken that, upon execution of the deed of acting in concert confirmation and undertaking and during the period they (by themselves or together with their associates) remain in control of our Group until the deed of acting in concert confirmation and undertaking is terminated by all of them in writing, they shall continue to act in concert as a group and to vote as a group (by themselves and/or through companies controlled by them and/or their trustees) on an unanimous basis in respect of all shareholders' matters and corporate matters relating to the financials and operations of each member of our Group at its shareholder and board levels.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), 5S Holdings (which is wholly owned by the Sia brothers as to 35% by Mr. Sia 4, and 16.25% by each of the remaining Sia Brothers) will be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company, therefore, 5S Holdings is our Controlling Shareholder. On the basis that the Sia Brothers have decided to restrict their ability to exercise direct control over our Company by holding part of their interests through 5S Holdings, the Sia Brothers are a group of our Controlling Shareholders.

Further, since 5S Holdings is a company controlled by the Sia Brothers, 5S Holdings and the Sia Brothers are together regarded as a group of our Controlling Shareholders pursuant to the deed of acting in concert confirmation and undertaking.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) taking into account the following factors:

#### **Financial independence**

Our Group has an independent financial system and makes financial decisions according to our business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our day-to-day operations.

During the Track Record Period and up to the Latest Practicable Date, our Group had relied principally on cash generated from our operations, bank borrowings and advances from related parties to finance our business. Upon completion of the Share Offer, our Group expects that our future operations will be financed mainly by the net proceeds of the Share Offer, internally generated funds and borrowings from financial institutions.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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As at the Latest Practicable Date, the amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) had been fully settled. The personal guarantees given by our Controlling Shareholders in respect of our bank borrowings will be replaced by corporate guarantees given by our Company upon the Listing.

Having considered that our future operations is not expected to be financed by our Controlling Shareholders, the amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) had been fully settled and the personal guarantees given by our Controlling Shareholders will be replaced by corporate guarantees given by our Company upon the Listing, our Directors consider that our Group is financially independent of our Controlling Shareholders.

### **Operational independence**

Except for the tenancy arrangements as disclosed in the paragraph headed “Connected Transactions — Exempt continuing connected transactions — (a) Tenancy agreement in respect of the tenancy of part of the Melaka Scrapyard I by HH Hardware” and “Connected Transactions — Exempt continuing connected transactions — (b) Tenancy agreement in respect of the tenancy of the Melaka Scrapyard II by HH Paper (Melaka)” of this prospectus, our Group rents the premises of all our scrapyards from independent third parties and owns all the machinery necessary to our business operations.

Sales, procurement and administrative functions relating to our business are carried out independently by our Group. We have sufficient operational capacity in terms of capital, equipment and employees to operate our businesses independently of our Controlling Shareholders and their respective close associates (other than members of our Group). Our Directors consider that given we are at liberty to rent premises as our scrapyards from independent third party upon expiration of the aforesaid tenancy agreement, the impact of our tenancy arrangement with our Controlling Shareholders on our operational independence is not material.

### **Management independence**

Our management and operational decisions are made by our Board and our senior management personnel. Our Board comprises five executive Directors and three independent non-executive Directors. Other than being our executive Directors, the Sia Brothers are also directors of 5S Holdings. 5S Holdings is one of our Controlling Shareholders. 5S Holdings is an investment holding company without operations other than holding the Shares for the Sia Brothers. Save as disclosed above, none of our Directors serves any executive or managerial role in 5S Holdings.

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 best interest of our Group and not to allow any conflict between his/her duties as a Director and his/her personal interest. Our independent non-executive Directors are all well-educated with extensive experience in different professions and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors with different backgrounds provides a balance of views and opinions. Please



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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refer to the paragraph headed “Directors and Senior Management — Directors” of this prospectus for the backgrounds of our Directors. Our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision making power unless otherwise authorised by our Board.

In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and any of our Directors or their respective close associates or in the case of connected transactions, their respective associates (other than members of our Group), the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transaction and shall not be counted in the quorum. In case any of the Sia Brothers is required to abstain from voting at the Board meeting due to potential conflict of interest, our independent non-executive Directors will be able to form a quorum and will ensure that the decisions of our Board are made after due consideration of independent and impartial opinions.

In addition, none of our senior management serves any executive or managerial role in 5S Holdings.

In view of the aforesaid, our Directors are of the view that our management independence is upheld despite the Sia Brothers also serving as directors of 5S Holdings.

### COMPETITION UNDER RULE 8.10 OF THE LISTING RULES

To the best knowledge of our Directors, none of our Controlling Shareholders and their respective close associates (other than members of our Group) has any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our business.

Further, each of our Directors has confirmed that he/she is not interested in any business apart from our business (where relevant), which competes or is likely to compete, either directly or indirectly, with our business.

### DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time), under which each of our Controlling Shareholders has jointly and severally undertaken to our Company that he/it shall not, and shall procure that none of their respective close associates (other than members of our Group) shall, during the Restricted Period (as defined below), directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business of trading of scrap ferrous metals, used batteries and waste paper in Malaysia and any other new business which our Group may undertake from time to time after the Listing (the “**Restricted Business**”).

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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The Deed of Non-competition does not apply to our Controlling Shareholders in the circumstances where he or it has:

- (a) any interest in the shares of any member of our Group; or
- (b) interest in the shares of a company other than our Group provided that:
  - (i) any Restricted Business conducted or engaged in by such company (and assets relating to any Restricted Business) accounts for less than 5% of that company's consolidated sales or consolidated assets, as shown in that company's latest audited accounts; and
  - (ii) the total number of shares held by our Controlling Shareholders and their respective close associates (other than members of our Group) in aggregate does not exceed 5% of the issued shares of that class of the company in question and our Controlling Shareholders and their respective close associates (other than members of our Group) are not entitled to appoint a majority of the directors of that company.

The “**Restricted Period**” stated in the Deed of Non-competition refers to the period during which:

- (a) the Shares remain listed on the Stock Exchange; and
- (b) our Controlling Shareholders and their respective close associates (other than members of our Group), individually or jointly, are entitled to exercise, or control the exercise of, not less than 30% of the voting power at general meetings of our Company; or
- (c) any of our Controlling Shareholders or their relevant close associates remains as a director of any member of our Group.

Each of our Controlling Shareholders has further jointly and severally undertaken to procure that, during the Restricted Period, any business investment or other commercial opportunity relating to the Restricted Business (the “**New Opportunity**”) identified by or offered to our Controlling Shareholders and/or any of their respective close associates (other than members of our Group) (the “**Offeror**”) shall be first referred to our Group in the following manner:

- (a) our Controlling Shareholders are required to, and shall procure their respective close associates (other than members of our Group) to, promptly refer, or procure the referral of, the New Opportunity to our Group, and shall promptly give written notice to our Company of any New Opportunity containing all information reasonably necessary for our Group to consider whether (i) the New Opportunity would constitute competition with our business and/or any other new business which our Group may undertake at the relevant time; and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”); and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (b) the Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from our Company declining the New Opportunity and confirming that the New Opportunity would not constitute competition with the business of our Group; or (ii) the Offeror has not received the notice from our Company within ten business days from our Company's receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror shall refer the New Opportunity as so revised to our Group in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from a committee of our Board consisting of our independent non-executive Directors as to whether (a) such New Opportunity would constitute competition with our business; (b) it is in the interest of our Company and our Shareholders as a whole to take up the New Opportunity; and (c) to take up or decline the New Opportunity.

With a view to avoiding competition of businesses between our Group and our Controlling Shareholders, our independent non-executive Directors will, at least on an annual basis, review the compliance with and enforcement of the Deed of Non-competition by our Controlling Shareholders and the results of such review will be included in our annual report.

Each of our Controlling Shareholders has further undertaken to promptly:

- (a) provide all relevant information for the annual review by our independent non-executive Directors for compliance with and enforcement of the Deed of Non-competition;
- (b) allow, subject to confidentiality restrictions imposed by any third party, the representatives, the auditors and (if necessary) the compliance adviser of our Company to have access to his/its business, financial and/or corporate records as may be necessary for our independent non-executive Directors to determine whether our Controlling Shareholders and their respective close associates (other than members of our Group) have complied with the terms of the Deed of Non-competition;
- (c) make an annual declaration in our annual report on compliance with and enforcement of the Deed of Non-competition in accordance with the Listing Rules; and
- (d) address such other enquiries as may be made by the Stock Exchange, the SFC, any other regulatory bodies or our Company from time to time.

Our Controlling Shareholders, for themselves and on behalf of their respective close associates (other than members of our Group), have also acknowledged that our Company may be required by the relevant laws, rules and regulations of the stock exchange(s) on which the Shares may be listed and the regulatory bodies in effect from time to time to:

- (a) disclose, from time to time, information on the New Opportunity, including but not limited to disclosure in our Company's annual reports or announcements decision made by our independent non-executive Directors to pursue or decline the New Opportunity, together with the reason in case of decline, and our Controlling Shareholders have agreed to the disclosure to the extent necessary to comply with any such requirement; and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (b) comply with such further legal or regulatory requirements in connection with the Deed of Non-competition and our Controlling Shareholders have agreed to do all such acts to facilitate our Company to comply with the same.

Each of our Controlling Shareholders has jointly and severally undertaken that he/it will not, and will procure his/its close associates not to, directly or indirectly, solicit, interfere with or entice away from any member of our Group, any natural person, legal entity, enterprise or otherwise who, to any of our Controlling Shareholders' knowledge, as at the date of the Deed of Non-competition, is or has been or will after the date of the Deed of Non-competition be, a customer, supplier, distributor or management, technical staff or employee (of managerial grade or more) of any member of our Group.

Each of our Controlling Shareholders has further jointly and severally undertaken that he/it will not, and will procure his/its close associates not to, exploit his/its knowledge or information obtained from our Group to compete, directly or indirectly, with the Restricted Business.

## CORPORATE GOVERNANCE

The Deed of Non-competition provides that our Controlling Shareholders and their respective close associates (other than members of our Group) shall not compete with our Group. Our Directors consider that we have adequate corporate governance measures in place to resolve any actual and potential conflict of interest. To further avoid potential conflict of interest, we have implemented the following measures:

- (a) our Company has adopted the Articles which provide that unless otherwise permitted by the Articles, a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of our Directors in respect of any contract or arrangement or other proposal in which he/she or his/her close associate(s), or in the case of our connected transactions, his/her associates, has/have any material interest, and if he/she shall do so his/her vote shall not be counted (nor is he/she be counted in the quorum for that resolution);
- (b) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with and enforcement of the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to take up the New Opportunity;
- (c) our Controlling Shareholders will, as stipulated under the Deed of Non-competition, provide all relevant information for the annual review by our independent non-executive Directors for compliance with and enforcement of the Deed of Non-competition;
- (d) our Company will disclose, from time to time, information on the New Opportunity, including but not limited to disclosing through our annual reports or announcements the decision of our independent non-executive Directors to pursue or decline the New Opportunity, together with the reason in case of decline;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (e) our Company will use our best endeavours to ensure that our Board includes a balanced composition of executive and independent non-executive Directors. We have appointed three independent non-executive Directors who possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of their independent judgement. Backgrounds of our independent non-executive Directors are set out in the paragraph headed “Directors and Senior Management — Directors” of this prospectus; and;
- (f) we have appointed Shenwan Hongyuan Capital (H.K.) Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the Listing Rules and various requirements relating to directors’ duties and corporate governance.

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## CONNECTED TRANSACTIONS

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It is expected that the transactions disclosed in this section will continue following the Listing, thereby constituting continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

### RELATIONSHIP BETWEEN OUR GROUP AND THE CONNECTED PERSONS OF OUR COMPANY

The relationship between our Group and the counterparty to the transactions disclosed in this section is as follows:

(a) **Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5**

As Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5 are our executive Directors and Controlling Shareholders, each of them will become a connected person of our Company upon the Listing pursuant to Rule 14A.07(1) of the Listing Rules.

(b) **Long Hin Recycle & Trading Sdn. Bhd.**

Long Hin Recycle & Trading Sdn. Bhd. (“**Long Hin**”) is a company owned as to 50% by Mr. Sia Yin Hwee, being an uncle of the Sia Brothers, and 50% by Ms. Tan Ah Ngoo, being his spouse. As such, Long Hin will become a deemed connected person of our Company upon the Listing pursuant to Rule 14A.21(1)(a) and (b) of the Listing Rules.

(c) **Lek Seng**

Lek Seng is a partnership owned by Mr. Lim Lai Wah and Mr. Lam Swee Seng, who are cousins of the Sia Brothers. Mr. Lim Lai Wah and Mr. Lam Swee Seng are brothers. As the Sia Brothers are our executive Directors and Controlling Shareholders, both Mr. Lim Lai Wah and Mr. Lam Swee Seng will become deemed connected persons of our Company upon the Listing pursuant to Rule 14A.21(1)(a) of the Listing Rules.

(d) **Lek Seng Metal Sdn. Bhd.**

Lek Seng Metal Sdn. Bhd. is a company owned as to 49.9988% by Mr. Lim Lai Wah, 49.9988% by Mr. Lam Swee Seng and 0.0008% by each of the three sons of Mr. Lim Lai Wah. As such, Lek Seng Metal Sdn. Bhd. will become a deemed connected person of our Company upon the Listing pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules.

(e) **Chye Seng Huat Trading**

Chye Seng Huat Trading is a sole proprietorship owned by Mr. Lim Ching Chan, who is a cousin of the Sia Brothers. As such, Mr. Lim Ching Chan will become a deemed connected person of our Company upon the Listing pursuant to Rule 14A.21(1)(a) of the Listing Rules.

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## CONNECTED TRANSACTIONS

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(f) **Chye Seng Huat Sdn. Bhd.**

Chye Seng Huat Sdn. Bhd. is a company owned as to 50% by the late Mr. Lim Tian Fow, being a cousin of the Sia Brothers and a brother of Mr. Lim Ching Chan, and 50% by Mr. Lim Soon Lee, being his son. Although the late Mr. Lim Tian Fow, being a deemed connected person of our Company under Rule 14A.21(1)(a) of the Listing Rules, only holds 50% of Chye Seng Huat Sdn. Bhd., to the best knowledge of our Directors, it is perceived that the late Mr. Lim Tian Fow controlled the composition of a majority of the board of directors of such company. As such, we have treated Chye Seng Huat Sdn. Bhd. as if it remained a majority-controlled company (as defined under the Listing Rules) held by the late Mr. Lim Tian Fow and thus a deemed connected person of our Company upon the Listing pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules.

(g) **Soon Lee Metal Sdn. Bhd.**

Soon Lee Metal Sdn. Bhd. is a company owned as to 50% by the late Mr. Lim Tian Fow and 50% by Mr. Lim Soon Lee. Although the late Mr. Lim Tian Fow, being a deemed connected person of our Company under Rule 14A.21(1)(a) of the Listing Rules, only holds 50% of Soon Lee Metal Sdn. Bhd., to the best knowledge of our Directors, it is perceived that the late Mr. Lim Tian Fow controlled the composition of a majority of the board of directors of such company. As such, we have treated Soon Lee Metal Sdn. Bhd. as if it remained a majority-controlled company (as defined under the Listing Rules) held by the late Mr. Lim Tian Fow and thus a deemed connected person of our Company upon the Listing pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules.

## EXEMPT CONTINUING CONNECTED TRANSACTIONS

(a) **Tenancy agreement in respect of the tenancy of part of the Melaka Scrapyard I by HH Hardware**

On 19 February 2019, HH Hardware entered into a tenancy agreement (the “**HH Hardware Tenancy Agreement**”) with Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5, pursuant to which HH Hardware has agreed to rent PM 14, Lot 695, Mukim Cheng, Melaka, Malaysia, i.e. part of the Melaka Scrapyard I, from Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5 as our scrap ferrous metal scrapyard in Melaka, Malaysia for a fixed term commencing on the Listing Date and expiring on 31 December 2021. The monthly rent payable by HH Hardware is RM10,000. The HH Hardware Tenancy Agreement was entered into in substitution for the tenancy agreement dated 1 March 2018 entered into between the same parties (the “**Old HH Hardware Tenancy Agreement**”).

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## CONNECTED TRANSACTIONS

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### *Historical transaction amounts, annual caps and basis*

With respect to the connected transactions contemplated under the HH Hardware Tenancy Agreement, the historical figures during the Track Record Period and the proposed annual caps for the three years ending on 31 December 2021 are listed below:

Historical figures for				Proposed annual caps for		
the year ended 31 December			the eight months ended 31 August	the year ending 31 December		
2015	2016	2017	2018	2019	2020	2021
Nil <i>(Note 1)</i>	Nil <i>(Note 1)</i>	Nil <i>(Note 1)</i>	RM60,000 <i>(Note 2)</i>	RM120,000	RM120,000	RM120,000

*Notes:*

- For FY2015, FY2016 and FY2017, the properties at PM14, Lot 695, Mukim Cheng, Melaka, Malaysia had been using by our Group on a rent-free basis.
- The historical figure for 8M2018 comprises the monthly rent of RM10,000 paid by HH Hardware under the Old HH Hardware Tenancy Agreement from 1 March 2018 to 31 August 2018.

To ensure the fairness and reasonableness of the terms of the HH Hardware Tenancy Agreement, the above proposed annual caps are determined with reference to the market rent of RM131,880 for FY2017 as valued under the rental valuation report of KGV International Property Consultants (M) Sdn. Bhd., being an independent property valuer, which considers the rent payable represents the prevailing market rent of comparable properties. Our Directors have confirmed that the transactions contemplated under the HH Hardware Tenancy Agreement will be conducted on normal commercial terms.

### *Reasons for the transactions*

Our Group had been using the properties at PM 14, Lot 695, Mukim Cheng, Melaka, Malaysia as part of our scrap ferrous metal scrapyards in the state of Melaka during the Track Record Period. Having considered that the rent is comparable to the prevailing market rent of comparable properties in the locality, and additional renovation and associated costs which we may incur if we move out of the properties under the HH Hardware Tenancy Agreement and relocate to another premises, our Directors consider that it is desirable and in the interests of our Group and our Shareholders as a whole that our Group continues to use the properties under the HH Hardware Tenancy Agreement as part of our scrap ferrous metal scrapyards in the state of Melaka.

#### **(b) Tenancy agreement in respect of the tenancy of the Melaka Scrapyard II by HH Paper (Melaka)**

On 19 February 2019, HH Paper (Melaka) entered into a tenancy agreement (the “**HH Paper (Melaka) Tenancy Agreement**”) with Mr. Sia 5, pursuant to which HH Paper (Melaka) has agreed to rent PN 20151, Lot 4862, Mukim Cheng, Melaka, Malaysia, i.e. the Melaka Scrapyard II, from Mr. Sia 5 as our waste paper scrapyards in Melaka, Malaysia for a fixed term commencing on the Listing Date and expiring on 31 December 2021. The monthly rent payable by HH Paper (Melaka) is



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## CONNECTED TRANSACTIONS

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RM3,800. The HH Paper (Melaka) Tenancy Agreement was entered into in substitution for the tenancy agreement dated 26 October 2016 (the “**First HH Paper (Melaka) Tenancy Agreement**”), the letter of extension dated 25 October 2017 (the “**Letter of Extension**”) and the tenancy agreement dated 24 August 2018 entered into between the same parties (the “**Second HH Paper (Melaka) Tenancy Agreement**”).

### *Historical transaction amounts, annual caps and basis*

With respect to the connected transactions contemplated under the HH Paper (Melaka) Tenancy Agreement, the historical figures during the Track Record Period and the proposed annual caps for the three years ending on 31 December 2021 are listed below:

Historical figures for				Proposed annual caps for		
the year ended 31 December			the eight months ended	the year ending 31 December		
2015	2016	2017	31 August 2018	2019	2020	2021
Nil <i>(Note 1)</i>	RM3,290 <i>(Notes 1 and 2)</i>	RM27,870 <i>(Note 3)</i>	RM30,400 <i>(Note 4)</i>	RM45,600	RM45,600	RM45,600

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#### *Notes:*

- From 1 January 2015 to 25 October 2016, the properties at PN 20151, Lot 4862, Mukim Cheng, Melaka, Malaysia had been using by our Group on a rent-free basis.
- The historical figure for FY2016 comprises the monthly rent of RM1,500 paid by HH Paper (Melaka) under the First HH Paper (Melaka) Tenancy Agreement from 26 October 2016 to 31 December 2016.
- The historical figure for FY2017 comprises the monthly rent of RM1,500 paid by HH Paper (Melaka) under the First HH Paper (Melaka) Tenancy Agreement from 1 January 2017 to 25 October 2017 and the monthly rent of RM6,000 paid by HH Paper (Melaka) under the Letter of Extension from 26 October 2017 to 31 December 2017.
- The historical figure for 8M2018 comprises the monthly rent of RM3,800 paid by HH Paper (Melaka) under the Second HH Paper (Melaka) Tenancy Agreement from 1 January 2018 to 31 August 2018.

To ensure the fairness and reasonableness of the terms of the HH Paper (Melaka) Tenancy Agreement, the above proposed annual caps are determined with reference to the market rent of RM46,380 for FY2017 as valued under the rental valuation report of KGV International Property Consultants (M) Sdn. Bhd., being an independent property valuer, which considers the rent payable represents the prevailing market rent of comparable properties. Our Directors have confirmed that the transactions contemplated under the HH Paper (Melaka) Tenancy Agreement will be conducted on normal commercial terms.

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## CONNECTED TRANSACTIONS

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### *Reasons for the transactions*

Our Group had been using the properties at PN 20151, Lot 4862, Mukim Cheng, Melaka, Malaysia as our waste paper scrapyards in the state of Melaka. Having considered that the rent is comparable to the prevailing market rent of comparable properties in the locality, and additional renovation and associated costs which we may incur if we move out of the properties under the HH Paper (Melaka) Tenancy Agreement and relocate to another premises, our Directors consider that it is desirable and in the interests of our Group and our Shareholders as a whole that our Group continues to use the properties under the HH Paper (Melaka) Tenancy Agreement as our waste paper scrapyards in the state of Melaka.

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING, ANNOUNCEMENT, CIRCULAR AND SHAREHOLDERS' APPROVAL REQUIREMENTS**

#### **(a) Master purchase agreement in respect of the purchase of scrap ferrous metals and used batteries from Long Hin**

Our Group has from time to time purchased scrap ferrous metals and used batteries from Long Hin in the ordinary and usual course of business and it is anticipated that our Group will continue to purchase scrap ferrous metals and used batteries from Long Hin after the Listing.

On 19 February 2019, our Company entered into a master purchase agreement (the “**Long Hin Master Purchase Agreement**”) with Long Hin, pursuant to which our Company may, but is not obliged to, purchase scrap ferrous metals and used batteries from Long Hin for a fixed term commencing on the Listing Date and expiring on 31 December 2021, subject to the annual caps set out below.

#### *Historical transaction amounts, annual caps and basis*

With respect to the connected transactions contemplated under the Long Hin Master Purchase Agreement, the historical figures during the Track Record Period and the proposed annual caps for the three years ending on 31 December 2021 are listed below:

Historical figures for				Proposed annual caps for		
the year ended 31 December			the eight months	the year ending 31 December		
2015	2016	2017	ended 31 August 2018	2019	2020	2021
RM0.2	RM0.4	RM0.2	RM0.1	RM0.4	RM0.5	RM0.6
million	million	million	million	million	million	million

The above proposed annual caps are determined based on (a) our aggregate costs of purchase of scrap ferrous metals and used batteries from Long Hin during the Track Record Period; (b) the anticipated demand of our customers for scrap ferrous metals and used batteries for the three years ending 31 December 2021; (c) our expected business growth; and (d) the market overview of the scrap material trading market. In particular, the proposed annual cap for the year ending 31 December 2019 is determined with reference to the historical figures for FY2016 of RM0.4 million. As the proposed

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## CONNECTED TRANSACTIONS

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annual caps for the years ending 31 December 2019, 2020 and 2021 only amounted to 0.06%, 0.07% and 0.09% of our cost of trading goods sold for FY2017, our Directors consider our Group can easily absorb such amount of scrap ferrous metals and used batteries supplied by Long Hin as long as it can supply to us. In addition, given that the supply by Long Hin fluctuated significantly during the Track Record Period, buffer has been provided for to allow flexibility for the potential increase in supply by Long Hin. Therefore, the proposed annual cap for the year ending 31 December 2019 is determined with reference to the highest annual transaction amount with Long Hin during the Track Record Period, i.e. the historical figure for the year ended 31 December 2016. The progressive increase of RM0.1 million in the annual cap for each of the years ending 31 December 2020 and 2021 is determined with reference to the expected business growth.

To ensure the fairness and reasonableness of the terms of the Long Hin Master Purchase Agreement, we will from time to time contact with other independent suppliers and our customers to keep abreast of the market conditions. Further, before we agree on the purchase prices with Long Hin, we will obtain the pricing information from other independent suppliers to ensure that we only source scrap materials from suppliers who are willing to offer us competitive prices.

Due to the strong demand of scrap materials of our end customers, our Group would source scrap materials from suppliers in the market so long as they are able to deliver the required scrap materials. Given that the transactions with Long Hin were on arm's length basis, and the purchase prices payable and the payment terms granted to Long Hin were comparable to those payable and granted to independent suppliers, our Directors consider it is in the interests of our Group and our Shareholders as a whole that our Group continues to purchase scrap ferrous metals and used batteries from Long Hin after the Listing.

**(b) Master purchase agreement in respect of the purchase of scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd.**

Our Group has from time to time purchased scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd. in the ordinary and usual course of business and it is anticipated that our Group will continue to purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd. after the Listing. As Lek Seng and Lek Seng Metal Sdn. Bhd. are connected with each other, the transactions of our Group with each of them are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

On 19 February 2019, our Company entered into a master purchase agreement (the “**Lek Seng Master Purchase Agreement**”) with Lek Seng and Lek Seng Metal Sdn. Bhd., pursuant to which our Company may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd. for a fixed term commencing on the Listing Date and expiring on 31 December 2021, subject to the annual caps set out below.

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## CONNECTED TRANSACTIONS

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### *Historical transaction amounts, annual caps and basis*

With respect to the connected transactions contemplated under the Lek Seng Master Purchase Agreement, the historical figures during the Track Record Period and the proposed annual caps for the three years ending on 31 December 2021 are listed below:

Historical figures for				Proposed annual caps for		
the year ended 31 December			the eight months ended 31 August	the year ending 31 December		
2015	2016	2017	2018	2019	2020	2021
RM9.3	RM11.1	RM27.3	RM20.5	RM40.0	RM45.0	RM50.0
million	million	million	million	million	million	million

The above proposed annual caps are determined based on (a) our aggregate costs of purchase of scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd. during the Track Record Period; (b) the anticipated demand of our customers for scrap ferrous metals, used batteries and waste paper for the three years ending 31 December 2021; (c) our expected business growth; and (d) the market overview of the scrap material trading market. In particular, it is estimated that the historical figure for the year ended 31 December 2018 is RM34.4 million. The progressive increase of RM5.6 million (when compared to the estimated historical figure of RM34.4 million for the year ended 31 December 2018), RM5.0 million and RM5.0 million in the annual cap for the three years ending 31 December 2019, 2020 and 2021 respectively, representing a year-to-year growth rate of 16.3%, 12.5% and 11.1%, is determined with reference to the historical and expected business growth rate.

Our Directors are of the view that the growth rate of the annual cap allows some flexibility for our business expansion with Lek Seng and Lek Seng Metal Sdn. Bhd..

To ensure the fairness and reasonableness of the terms of the Lek Seng Master Purchase Agreement, we will from time to time contact with other independent suppliers and our customers to keep abreast of the market conditions. Further, before we agree on the purchase prices with Lek Seng and Lek Seng Metal Sdn. Bhd., we will obtain the pricing information from other independent suppliers to ensure that we only source scrap materials from suppliers who are willing to offer us competitive prices.

Due to the strong demand of scrap materials of our end customers, our Group would source scrap materials from suppliers in the market so long as they are able to deliver the required scrap materials. Given that there has been no material interruption in the supply of scrap materials by Lek Seng and Lek Seng Metal Sdn. Bhd., the transactions with Lek Seng and Lek Seng Metal Sdn. Bhd. were on arm's length basis, and the purchase prices payable and the payment terms granted to Lek Seng and Lek Seng Metal Sdn. Bhd. were comparable to those payable and granted to independent suppliers, our Directors consider Lek Seng and Lek Seng Metal Sdn. Bhd. to be reliable sources of supply of scrap materials and it is in the interests of our Group and our Shareholders as a whole that our Group continues to purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and Lek Seng Metal Sdn. Bhd. after the Listing.

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## CONNECTED TRANSACTIONS

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- (c) **Master purchase agreement in respect of the purchase of scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd.**

Our Group has from time to time purchased scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. in the ordinary and usual course of business and it is anticipated that our Group will continue to purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. after the Listing. As Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. are connected with each other, the transactions of our Group with each of them are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

On 19 February 2019, our Company entered into a master purchase agreement (the “**Chye Seng Huat Trading Master Purchase Agreement**”) with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., pursuant to which our Company may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. for a fixed term commencing on the Listing Date and expiring on 31 December 2021, subject to the annual caps set out below.

### *Historical transaction amounts, annual caps and basis*

With respect to the connected transactions contemplated under the Chye Seng Huat Trading Master Purchase Agreement, the historical figures during the Track Record Period and the proposed annual caps for the three years ending on 31 December 2021 are listed below:

Historical figures for				Proposed annual caps for		
the year ended 31 December			the eight months ended 31 August	the year ending 31 December		
2015	2016	2017	2018	2019	2020	2021
RM1.8	RM2.0	RM2.9	RM13.0	RM35.0	RM40.0	RM45.0
million	million	million	million	million	million	million

Prior to 2018, our Group only transacted with Chye Seng Huat Trading and Chye Seng Huat Sdn. Bhd. Since April 2018, our Group has also transacted with Soon Lee Metal Sdn. Bhd. For 8M2018, our Group’s transaction amount with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. surged to an aggregate of RM13.0 million.

The above proposed annual caps are determined based on (a) our aggregate costs of purchase of scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. during the Track Record Period; (b) the anticipated demand of our customers for scrap ferrous metals, used batteries and waste paper for the three years ending

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## CONNECTED TRANSACTIONS

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31 December 2021; (c) our expected business growth; and (d) the market overview of the scrap material trading market. In particular, it is estimated that the historical figure for the year ended 31 December 2018 is RM25.9 million. Detailed breakdown is as follows:

<b>Suppliers</b>	<b>Historical figures for 8M2018</b>	<b>Estimated historical figures for the full year of 2018</b>
Chye Seng Huat Trading and Chye Seng Huat Sdn. Bhd.	RM1.8 million	RM2.2 million
Soon Lee Metal Sdn. Bhd.	RM11.2 million <sup>(Note)</sup>	RM23.7 million
	Total	RM25.9 million

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*Note:* Our Group has transacted with Soon Lee Metal Sdn. Bhd. only since April 2018.

The progressive increase of RM9.1 million (when compared to the estimated historical figure of RM25.9 million for the year ended 31 December 2018), RM5.0 million and RM5.0 million in the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021 respectively, representing a year-to-year growth rate of 35.1%, 14.3% and 12.5% is determined with reference to the historical and expected business growth rate. As mentioned above, our Group has transacted with Soon Lee Metal Sdn. Bhd. only since April 2018. The proposed annual cap for the year ending 31 December 2019 is determined with reference to the transaction amount with Soon Lee Metal Sdn. Bhd. on the assumption that it had started business with our Group since 1 January 2018 on a pro rata basis, with detailed calculation as follows:

$$\text{RM23.7 million} \times 12/9 = \text{RM31.6 million}$$

In aggregate of the estimated historical figures for the full year of 2018 for Chye Seng Huat Trading and Chye Seng Huat Sdn. Bhd. of RM2.2 million, the notional transaction figure for FY2018 calculated on a pro rata basis is RM33.8 million, which is approximate to the proposed annual cap of RM35.0 for the year ending 31 December 2019.

Our Directors are of the view that the growth rate of the annual cap allows some flexibility for our business expansion with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd..

To ensure the fairness and reasonableness of the terms of the Chye Seng Huat Trading Master Purchase Agreement, we will from time to time contact with other independent suppliers and our customers to keep abreast of the market conditions. Further, before we agree on the purchase prices with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., we will obtain the pricing information from other independent suppliers to ensure that we only source scrap materials from suppliers who are willing to offer us competitive prices.

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## CONNECTED TRANSACTIONS

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Due to the strong demand of scrap materials of our end customers, our Group would source scrap materials from suppliers in the market so long as they are able to deliver the required scrap materials. Given that there has been no material interruption in the supply of scrap materials by Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., the transactions with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. were on arm's length basis, and the purchase prices payable and the payment terms granted to Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. were comparable to those payable and granted to independent suppliers, our Directors consider Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. to be reliable sources of supply of scrap materials and it is in the interests of our Group and our Shareholders as a whole that our Group continues to purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. after the Listing.

### LISTING RULES IMPLICATIONS

#### HH Hardware Tenancy Agreement and HH Paper (Melaka) Tenancy Agreement

As the counterparty to the HH Hardware Tenancy Agreement, being Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5, and the counterparty to the HH Paper (Melaka) Tenancy Agreement, being Mr. Sia 5, are connected with each other, the transactions contemplated under the HH Hardware Tenancy Agreement and the HH Paper (Melaka) Tenancy Agreement are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

With respect to the connected transactions contemplated under the HH Hardware Tenancy Agreement and the HH Paper (Melaka) Tenancy Agreement, the aggregate proposed annual caps for the three years ending 31 December 2021 are listed below:

For the year ending 31 December		
2019	2020	2021
RM165,600	RM165,600	RM165,600

As all the applicable percentage ratios (as defined in the Listing Rules) for the aggregate proposed annual cap for the transactions contemplated under the HH Hardware Tenancy Agreement and the HH Paper (Melaka) Tenancy Agreement are less than 5% and the aggregate proposed annual caps for each of the three years ending 31 December 2021 is less than HK\$3,000,000, the transactions contemplated under the HH Hardware Tenancy Agreement and the HH Paper (Melaka) Tenancy Agreement will be fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules upon the Listing. We will comply with all the relevant requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

#### Long Hin Master Purchase Agreement, Lek Seng Master Purchase Agreement and Chye Seng Huat Trading Master Purchase Agreement

As the counterparty to the Long Hin Master Purchase Agreement, being Long Hin, the counterparty to the Lek Seng Master Purchase Agreement, being Lek Seng and Lek Seng Metal Sdn.



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## CONNECTED TRANSACTIONS

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Bhd., and the counterparty to the Chye Seng Huat Trading Master Purchase Agreement, being Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd., are connected with each other, the transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

With respect to the connected transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement, the aggregate proposed annual caps for the three years ending 31 December 2021 are listed below:

<b>For the year ending 31 December</b>		
<b>2019</b>	<b>2020</b>	<b>2021</b>
RM75.4 million	RM85.5 million	RM95.6 million

As the assets ratio (as defined in the Listing Rules) for the aggregate proposed annual cap for the transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement is more than 25%, the transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement will, in the absence of a waiver, be subject to reporting, announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules upon the Listing. We will comply with all the relevant requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions.

## CONFIRMATIONS

### Directors' confirmation

Our Directors (including our independent-non executive Directors) have confirmed that:

- (a) the non-exempt continuing connected transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and
- (b) the aggregate proposed annual cap for the non-exempt continuing connected transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement are fair and reasonable and in the interests of our Group and our Shareholders as a whole.



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## CONNECTED TRANSACTIONS

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### **Sole Sponsor's confirmation**

The Sole Sponsor has confirmed that:

- (a) the non-exempt continuing connected transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and
- (b) the aggregate proposed annual cap for the non-exempt continuing connected transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

### **APPLICATION FOR WAIVERS**

Given (a) the transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement are expected to continue on a recurring basis after the Listing; (b) details of the transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement are disclosed in this prospectus for the information of prospective investors; and (c) the confirmation of our Directors (including our independent non-executive Directors) as set out above, our Directors consider, and the Sole Sponsor concurs, that compliance with announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules would be unduly burdensome and would add unnecessary administration costs to our Group, which would not be beneficial to our Group and our Shareholders as a whole.

Pursuant to Rule 14A.105, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from compliance with the announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules for the non-exempt continuing connected transactions contemplated under the Long Hin Master Purchase Agreement, the Lek Seng Master Purchase Agreement and the Chye Seng Huat Trading Master Purchase Agreement.

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## SHARE CAPITAL

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### SHARE CAPITAL

The authorised share capital of our Company is as follows:

#### Authorised share capital as at the Latest Practicable Date

HK\$

<u>2,000,000,000</u>	Shares of HK\$0.01 each	<u>20,000,000</u>
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Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following the Share Offer will be as follows:

#### Shares in issue or to be issued, full paid or credited as fully paid

HK\$

10,000	Shares in issue as at the date of this prospectus	100
749,990,000	Shares to be issued pursuant to the Capitalisation Issue	7,499,900
<u>250,000,000</u>	Share to be issued pursuant to the Share Offer	<u>2,500,000</u>
<u>1,000,000,000</u>		<u>10,000,000</u>

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the Share Offer will be as follows:

#### Shares in issue or to be issued, full paid or credited as fully paid

HK\$

10,000	Shares in issue as at the date of this prospectus	100
749,990,000	Shares to be issued pursuant to the Capitalisation Issue	7,499,900
<u>287,500,000</u>	Share to be issued pursuant to the Share Offer	<u>2,875,000</u>
<u>1,037,500,000</u>		<u>10,375,000</u>

### MINIMUM PUBLIC FLOAT

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, at least 25% of the total issued share capital of our Company shall be held by the public (as defined in the Listing Rules).

### RANKING

The Offer Shares will rank pari passu in all respects with the Shares in issue and to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date other than participation in the Capitalisation Issue.

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## SHARE CAPITAL

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### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (a) increase our capital; (b) consolidate and divide our capital into Shares of larger amount; (c) divide the Shares into several classes; (d) subdivide the Shares into shares of smaller amount; and (e) cancel any Share which has not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce our share capital or capital redemption reserve by our Shareholders passing a special resolution. Please refer to the paragraph headed “2. The Articles — (a) Shares — (iii) Alteration of capital” in Appendix V to this prospectus for details.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. Please refer to the paragraph headed “2. The Articles — (a) Shares — (ii) Variation of rights of existing Shares or classes of Shares” in Appendix V to this prospectus for details.

Further, our Company will hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the paragraph headed “2. The Articles — (e) Meetings of members” in Appendix V to this prospectus.

### **GENERAL MANDATE TO ISSUE SHARES**

Conditional upon the conditions stated in the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” of this prospectus being fulfilled or waived, a general unconditional mandate has been granted to our Directors to exercise all powers of our Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which might require the Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (a) a rights issue; (b) any scrip dividend scheme or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Articles; (c) any specific authority granted by our Shareholders in general meeting; or (d) the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, shall not exceed 20% of the number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue.

Such general mandate will remain in effect until the earliest of (a) the conclusion of our Company’s next annual general meeting; (b) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting. Please refer to the paragraph headed “A. Further information about our Group — 4. Written resolutions of our Shareholders” in Appendix VI to this prospectus for details of such general mandate.

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## SHARE CAPITAL

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### GENERAL MANDATE TO REPURCHASE SHARES

Conditional upon the conditions stated in the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” of this prospectus being fulfilled or waived, a general unconditional mandate has been granted to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company might be listed and which was recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as would represent up to 10% of the number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue, excluding any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme. A summary of the relevant requirements of the Listing Rules on such general mandate is set out in the paragraph headed “A. Further information about our Group — 6. Repurchase of our own securities” in Appendix VI to this prospectus.

Such general mandate will remain in effect until the earliest of (a) the conclusion of our Company’s next annual general meeting; (b) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting. Please refer to the paragraph headed “A. Further information about our Group — 4. Written resolutions of our Shareholders” in Appendix VI to this prospectus for details of such general mandate.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix VI to this prospectus.

### CAPITALISATION ISSUE

Subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors have been authorised to allot and issue a total of 749,990,000 Shares, credited as fully paid at par, to our Shareholders whose names appear on the register of members of our Company at 5:00 p.m. on Thursday, 14 March 2019 (or such other time as our Directors may direct) by way of capitalisation of a sum of HK\$7,499,900 standing to the credit of the share premium account of our Company, and that the Shares to be allotted and issued, as nearly as possible, without involving fractions, and such Shares to rank *pari passu* in all respects with the then existing issued Shares.

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## SUBSTANTIAL SHAREHOLDERS

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So far as is known to any Director and the chief executive of our Company, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Entity	Company concerned	Nature of interests	As at the Latest Practicable Date		Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	
			Class and number of securities held (Note 1)	Percentage of interests in the company concerned	Class and number of securities held (Note 1)	Percentage of interests in the company concerned
5S Holdings	Our Company	Beneficial owner	6,800 ordinary Shares <sup>(L)</sup>	68%	510,000,000 ordinary Shares <sup>(L)</sup> (Note 2)	51%
Mr. Sia 4	Our Company	Interest in controlled corporation/ Interests held jointly with another person/ Beneficial owner	10,000 ordinary shares <sup>(L)</sup> (Note 3)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Koo Lee Ching	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 4)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Mr. Sia 1	Our Company	Interest in controlled corporation/ Interests held jointly with another person/ Beneficial owner	10,000 ordinary shares <sup>(L)</sup> (Note 3)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Loh Hui Mei	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 5)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%

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## SUBSTANTIAL SHAREHOLDERS

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Entity	Company concerned	Nature of interests	As at the Latest Practicable Date		Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	
			Class and number of securities held (Note 1)	Percentage of interests in the company concerned	Class and number of securities held (Note 1)	Percentage of interests in the company concerned
Mr. Sia 2	Our Company	Interest in controlled corporation/ Interests held jointly with another person/ Beneficial owner	10,000 ordinary shares <sup>(L)</sup> (Note 3)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Peong Ai Teen	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 6)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Mr. Sia 3	Our Company	Interest in controlled corporation/ Interests held jointly with another person/ Beneficial owner	10,000 ordinary shares <sup>(L)</sup> (Note 3)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Yang Mei Feng	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 7)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Mr. Sia 5	Our Company	Interest in controlled corporation/ Interests held jointly with another person/ Beneficial owner	10,000 ordinary shares <sup>(L)</sup> (Note 3)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Juan Sook Fong	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 8)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%

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Notes:

- The letter “L” denotes the entity’s long position in the Shares.

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## SUBSTANTIAL SHAREHOLDERS

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2. Of these 510,000,000 Shares, 37,500,000 Shares may be subject to the stock borrowing arrangement to be effected pursuant to the Stock Borrowing Agreement.
3. The Sia Brothers entered into a deed of acting in concert confirmation and undertaking dated 20 August 2018. As such, each of the Sia Brothers, being parties to the deed of acting in concert confirmation and undertaking, is deemed under the SFO to be interested in the 510,000,000 Shares collectively held through 5S Holdings and the 48,000,000 Shares held by each of the other Sia Brothers upon the Listing.

In other words, each of the Sia Brother is interested in the 750,000,000 Shares upon the Listing in the following capacities:

Interest in controlled corporation	510,000,000
Interests held jointly with another person	192,000,000
Beneficial owner	<u>48,000,000</u>
<b>Total</b>	<b>750,000,000</b>

4. Ms. Koo Lee Ching is the spouse of Mr. Sia 4. As such, Ms. Koo Lee Ching is deemed under the SFO to be interested in the Shares in which Mr. Sia 4 is interested upon the Listing.
5. Ms. Loh Hui Mei is the spouse of Mr. Sia 1. As such, Ms. Loh Hui Mei is deemed under the SFO to be interested in the Shares in which Mr. Sia 1 is interested upon the Listing.
6. Ms. Peong Ai Teen is the spouse of Mr. Sia 2. As such, Ms. Peong Ai Teen is deemed under the SFO to be interested in the Shares in which Mr. Sia 2 is interested upon the Listing.
7. Ms. Yang Mei Feng is the spouse of Mr. Sia 3. As such, Ms. Yang Mei Feng is deemed under the SFO to be interested in the Shares in which Mr. Sia 3 is interested upon the Listing.
8. Ms. Juan Sook Fong is the spouse of Mr. Sia 5. As such, Ms. Juan Sook Fong is deemed under the SFO to be interested in the Shares in which Mr. Sia 5 is interested upon the Listing.

Our Substantial Shareholders, being persons and entities which are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of our Company immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), include 5S Holdings and the Sia Brothers. 5S Holdings is directly owned as to 35%, 16.25%, 16.25%, 16.25% and 16.25% by Mr. Sia 4, Mr. Sia 1, Mr. Sia 2, Mr. Sia 3 and Mr. Sia 5, respectively.

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## CORNERSTONE INVESTORS

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### CORNERSTONE PLACING

Our Company entered into a cornerstone investor placing agreement dated 25 January 2019 and a supplemental cornerstone investor placing agreement dated 20 February 2019 with Mr. Tan Gim Lin and Mr. Teo Giin Liang (collectively the “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors shall subscribe for, and our Company shall issue and/or the Joint Global Coordinators shall place and allocate or procure the placement and allocation to Mr. Tan Gim Lin such number of Shares offered by our Company in the Placing equal to the maximum number of Shares that may be purchased with HK\$20,000,000 at the Offer Price, and to Mr. Teo Giin Liang such number of Shares offered by our Company in the Placing equal to the maximum number of Shares that may be purchased with HK\$10,000,000 at the Offer Price, both rounded down to the nearest board lot (collectively the “**Investor Shares**”) pursuant to and as part of the Placing.

To the best knowledge of our Directors, each of the Cornerstone Investors is independent of our Company, its connected persons and their respective associates, and not an existing Shareholder or close associate of our Company. Further, each of the Cornerstone Investors is independent of each other.

Details of the respective investments of the Cornerstone Investors in our Company are set out below:

Cornerstone Investor	Investment amount	Indicative Offer Price	Number of Investor Shares to be subscribed	Approximate % of total Offer Shares under the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	Approximate % of total Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)
Mr. Tan Gim Lin	HK\$20,000,000	High-end: HK\$0.62	31,936,000	12.8%	3.2%
		Mid-point: HK\$0.56	35,356,000	14.1%	3.5%
		Low-end: HK\$0.50	39,600,000	15.8%	4.0%
Mr. Teo Giin Liang	HK\$10,000,000	High-end: HK\$0.62	15,968,000	6.4%	1.6%
		Mid-point: HK\$0.56	17,676,000	7.1%	1.8%
		Low-end: HK\$0.50	19,800,000	7.9%	2.0%



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## CORNERSTONE INVESTORS

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The Investor Shares will rank *pari passu* in all respects with the other fully paid Shares in issue upon the completion of the Share Offer and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for the Offer Shares under the Share Offer other than and pursuant to the cornerstone investor placing agreement and the supplemental cornerstone investor placing agreement. Immediately following the completion of the Share Offer, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become our Substantial Shareholder. The Cornerstone Investors do not have any preferential right under the cornerstone investor placing agreement and the supplemental cornerstone investor placing agreement compared with other public Shareholders. The Investor Shares will not be affected by any reallocation of the Offer Shares between the Public Offer and the Placing as described in the section headed “Structure of the Share Offer” of this prospectus.

### CORNERSTONE INVESTORS

The information below has been provided by the Cornerstone Investors:

#### **Mr. Tan Gim Lin**

Mr. Tan Gim Lin is the general partner of Midana Capital Inc., a company engaging in the equity investment business in Southeast Asia. Midana Capital Inc., focusing on investing in innovative technologies which improve the environment and daily human life. Since its incorporation, Midana Capital Inc. has invested in companies in the PRC, Taiwan, Singapore and Malaysia. The investment portfolio of Midana Capital Inc., includes a range of industry ranging from green tech, food and beverages, manufacturing, healthcare and fintech.

Mr. Tan Gim Lin is sophisticated in the investment industry and understands the current landscape of the steel and scrap metal industry favouring our Group.

#### **Mr. Teo Giin Liang**

Mr. Teo Giin Liang is the sole director of Eco Foodsoft (M) Sdn. Bhd., a company engaging in waste recycling business in Malaysia.

Mr. Teo Giin Liang is sophisticated in the recycling industry and understands the current landscape of the steel and scrap metal industry favouring our Group.

### CONDITIONS PRECEDENT

The subscription by the Cornerstone Investors under the cornerstone investor placing agreement and the supplemental cornerstone investor placing agreement is conditional upon each of the following conditions having been satisfied:

- (a) the Public Offer Underwriting Agreement and the Placing Underwriting Agreement having been entered into and having become unconditional (in accordance with their respective terms) by no later than the respective time and date specified therein;

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## CORNERSTONE INVESTORS

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- (b) the Offer Price having been agreed upon between our Company and the Joint Global Coordinators (on behalf of the Public Offer Underwriters and the Placing Underwriters);
- (c) neither the Public Offer Underwriting Agreement nor the Placing Underwriting Agreement having been terminated;
- (d) the Listing Committee having granted the listing of, and permission to deal in, the Shares (including the Investor Shares) and that such approval or permission having not been revoked;
- (e) no laws shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Public Offer, the Placing or the cornerstone investor placing agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;
- (f) the respective representations and warranties of the Cornerstone Investors and our Company in the cornerstone investor placing agreement remain accurate and true and not misleading in all material respects at closing and that there is no material breach of the cornerstone investor placing agreement on the part of the Cornerstone Investors; and
- (g) there are no material adverse changes in the business, finance and structure of our Group.

### RESTRICTIONS ON DISPOSAL BY THE CORNERSTONE INVESTORS

The Cornerstone Investors undertake to our Company and the Joint Global Coordinators that they shall not without the prior written consent of our Company and the Joint Global Coordinators, during the period of six months following the Listing Date:

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Investor Shares or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Investor Shares);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or incidents of ownership of the Investor Shares (or any interest in any company or entity holding any of the Investor Shares);
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above,

whether any of the transactions above is to be settled by delivery of the Investor Shares, in cash or otherwise.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Our Board consists of five executive Directors and three independent non-executive Directors. The following table sets out certain information in respect of our Directors:

Name	Age	Date of joining Heng Hup Hardware/our Group	Present position	Date of appointment as Director	Key role and responsibility
Mr. Sia Kok Chin <i>(chairman of our Board and chief executive officer)</i> <i>(Note)</i>	45	1 August 2001	Executive Director	12 April 2018	Responsible for overall management, strategic planning and day-to-day business operations of our Group
Datuk Sia Keng Leong <i>(Note)</i>	55	20 May 2003	Executive Director	12 April 2018	Responsible for the operations of HH Hardware and HH Paper (Melaka)
Mr. Sia Kok Chong <i>(Note)</i>	53	30 June 1996	Executive Director	12 April 2018	Responsible for the operations of HH Metal (Johor)
Mr. Sia Kok Seng <i>(Note)</i>	49	30 June 1996	Executive Director	12 April 2018	Responsible for the operations of HH Paper and HH Metal
Mr. Sia Kok Heong <i>(Note)</i>	43	24 March 2005	Executive Director	12 April 2018	Responsible for the operations of HH Hardware and HH Paper (Melaka)
Ms. Sai Shiow Yin	36	19 February 2019	Independent non-executive Director	19 February 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct
Mr. Puar Chin Jong	48	19 February 2019	Independent non-executive Director	19 February 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Date of joining Heng Hup Hardware/our Group	Present position	Date of appointment as Director	Key role and responsibility
Mr. Chu Kheh Wee	48	19 February 2019	Independent non-executive Director	19 February 2019	Providing independent judgement on our Group's strategy, performance, resources and standard of conduct

*Note:* Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong are brothers.

### Executive Directors

**Mr. Sia Kok Chin**, aged 45, was appointed as our Director in April 2018 and was appointed as the chairman of our Board and our chief executive officer, and designated as our executive Director in June 2018. Mr. Sia Kok Chin joined Heng Hup Hardware as the manager in August 2001. Mr. Sia Kok Chin is also a director of HH (BVI), HH Holdings, HH Metal, HH Paper, HH Paper (Melaka), HH Hardware and HH Metal (Johor), which are our subsidiaries. Mr. Sia Kok Chin has over 16 years of experience in the scrap material trading industry. Mr. Sia Kok Chin is primarily responsible for overall management, strategic planning and day-to-day business operations of our Group.

Mr. Sia Kok Chin completed his secondary education in Sekolah Menengah Jenis Kebangsaan Seg Hwa in Malaysia in December 1991. Mr. Sia Kok Chin has been the treasurer of Malaysia Metal Recyclers Association since 2016.

In addition to our Group, Mr. Sia Kok Chin is a director of the following companies in Malaysia:

Name	Principal business activities	Date of appointment as director
5S Unity Properties Sdn. Bhd.	Properties letting	19 June 2012
5S Foods & Beverages Sdn. Bhd.	Food and beverage, general trading and investment holding	1 April 2016
5S Battery Sdn. Bhd.	Wholesale and retail sale of parts, components, supplies, tools and accessories for motor vehicles	21 September 2016
Solid Lift Sdn. Bhd.	Manufacture of lifting and handling equipment	8 December 2016
MY Santuairee Sdn. Bhd.	Supplying foreign workers and all kinds of manpower personnel	16 January 2017
5S Resources Sdn. Bhd.	Growing of plants for planting	19 January 2017
SS Unity Capital Sdn. Bhd.	Retail sale of new goods in specialised stores and investment holding	16 March 2017

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Sia Kok Chin was a director of the following companies in Malaysia immediately prior to their dissolution:

Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
5 S Paper Sdn. Bhd.	Wholesale of metal, non-metal waste, scrap and materials for recycling	21 February 2017	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation
QBE Tees Sdn. Bhd.	Dormant	21 October 2011	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation
Sky Metal Corporation Sdn. Bhd.	Metal manufacturing	30 March 2000	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation

Mr. Sia Kok Chin has confirmed that each of the above companies was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Mr. Sia Kok Chin is a brother of Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong, all of which are our executive Directors and Controlling Shareholders, and a brother-in-law of Mr. Goh Eng Kiat, being our regional manager.

Mr. Sia Kok Chin has not been a director of any listed company in the last three years.

**Datuk Sia Keng Leong**, aged 55, was appointed as our Director in April 2018 and designated as our executive Director in June 2018. Datuk Sia Keng Leong became an owner of Heng Hup Hardware in May 2003. Datuk Sia Keng Leong is also a director of HH (BVI), HH Holdings, HH Metal, HH Paper, HH Paper (Melaka), HH Hardware and HH Metal (Johor), which are our subsidiaries. Since joining Heng Hup Hardware in 2003, Datuk Sia Keng Leong has accumulated over 14 years of experience in the scrap material trading industry. Datuk Sia Keng Leong is primarily responsible for the operations of HH Hardware and HH Paper (Melaka).

Datuk Sia Keng Leong completed his secondary education in Sekolah Menengah Jenis Kebangsaan Seg Hwa in Malaysia in December 1981.

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## DIRECTORS AND SENIOR MANAGEMENT

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In addition to our Group, Datuk Sia Keng Leong is a director of the following companies in Malaysia:

<b>Name</b>	<b>Principal business activities</b>	<b>Date of appointment as director</b>
5S Unity Properties Sdn. Bhd.	Properties letting	19 June 2012
5S Foods & Beverages Sdn. Bhd.	Food and beverage, general trading and investment holding	1 April 2016
5S Battery Sdn. Bhd.	Wholesale and retail sale of parts, components, supplies, tools and accessories for motor vehicles	21 September 2016
Solid Lift Sdn. Bhd.	Manufacture of lifting and handling equipment	8 December 2016
SS Unity Capital Sdn. Bhd.	Retail sale of new goods in specialised stores and investment holding	16 March 2017

Datuk Sia Keng Leong was a director of the following company in Malaysia immediately prior to its dissolution:

<b>Name</b>	<b>Principal business activities prior to dissolution</b>	<b>Date of dissolution</b>	<b>Means of dissolution</b>	<b>Reasons for dissolution</b>
5 S Paper Sdn. Bhd.	Wholesale of metal, non-metal waste, scrap and materials for recycling	21 February 2017	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation

Datuk Sia Keng Leong has confirmed that the above company was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above company was part and parcel of his services as a director of the above company and no misconduct or misfeasance was involved in the dissolution of the above company.

Datuk Sia Keng Leong is a brother of Mr. Sia Kok Chin, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong, all of which are our executive Directors and Controlling Shareholders, and a brother-in-law of Mr. Goh Eng Kiat, being our regional manager.

Datuk Sia Keng Leong has not been a director of any listed company in the last three years.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Sia Kok Chong**, aged 53, was appointed as our Director in April 2018 and designated as our executive Director in June 2018. Mr. Sia Kok Chong is one of the founders of Heng Hup Hardware. Mr. Sia Kok Chong is also a director of HH (BVI), HH Holdings, HH Metal, HH Paper, HH Paper (Melaka), HH Hardware and HH Metal (Johor), which are our subsidiaries. Since the formation of Heng Hup Hardware in 1996, Mr. Sia Kok Chong has accumulated over 21 years of experience in the scrap material trading industry. Mr. Sia Kok Chong is primarily responsible for the operations of HH Metal (Johor).

Mr. Sia Kok Chong attended his secondary education in Sekolah Menengah Jenis Kebangsaan Seg Hwa in Malaysia.

In addition to our Group, Mr. Sia Kok Chong is a director of the following companies in Malaysia:

<b>Name</b>	<b>Principal business activities</b>	<b>Date of appointment as director</b>
5S Unity Properties Sdn. Bhd.	Properties letting	19 June 2012
5S Foods & Beverages Sdn. Bhd.	Food and beverage, general trading and investment holding	1 April 2016
5S Battery Sdn. Bhd.	Wholesale and retail sale of parts, components, supplies, tools and accessories for motor vehicles	21 September 2016
Solid Lift Sdn. Bhd.	Manufacture of lifting and handling equipment	8 December 2016
SS Unity Capital Sdn. Bhd.	Retail sale of new goods in specialised stores and investment holding	16 March 2017

Mr. Sia Kok Chong was a director of the following company in Malaysia immediately prior to its dissolution:

<b>Name</b>	<b>Principal business activities prior to dissolution</b>	<b>Date of dissolution</b>	<b>Means of dissolution</b>	<b>Reasons for dissolution</b>
5 S Paper Sdn. Bhd.	Wholesale of metal, non-metal waste, scrap and materials for recycling	21 February 2017	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Sia Kok Chong has confirmed that the above company was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above company was part and parcel of his services as a director of the above company and no misconduct or misfeasance was involved in the dissolution of the above company.

Mr. Sia Kok Chong is a brother of Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Seng and Mr. Sia Kok Heong, all of which are our executive Directors and Controlling Shareholders, and a brother-in-law of Mr. Goh Eng Kiat, being our regional manager.

Mr. Sia Kok Chong has not been a director of any listed company in the last three years.

**Mr. Sia Kok Seng**, aged 49, was appointed as our Director in April 2018 and designated as our executive Director in June 2018. Mr. Sia Kok Seng is one of the founders of Heng Hup Hardware. Mr. Sia Kok Seng is also a director of HH (BVI), HH Holdings, HH Metal, HH Paper, HH Paper (Melaka), HH Hardware and HH Metal (Johor), which are our subsidiaries. Since the formation of Heng Hup Hardware in 1996, Mr. Sia Kok Seng has accumulated over 21 years of experience in the scrap material trading industry. Mr. Sia Kok Seng is primarily responsible for the operations of HH Paper and HH Metal.

Mr. Sia Kok Seng attended his secondary education in Sekolah Menengah Jenis Kebangsaan Seg Hwa in Malaysia.

In addition to our Group, Mr. Sia Kok Seng is a director of the following companies in Malaysia:

Name	Principal business activities	Date of appointment as director
5S Unity Properties Sdn. Bhd.	Properties letting	19 June 2012
5S Foods & Beverages Sdn. Bhd.	Food and beverage, general trading and investment holding	1 April 2016
5S Battery Sdn. Bhd.	Wholesale and retail sale of parts, components, supplies, tools and accessories for motor vehicles	21 September 2016
Solid Lift Sdn. Bhd.	Manufacture of lifting and handling equipment	8 December 2016
5S Resources Sdn. Bhd.	Growing of plants for planting	19 January 2017
SS Unity Capital Sdn. Bhd.	Retail sale of new goods in specialised stores and investment holding	16 March 2017



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Sia Kok Seng was a director of the following companies in Malaysia immediately prior to their dissolution:

Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
5 S Paper Sdn. Bhd.	Wholesale of metal, non-metal waste, scrap and materials for recycling	21 February 2017	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation
Pixel Expands Sdn. Bhd.	Printing and advertising, general trading and investment holding	7 April 2016	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation

Mr. Sia Kok Seng has confirmed that each of the above companies was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Mr. Sia Kok Seng is a brother of Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong and Mr. Sia Kok Heong, all of which are our executive Directors and Controlling Shareholders, and a brother-in-law of Mr. Goh Eng Kiat, being our regional manager.

Mr. Sia Kok Seng has not been a director of any listed company in the last three years.

**Mr. Sia Kok Heong**, aged 43, was appointed as our Director in April 2018 and designated as our executive Director in June 2018. Mr. Sia Kok Heong joined our Group as a director of HH Hardware in March 2005. Mr. Sia Kok Heong is also a director of HH (BVI), HH Holdings, HH Metal, HH Paper, HH Paper (Melaka) and HH Metal (Johor), which are our subsidiaries. Mr. Sia Kok Heong has over 12 years of experience in the scrap material trading industry. Mr. Sia Kok Heong is primarily responsible for the operations of HH Hardware and HH Paper (Melaka).

Mr. Sia Kok Heong received a diploma in electrical/electronic engineering from the Institut Teknologi Pertama in Malaysia in June 1995.

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## DIRECTORS AND SENIOR MANAGEMENT

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In addition to our Group, Mr. Sia Kok Heong is a director of the following companies in Malaysia:

<b>Name</b>	<b>Principal business activities</b>	<b>Date of appointment as director</b>
5S Unity Properties Sdn. Bhd.	Properties letting	19 June 2012
5S Foods & Beverages Sdn. Bhd.	Food and beverage, general trading and investment holding	1 April 2016
5S Battery Sdn. Bhd.	Wholesale and retail sale of parts, components, supplies, tools and accessories for motor vehicles	21 September 2016
Solid Lift Sdn. Bhd.	Manufacture of lifting and handling equipment	8 December 2016
SS Unity Capital Sdn. Bhd.	Retail sale of new goods in specialised stores and investment holding	16 March 2017

Mr. Sia Kok Heong was a director of the following company in Malaysia immediately prior to its dissolution:

<b>Name</b>	<b>Principal business activities prior to dissolution</b>	<b>Date of dissolution</b>	<b>Means of dissolution</b>	<b>Reasons for dissolution</b>
5 S Paper Sdn. Bhd.	Wholesale of metal, non-metal waste, scrap and materials for recycling	21 February 2017	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation

Mr. Sia Kok Heong has confirmed that the above company was solvent at the time of its dissolution and there is no wrongful act on his part leading to such dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result of such dissolution, and that his involvement in the above company was part and parcel of his services as a director of the above company and no misconduct or misfeasance was involved in the dissolution of the above company.

Mr. Sia Kok Heong is a brother of Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong and Mr. Sia Kok Seng, all of which are our executive Directors and Controlling Shareholders, and a brother-in-law of Mr. Goh Eng Kiat, being our regional manager.

Mr. Sia Kok Heong has not been a director of any listed company in the last three years.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent non-executive Directors

**Ms. Sai Shiow Yin**, aged 36, was appointed as our independent non-executive Director on 19 February 2019 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Ms. Sai received a bachelor's degree of commerce in accounting and economics from Deakin University in Australia in April 2005 and a master's degree of commerce from the same university in April 2011. Ms. Sai was admitted as a member of CPA Australia in July 2010.

Ms. Sai has worked for Atalian Global Services Sdn. Bhd., being a facility management provider in cleaning, technical maintenance, landscaping and energy management services, since July 2018 and currently holds the position of Regional Performance Improvement Director in Asia Region, and is responsible for, among other things, improving the financial performance to the Asia region of the group. From December 2014 to June 2018, Ms. Sai worked for Appraisal Property Management Sdn. Bhd., being a real estate service provider and an affiliate of the Jones Lang LaSalle group of companies, as a client accounting senior finance manager as her last position and was responsible for, among other things, client accounting transitions, and providing inputs into client finance strategy, data and people management. From April 2012 to October 2014, Ms. Sai worked for SunPower Solar Malaysia Sdn. Bhd., being an international solar energy company, as the head of finance and was responsible for, among other things, providing accounting controllership oversight of Asia-Pacific, Europe and Middle East regions, cash flow management and intercompany transaction of the same region and financial reporting. From March 2009 to June 2011, Ms. Sai worked for Jones Lang LaSalle (VIC) Pty Ltd. (in partnership with Telstra) as the senior accountant and was responsible for financial assessment. From June 2006 to April 2009, Ms. Sai worked for Knight Frank Australia Pty Ltd., being an international real estate consultancy firm, initially as an assistant accountant in property accounting services and then as an accountant in national finance and was responsible for accounting matters.

Ms. Sai has not been a director of any listed company in the last three years.

**Mr. Puar Chin Jong**, aged 48, was appointed as our independent non-executive Director on 19 February 2019 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Mr. Puar received a bachelor's degree of economics in business administration from the University of Malaya in Malaysia in August 1994. Mr. Puar was admitted as an associate of the Chartered Institute of Management Accountants in May 2001.

Mr. Puar has worked for S P Setia Project Management Sdn. Bhd., being a subsidiary of S P Setia Berhad (a company engaging in property development and listed on the Main Board of Bursa Malaysia Securities Berhad), since October 2016 and currently holds the position of head of corporate affairs and is responsible for managing the corporate finance activities of the group. From February 2013 to August 2016, Mr. Puar worked for RHB Investment Bank Berhad, being a multinational investment bank and listed on the Main Board of Bursa Malaysia Securities Berhad, as a senior vice president and

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## DIRECTORS AND SENIOR MANAGEMENT

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was responsible for investment banking affairs. From November 2003 to February 2013, Mr. Puar worked for Alliance Investment Bank Berhad, being an investment bank and listed on the Main Board of Bursa Malaysia Securities Berhad, and last held the position of senior vice president and head of capital market — equity execution and was responsible for capital market affairs.

Mr. Puar has not been a director of any listed company in the last three years.

**Mr. Chu Kheh Wee**, aged 48, was appointed as our independent non-executive Director on 19 February 2019 and is mainly responsible for providing independent judgement on our Group's strategy, performance, resources and standard of conduct.

Mr. Chu received a diploma in cost accounting from the London Chamber of Commerce and Industry in 1990. Mr. Chu was admitted as a registered accountant and a chartered accountant of the Malaysian Institute of Accountants in December 1999 and June 2001, respectively, an associate member of the Chartered Institute of Management Accountants in August 1996 and a Chartered Global Management Accountant in May 2011.

Mr. Chu founded Executive Prosight Resources in February 2011 for the purpose of providing business and corporate advisory and employment services. From October 2007 to October 2008, Mr. Chu worked for D'Tiara Corp. Sdn. Bhd., being a company engaging in investment, development and sale of properties and resorts, as the chief financial officer and was responsible for the proposed listing application of such company on the Alternative Investment Market (currently known as AIM) of the London Stock Exchange. Mr. Chu founded K W Chu Trading Services in April 2006 for the purpose of providing management, accounting and other consulting works concerning trade and business. From October 2004 to September 2007, Mr. Chu worked for Oil-Line Engineering and Associates Sdn. Bhd., being a subsidiary of OilCorp Berhad, as a senior manager and was responsible for advising on corporate finance matters of the aforesaid company. From May 2002 to September 2004, Mr. Chu worked for Tenaga Nazar (M) Sdn. Bhd., being an affiliated company of OilCorp Berhad (a company engaging in the provision of engineering, procurement, construction, technical and contract related services in Malaysia, the Middle East and the ASEAN countries), as a senior manager of corporate finance and was responsible for managing corporate finance matters of the aforesaid company. From November 2000 to May 2002, Mr. Chu worked for Worthy Builders Sdn. Bhd., being a civil engineering company, and last held the position of senior finance manager. From August 1999 to October 2000, Mr. Chu worked for Chase Perdana Berhad, being a company engaging in the provision of construction and civil engineering services, as a finance manager. From January 1997 to August 1999, Mr. Chu worked for Golden Plus Builders Sdn. Bhd., being a subsidiary of Golden Plus Holdings Berhad (a company engaging in property development and construction businesses in Malaysia and the PRC), as a finance manager. Mr. Chu was responsible for managing the financial affairs of Worthy Builders Sdn. Bhd., Chase Perdana Berhad and Golden Plus Builders Sdn. Bhd.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Chu was a director of the following companies in Malaysia immediately prior to its dissolution:

Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
ER Projects Sdn. Bhd.	Dormant	22 December 2017	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation
Pramaddun Holdings Sdn. Bhd.	Investment holding	In the midst of dissolution	By striking-off under section 308 of the Companies Act 1965 of Malaysia	Such company was no longer carrying on business or in operation

Mr. Chu was a director of the following listed companies in Malaysia, among which BSA International Berhad was subsequently dissolved, with details as follows:

Name	Position	Tenure
Sumatec Resources Berhad	Independent non-executive director	2008 to 2011
BSA International Berhad <sup>(Note)</sup>	Independent non-executive director	2008 to 2009
AsiaEP Resources Berhad (formally known as AsiaEP Berhad)	Independent non-executive director	2009 to 2012

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*Note:*

Name	Principal business activities prior to dissolution	Date of dissolution	Means of dissolution	Reasons for dissolution
BSA International Berhad	Investment holding	21 June 2016	By dissolution pursuant to section 239 of the Companies Act 1965 of Malaysia and court order dated 21 June 2016	Such company was wound up and its assets had been realised by the liquidator

Mr. Chu was appointed as an independent director by BSA International Berhad on 26 August 2008 pursuant to the order of the High Court of Malaysia in the course of the proposed restructuring scheme of BSA International Berhad. Mr. Chu resigned from such position on 16 September 2009.

Mr. Chu has confirmed that, (a) save for BSA International Berhad, each of the above companies was solvent at the time of its dissolution; and (b) there is no wrongful act on his part leading to the dissolution of each of the above companies (including BSA International Berhad) and he is not aware of any actual or potential claim which has been or will be made against him as a result of such

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## DIRECTORS AND SENIOR MANAGEMENT

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dissolution, and that his involvement in the above companies was part and parcel of his services as a director of the above companies and no misconduct or misfeasance was involved in the dissolution of the above companies.

Save as aforesaid, Mr. Chu has not been a director of any listed company in the last three years.

### Disclosures required under Rule 13.51(2) of the Listing Rules

Save as disclosed in this section, each of our Directors has confirmed with respect to him/her that (a) he/she has not held any directorship in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas prior to the Latest Practicable Date; (b) he/she did not hold any other positions in our Group as at the Latest Practicable Date; (c) he/she did not have any relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; (d) he/she does not have any other interests in the Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about our Directors and Substantial Shareholders — 1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation” in Appendix VI to this prospectus; (e) he/she does not have any interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under the Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needed to be brought to the attention of our Shareholders as at the Latest Practicable Date.

### SENIOR MANAGEMENT

Other than our Directors, our senior management team consists of two members, who, together with our Board, are responsible for the day-to-day management of our Group. The following table sets out certain information in respect of our senior management personnel:

Name	Age	Date of joining our Group	Present position	Date of appointment as senior management personnel	Key role and responsibility
Mr. Goh Eng Kiat	60	27 May 2009	Regional manager	27 May 2009	Managing our operations in the states of Melaka and Johor
Mr. Lee Heng Wai	38	5 January 2015	Finance manager	1 June 2017	Accounts and treasury related matters of our Group

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Goh Eng Kiat**, aged 60, joined our Group as a director of HH Metal (Johor) and our regional manager in May 2009 and is mainly responsible for managing our operations in the states of Melaka and Johor.

Mr. Goh completed his secondary education in Seg Hwa N. T. Secondary School in Malaysia in December 1977.

Prior to joining our Group in January 2009, Mr. Goh worked for Seng Hiap Glass Sdn. Bhd., being a company engaging in the manufacture of glasses, as a contract manager from February 2000 to August 2008 and was responsible for administrative works, product costing, project contract tendering and supervision of field works.

Mr. Goh is the brother-in-law of the Sia Brothers, all of which are our executive Directors and Controlling Shareholders.

Mr. Goh has not been a director of any listed company in the last three years.

**Mr. Lee Heng Wai**, aged 38, joined our Group as an accountant in January 2015. He is currently our finance manager and is mainly responsible for accounts and treasury related matters of our Group.

Mr. Lee received a bachelor's degree in accountancy from Universiti Utara Malaysia in September 2003. Mr. Lee was admitted as a chartered accountant of the Malaysian Institute of Accountants in November 2006.

Prior to joining our Group in January 2015, Mr. Lee worked for Abbvie Sdn. Bhd., being a biopharmaceutical company, as a senior financial analyst from September 2012 to December 2014 and was responsible for finance matters. From April 2011 to September 2012, Mr. Lee worked for EITA Electric Sdn. Bhd., being a company engaging in the marketing and distribution of electrical and electronic components and equipment, as an accountant and was responsible for accounting matters. From October 2007 to July 2010, Mr. Lee worked for Ann Joo Resources Berhad, being a company listed on the Main Board of Bursa Malaysia Securities Berhad and engaging in the manufacture and trading of steel and steel related products, as an accountant and was responsible for accounting matters.

Mr. Lee has not been a director of any listed company in the last three years.

## COMPANY SECRETARY

**Ms. Ng Wing Yan**, was appointed as our company secretary on 25 June 2018. Ms. Ng joined SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group (Hong Kong) Limited), being a professional service provider specialising in corporate services, as an assistant vice president in January 2018, and she is responsible for company secretarial works for a number of clients which are listed companies in Hong Kong. Ms. Ng has over 10 years of experience in the corporate service field.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Ng received a bachelor's degree of arts from the University of Portsmouth in the United Kingdom. Ms. Ng is an associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Ms. Ng is not an individual employee of our Company, but acts as an external service provider.

### BOARD COMMITTEES

#### Audit committee

Our Company established an audit committee on 19 February 2019 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code has been adopted. The primary roles of our audit committee include, but are not limited to, (a) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of our financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them; (c) reviewing our financial controls, risk management and internal control systems. Our audit committee consists of three members, namely Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee. Ms. Sai Shiow Yin is the chairman of our audit committee. Please refer to the paragraph headed "Directors" in this section for the backgrounds of the members of our audit committee.

#### Remuneration committee

Our Company established a remuneration committee on 19 February 2019 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary roles of our remuneration committee include, but are not limited to, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving our management's remuneration proposals with reference to our Board's corporate goals and objectives; and (c) making recommendations to our Board on the remuneration packages of individual executive Directors and senior management. Our remuneration committee consists of three members, namely Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee. Ms. Sai Shiow Yin is the chairman of our remuneration committee. Please refer to the paragraph headed "Directors" in this section for the backgrounds of the members of our remuneration committee.

#### Nomination committee

Our Company established a nomination committee on 19 February 2019 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code has been adopted. The primary roles of our nomination committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to



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## DIRECTORS AND SENIOR MANAGEMENT

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become our Board members and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. Our nomination committee consists of three members, namely Mr. Sia 4, Ms. Sai Shiow Yin and Mr. Chu Kheh Wee. Mr. Sia 4 is the chairman of our nomination committee. Please refer to the paragraph headed “Directors” in this section for the backgrounds of the members of our nomination committee.

### REMUNERATION OF MANAGEMENT PERSONNEL

Our Directors and senior management personnel receive remuneration in the form of fees, salaries and allowances, performance bonus, retirement benefit scheme contributions and other benefits. We determine the salaries of our Directors (including our independent non-executive Directors) and senior management personnel based on their respective qualification, position and seniority. In addition to salaries, our Directors may receive performance bonuses. The aggregate amount of remuneration (including fees, salaries and allowances, performance bonus, retirement benefit scheme contributions and other benefits) paid to our Directors for FY2015, FY2016, FY2017 and 8M2018 amounted to approximately RM4.3 million, RM3.5 million, RM8.9 million and RM3.4 million, respectively. Details of the remuneration paid to each of our Directors during the Track Record Period are set out in note 30(a) to the accountant’s report set out in Appendix I to this prospectus.

The five individuals whose remuneration were the highest in our Group for FY2015, FY2016, FY2017 and 8M2018 include the Sia Brothers whose remunerations are reflected in the paragraph above.

Our Directors (including our independent non-executive Directors) and senior management personnel are entitled to participate in the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix VI to this prospectus.

Details of the terms of the service agreements of and remuneration paid to our Directors are set out in the paragraph headed “C. Further information about our Directors and Substantial Shareholders — 3. Particulars of service agreements and appointment letters” in Appendix VI to this prospectus.

### CORPORATE GOVERNANCE

Our Company will comply with the CG Code set out in Appendix 14 to the Listing Rules, except for the deviation from the code provision A.2.1 of the CG Code. Mr. Sia 4, as the chairman of our Board and our chief executive officer, has been managing our business since 2001. Our Directors consider that vesting the roles of the chairman of our Board and our chief executive officer in Mr. Sia 4 is beneficial to the management and business development of our Group and will provide a strong and consistent leadership to our Group. Our Board will continue to review and consider splitting the roles of the chairman of our Board and our chief executive officer at a time when it is appropriate and

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## DIRECTORS AND SENIOR MANAGEMENT

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suitable by taking into account the circumstances of our Group as a whole. Our Directors will review our corporate governance policies and compliance with the CG Code each financial year and comply with the “comply or explain” principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

### COMPLIANCE ADVISER

Our Company has appointed Shenwan Hongyuan Capital (H.K.) Limited to be our compliance adviser in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules and under the agreement with our compliance adviser, we shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including Share issues and Share repurchases;
- (c) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an enquiry of our Company under Rule 13.10 of the Listing Rules concerning unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares, or any other matters.

The term of the engagement will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please refer to the paragraph headed “Business — Business strategies” of this prospectus for a description of our future plans.

### USE OF PROCEEDS

The net proceeds of the Share Offer will strengthen our capital base and will provide funding for achieving our business strategies and carrying out our future plans as set out in this section.

Assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.56 (being the mid-point of the Offer Price range), the aggregate amount of net proceeds of the Share Offer to be received by our Company after deducting the underwriting commission and estimated expenses payable by our Company is estimated to be approximately HK\$94.3 million. Our Directors currently intend to apply such net proceeds in the following manner:

- (a) approximately HK\$8.3 million or approximately 8.8% will be used for partially replacing our fleet of trucks;
- (b) approximately HK\$6.7 million or approximately 7.1% will be used for enhancing our processing abilities;
- (c) approximately HK\$2.2 million or approximately 2.3% will be used for setting up our enterprise resource planning system;
- (d) approximately HK\$10.5 million or approximately 11.1% will be used for setting up a new scrapyard in the east coast of Peninsular Malaysia;
- (e) approximately HK\$14.7 million or approximately 15.6% will be used for expansion of our scrapyard in Selangor;
- (f) approximately HK\$42.5 million or 45.1% will be used as our working capital for our scrap ferrous metal trading business; and
- (g) approximately HK\$9.4 million or approximately 10.0% will be used as our general working capital or for other general corporate purpose (excluding the purchase of scrap materials).

Please refer to the paragraph headed “Business — Business Strategies” of this prospectus for the reasons for our use of proceeds.

The above allocation of the net proceeds of the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is determined at a higher or lower level compared to the mid-point of the Offer Price range.

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## FUTURE PLANS AND USE OF PROCEEDS

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Assuming that the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$0.56 (being the mid-point of the Offer Price range), our Company will receive additional net proceeds of approximately HK\$18.9 million.

Assuming that the Offer Price is determined at HK\$0.62 (being the high-end of the Offer Price range) and assuming the Over-allotment Option is not exercised, our Company will receive additional net proceeds of approximately HK\$13.5 million.

Assuming that the Offer Price is determined at HK\$0.62 (being the high-end of the Offer Price range) and assuming the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK\$34.4 million.

Assuming that the Offer Price is determined at HK\$0.50 (being the low-end of the Offer Price range) and assuming the Over-allotment Option is not exercised, the net proceeds our Company receives will be reduced by approximately HK\$13.5 million.

Assuming that the Offer Price is determined at HK\$0.50 (being the low-end of the Offer Price range) and assuming the Over-allotment Option is exercised in full, the net proceeds our Company receives will be increased by approximately HK\$3.4 million.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, our Directors currently intend that such proceeds be placed on short-term deposits with licensed banks and/or financial institutions.

### REASONS FOR LISTING IN HONG KONG

Our Directors believe that the Listing represents an important step for our Group to implement our business strategies and expansion plans. During the Track Record Period and up to the Latest Practicable Date, our Group had relied principally on cash generated from our operations, bank borrowings and advances from related parties to finance our business. The Listing is strategically critical to the growth of our business as it can provide our Group with additional capital to purchase more scrap materials for trading and to implement our future plans. In addition, our Directors believe that being a company listed on the Stock Exchange will give us the following benefits:

- (a) enabling our Company to reach a wide base of institutional investors as well as retail investors, broadening our shareholder base and fund raising channel which enhances our ability to source sufficient capital at competitive costs for business development;
- (b) raising our corporate profile, and thus strengthening our market leading position in the scarp material trading industry in the Malaysia;
- (c) strengthening our corporate transparency, corporate governance and internal control which reinforces and provides a solid foundation for our further business expansion given the high level of regulation and high degree of disclosure required of listed issuers under the Listing Rules;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (d) enabling our Company to offer equity-based incentive programmes, such as the Share Option Scheme, to motivate and retain our high-performing employees and key management personnel; and
- (e) most importantly, we believe that a listing status on the Stock Exchange can serve as a springboard to assist us to better connect with various stakeholders along the value chain of the steel manufacturing industry in the PRC. The investment from the PRC accounted for 32% of the total foreign investment in Malaysia for the first nine months of 2018. Alliance Steel (M) Sdn. Bhd., our new customer which is owned by a PRC entity, operates a steel mill with annual production capacity of 3.5 million tonnes in the Malaysia-China Kuantan Industrial Park built under the Belt and Road Initiative. In addition, on 30 January 2019, Chiho entered into a joint venture agreement with our Group to develop a processing facility to provide scrap motor dismantling services to Chiho in Malaysia with an initial startup cost of RM2.0 million. The joint venture will charge Chiho dismantling fees on a cost plus basis. It is intended that such joint venture will be owned as to 51% by Chiho and 49% by our Group according to which the profit of the joint venture will be shared. The board of directors shall consist of two directors to be nominated by Chiho and the remaining one to be nominated by our Group. Our Directors expect the annual dismantling capacity of the aforesaid processing facility to be 70,000 tonnes per annum. Chiho will be mainly responsible for the supervision of the dismantling process in the aforesaid processing facility and our Group will be mainly responsible for recruiting the staff for the dismantling operation in Malaysia. For the scrap motors dismantled by the joint venture, Chiho will distribute the scrap non-ferrous metals so extracted through its own channels, and sell the scrap ferrous metals to our Group provided that our procurement price is no less than the price offered by other scrap ferrous metal traders in Malaysia. Our Directors expect the setup and operation of the said processing facility will commence in around May and August 2019, respectively. Therefore, we believe that our presence in the Stock Exchange will help create a higher level of visibility of our corporate image and inspire stronger confidence of our PRC and Hong Kong based business partners in our Group.

The reasons for which our Group does not finance the expansion plans purely through debt financing despite the generally higher cost of equity financing in view of the significant amount of listing expenses to be incurred are as follows:

- (a) in Malaysia, working capital loans without collateral are difficult to obtain from banks;
- (b) our Directors always prefer to adopt a conservative approach in handling our Group's borrowings, as they consider the steel industry is cyclical and do not want to be at the mercy of the banks during difficult times;
- (c) the many other benefits which come along with the listing status as aforesaid apart from raising capital in an IPO in Hong Kong.

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## UNDERWRITING

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### PUBLIC OFFER UNDERWRITERS

Shenwan Hongyuan Capital (H.K.) Limited

Elstone Securities Limited

Haitong International Securities Company Limited

SPDB International Capital Limited

### UNDERWRITING ARRANGEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is expected to be fully underwritten by the Placing Underwriters on a several basis and subject to the Price Determination Agreement. The Public Offer Underwriting Agreement was entered into on 26 February 2019 and in connection with the Placing, our Company expects to enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters. The Public Offer Underwriting Agreement is conditional upon, among other things, the Placing Underwriting Agreement being entered into, and each of the Underwriting Agreements is expected to be inter-conditional.

### PUBLIC OFFER

#### Public Offer Underwriting Agreement

Under the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms. Pursuant to the Public Offer Underwriting Agreement, and conditional upon, among other things, the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Shares, in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or despatch of share certificates for the Offer Shares and such other usual conditions for transaction of this nature) and certain other conditions including the entering into of the Placing Underwriting Agreement and the Price Determination Agreement on or around the Price Determination Date, the Public Offer Underwriters have agreed to subscribe for, or procure subscribers to subscribe for, the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of the Public Offer Underwriting Agreement, this prospectus and the Application Forms.

#### Grounds for termination of the Public Offer Underwriting Agreement

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) have the right, in their sole and absolute discretion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement if they see fit upon the occurrence of any of the following events:

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## UNDERWRITING

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- (a) there has come to the notice of the Joint Global Coordinators that:
- (i) any statement contained in this prospectus, the Application Forms or any other relevant documents issued or used in connection with the Share Offer (including any supplement or amendment thereto) (the “**Offer Documents**”) considered by the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) in their sole and absolute opinion to be material in the context of the Share Offer, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Joint Global Coordinators, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of the Offer Documents considered by the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) in their sole and absolute opinion to be material in the context of the Public Offer; or
  - (iii) any of the representations and warranties given by our Company, our Controlling Shareholders and/or our executive Directors (collectively, the “**Warrantor**”) in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) in their sole and absolute opinion to be material in the context of the Public Offer; or
  - (iv) any breach of any of the obligations or undertakings under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement imposed or to be imposed upon any party (other than the Joint Global Coordinators or any of the Underwriters) thereto and considered by the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) to be material in the context of the Public Offer; or
  - (v) any material adverse change or prospective material adverse change in the condition (financial, trading or otherwise), business, assets and liabilities, properties, general affair, management, business prospects, shareholders’ equity, profits, losses, results of operations, financial or trading position or prospect or performance of any member of our Group; or
  - (vi) approval by the Listing Committee for the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
  - (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Share Offer; or

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## UNDERWRITING

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- (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of any of the Warrantors pursuant to the indemnities given by all or any of them under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
  - (ix) any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
  - (x) a prohibition on our Company for whatever reason from offering, allotting, selling or delivering the Shares pursuant to the terms of the Share Offer; or
  - (xi) a portion of the orders in the book-building process, which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) in their absolute opinion to be material, at the time the Placing Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreement with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Global Coordinators, in their sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or
  - (xii) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) in their sole and absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, Malaysia, the PRC, the Cayman Islands, the BVI, the United States or any other jurisdiction (collectively the “**Relevant Jurisdictions**” and each a “**Relevant Jurisdiction**”); or
  - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdiction; or
  - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease) in or affecting any of the Relevant Jurisdictions; or



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## UNDERWRITING

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- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, or (B) a general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, on any of the Relevant Jurisdictions; or
- (viii) any material adverse change or development or event involving a prospective material adverse change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Joint Global Coordinators (where such approval shall not be unreasonably withheld), the issue or requirement to issue by our Company of a supplementary prospectus or offer document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole and absolute opinion of the Joint Global Coordinators, materially adverse to the marketing for or implementation of the Share Offer; or
- (xi) a petition is presented for the winding up or liquidation of our Company or any of our subsidiaries, or our Company or any of our subsidiaries makes any compromise or arrangement with our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or

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## UNDERWRITING

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- (xii) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of our subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xiii) any material litigation or claim being threatened or instigated against our Company or any of our subsidiaries; or
- (xiv) a contravention by any member of our Group of the Listing Rules or any laws, rules and regulations of the jurisdiction in which our Group carries on our business as determined by the Joint Global Coordinators in their sole and absolute discretion to be material; or
- (xv) any of our Directors or members of our senior management as set out in the section headed "Directors and Senior Management" of this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xvi) the chairman of our Company or any executive Director vacating his office,

which, individually or in aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters):

- (1) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, results of operations, financial, trading or other condition or prospects or risks of any member of our Group or on any present or prospective Shareholder in his, her or its capacity as such; or
- (2) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
- (3) makes or will or may make it inadvisable, inexpedient, impracticable or not commercially viable for any part of the Public Offer Underwriting Agreement or the Share Offer to proceed with; or
- (4) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including the underwriting) incapable of being performed or implemented in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or
- (5) makes or will or may make our Company unable to comply with the terms and conditions of the Share Offer, the Offer Shares, and/or the Listing.

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## UNDERWRITING

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### RESTRICTIONS AND UNDERTAKINGS

For the purpose of this paragraph headed “Restrictions and undertakings”, unless the context otherwise requires, all references to “he”, “him” or “his” shall include references to all other genders.

#### **Restrictions and undertakings under the Listing Rules**

##### *Concerning our Company*

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08 of the Listing Rules.

##### *Concerning our Controlling Shareholders*

Under Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling shareholders is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of our Company in respect of which he is or they are shown by this prospectus to be the beneficial owner(s); or
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) immediately above 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 securities referred to in paragraph (a) immediately above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or our other Controlling Shareholders would cease to be our Controlling Shareholder.

Any offer for sale contained in this prospectus, if any, shall not be subject to the above restrictions. Further, any stock borrowing arrangement entered into by 5S Holdings, as our Controlling Shareholder, pursuant to the Stock Borrowing Agreement to facilitate settlement of over-allocation shall not be subject to the above restrictions provided the requirements under Rule 10.07(3) are complied with.

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## UNDERWRITING

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As required under note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that, within the period commencing on the date by reference to which disclosure of their respective shareholdings are made in this prospectus and ending on the date which is 12 months from the Listing Date, he will:

- (a) when he pledges or charges any securities beneficially owned by him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (the “**Banking Ordinance**”)), immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

Our Company is required under note 3 to Rule 10.07(2) of the Listing Rules to inform the Stock Exchange as soon as we have been informed of the matters referred to above by any or all of our Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

### **Undertakings under the Public Offer Underwriting Agreement**

#### *By our Company*

Under the Public Offer Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Joint Global Coordinators and the Public Offer Underwriters that, and each of our Controlling Shareholders and our executive Directors has jointly and severally undertaken to and covenanted with the Sole Sponsor, the Joint Global Coordinators and the Public Offer Underwriters to procure (so far as he/it is able to do so) that without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange, save pursuant to the Share Offer, the Capitalisation Issue, the Over-allotment Option, the exercise of any options as may be granted under the Share Option Scheme, the scrip dividend schemes or similar arrangements in accordance with the Memorandum and the Articles or any consolidation, sub-division or capital reduction of the Shares or any circumstances permitted under Rule 10.08 of the Listing Rules, our Company shall not and procure each other member of our Group not to:

- (a) allot and issue, accept subscriptions for, offer, sell or contract to sell, grant or agree to grant any option or other right in, directly or indirectly, conditionally or unconditionally, any shares, warrants or other convertible or exchangeable securities carrying the right to subscribe for or exchangeable into shares or other securities of our Company or those of the other members of our Group or offer or agree to do any of the foregoing or announce any intention to do so:
  - (i) at any time during the period commencing from the date of the Public Offer Underwriting Agreement and ending on and including the date which is six months from the Listing Date (the “**First Lock-up Period**”); and

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## UNDERWRITING

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- (ii) at any time during the six months commencing on the date on which the First Lock-up Period expires (the “**Second Lock-up Period**”) so as to result in our Controlling Shareholders, taken together with the other of them, ceasing to be a group of Controlling Shareholders of our Company; or
- (b) at any time during the First Lock-up Period, subject to the Listing Rules and the Takeovers Code, make or agree to make any repurchase of Shares or other securities of our Company.

*By our Controlling Shareholders*

Under the Public Offer Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to us, the Sole Sponsor, the Joint Global Coordinators and the Public Offer Underwriters that, save as (a) pursuant to the Share Offer or the Stock Borrowing Agreement; or (b) permitted under the Listing Rules, without the prior written consent of our Company, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Sole Sponsor and the other Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed):

- (i) he shall not, and shall procure that none of his associates or any company controlled by him or any of his associates, nominees or trustees holding in trust for him will, at any time during the First Lock-up Period, sell, transfer or otherwise dispose of, or enter into any agreement to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) directly or indirectly owned by him or in which he is, directly or indirectly, interested immediately after completion of the Share Offer and the Capitalisation Issue or any interest in any shares in any company controlled by him which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (save any Shares returned under the Stock Borrowing Agreement) provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;
- (ii) he shall not, and shall procure that none of his associates or any company controlled by him or any of his associates, nominees or trustees holding in trust for him will, at any time during the Second Lock-up Period, sell, transfer or otherwise dispose of, or enter into any agreement to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) directly or indirectly owned by him or in which he is, directly or indirectly, interested immediately after completion of the Share Offer and the Capitalisation Issue or any interest in any shares in any company controlled by him which is the beneficial owner of any of these Shares, or announce any intention to do so, if, immediately following such action, our Controlling Shareholders, when taken together, would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; and

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## UNDERWRITING

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- (iii) without prejudice to the undertakings as referred to in paragraphs (i) and (ii) immediately above, during the period commencing on the date by reference to which disclosure of his direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he shall:
  - (A) when he pledges or charges or otherwise create any rights or encumbrances over any Shares or other securities of our Company in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) of such pledge or charge or creation of the rights or encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by us, the Sole Sponsor and/or the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters); and
  - (B) subsequent to the pledge or charge or creation of rights or encumbrances over the Shares (or interest therein) or other shares or interests as mentioned in sub-paragraph (A) immediately above, when he receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (A) immediately above will be sold, transferred or disposed of, immediately inform us of such indications, and inform the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

Our Company will inform the Stock Exchange, the Sole Sponsor and the Joint Global Coordinators in writing as soon as it has been informed of any of the matters referred to above (if any) by any or all of our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

## PLACING

In connection with the Placing, it is expected that our Company, our executive Directors and our Controlling Shareholders will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters on or around the Price Determination Date. It is expected that under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or procure subscribers to subscribe for the Placing Shares initially being offered under the Placing (subject to reallocation) on and subject to the terms of the Placing Underwriting Agreement. The Placing Underwriting Agreement is expected to contain force majeure clauses similar to those contained in the Public Offer Underwriting Agreement as mentioned above. In the event that the Placing Underwriting Agreement is not entered into on or around the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Share Offer will not proceed and will lapse.

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## UNDERWRITING

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It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by the Joint Global Coordinators (for themselves and on behalf of the other Placing Underwriters) at any time from the Listing Date until the 30th day after the last day for the lodging of applications under the Public Offer, to require our Company to issue up to 37,500,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, at the Offer Price to cover over-allocations in the Placing, if any.

### COMMISSIONS AND EXPENSES

Pursuant to the terms of the Public Offer Underwriting Agreement, our Company has agreed to pay to the Joint Global Coordinators (for themselves and on behalf of the other Public Offer Underwriters) and, in the case of the Placing Underwriting Agreement, our Company will agree to pay to the Joint Global Coordinators (for themselves and on behalf of the other Placing Underwriters), an underwriting commission of 10% of the aggregate final Offer Price payable for the Offer Shares (including Shares as may be issued upon exercise of the Over-allotment Option), out of which any sub-underwriting commissions will be paid. In addition, our Company will also pay the Sole Sponsor a sponsorship fees for acting as the Sole Sponsor to the Listing. Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$0.56 (being the mid-point of the Offer Price range of HK\$0.62 per Offer Share and HK\$0.50 per Offer Share), such underwriting commissions and fees, together with the listing fees, the professional fees, the printing and other expenses relating to the Share Offer are estimated to be approximately HK\$45.7 million in aggregate and are payable by our Company.

### UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their respective obligations and interests under the Underwriting Agreements as disclosed above and the sole sponsorship fee payable to the Sole Sponsor in connection with the Listing, the proposed appointment of Shenwan Hongyuan Capital (H.K.) Limited as our compliance adviser, none of the Underwriters has any shareholding interest in our Company or any of our subsidiaries or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

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## STRUCTURE OF THE SHARE OFFER

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### STRUCTURE OF THE SHARE OFFER

The Share Offer consists of:

- (a) the Public Offer of 25,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described in the paragraph headed “The Public Offer” in this section; and
- (b) the Placing of 225,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below).

Investors may apply for the Public Offer Shares under the Public Offer or, if qualified to do so, indicate an interest, for the Placing Shares under the Placing, but may not do both.

The Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue but without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

The number of Public Offer Shares and Placing Shares to be offered under the Public Offer and the Placing, respectively, may be subject to reallocation as described in the paragraph headed “The Public Offer — Reallocation” in this section.

The Public Offer Underwriters have agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting arrangements are set out in the section headed “Underwriting” of this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

### CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer as mentioned in this prospectus on the Main Board of the Stock Exchange and such listing and such grant and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange;



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## STRUCTURE OF THE SHARE OFFER

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- (b) the Offer Price having been agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and the entering into of the Price Determination Agreement on or around the Price Determination Date and such agreement not having been subsequently terminated;
- (c) the entering into of the Placing Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (unless and to the extent such conditions are validly waived on or before such dates and times) and not having been terminated in accordance with their respective terms,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by our Company on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.henghup.com](http://www.henghup.com) on the next Business Day following such lapse. In such event, your application money will be refunded to you, without interest, on the terms set out in the paragraph headed “How to Apply for the Public Offer Shares — 12. Refund of Application Monies” of this prospectus and the paragraph headed “Refund of your money” in the Application Forms. In the meantime, your application money will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

### THE PUBLIC OFFER

#### Number of Shares initially offered

Subject to reallocation as mentioned below, our Company is initially offering 25,000,000 Shares at the Offer Price under the Public Offer, representing 10% of the total number of Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation of the Offer Shares between the Public Offer and the Placing as mentioned below, the number of Shares initially offered under the Public Offer will represent 2.5% of our total issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and other investors.

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## STRUCTURE OF THE SHARE OFFER

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### Allocation

The total number of Offer Shares available under the Public Offer is to be divided into two pools of 12,500,000 Public Offer Shares for each of pool A and pool B, respectively. For allocation purpose:

- (a) Pool A: the Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less; and
- (b) Pool B: the Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is under-subscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of the Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 50% of the Public Offer Shares initially available will be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer, both in relation to pool A or pool B, will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) are expected to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.henghup.com](http://www.henghup.com) on Thursday, 14 March 2019.

### Reallocation

The allocation of Shares between the Public Offer and the Placing is subject to adjustment and reallocation on the following basis.

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## STRUCTURE OF THE SHARE OFFER

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### *Full subscription or over-subscription of the Placing Shares*

Where the Placing Shares are fully subscribed or over-subscribed:

- (a) if the Public Offer Shares are under-subscribed, the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) have the authority to reallocate all or any of the unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) deems appropriate;
- (b) if the Public Offer Shares are over-subscribed and the number of Offer Shares validly applied for under the Public Offer represents less than 15 times of the number of Offer Shares initially available for subscription under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the maximum total number of Offer Shares available under the Public Offer will be increased to not more than 50,000,000 Offer Shares (the “**Allocation Cap**”), representing not more than 20% (being not more than double the initial allocation of 10%) of the total number of Offer Shares initially available under the Share Offer. In the event of such a reallocation, the Offer Price shall be fixed at the low-end of the indicative Offer Price range, i.e. HK\$0.50 per Offer Share, as stated in this prospectus;
- (c) if the Public Offer Shares are over-subscribed and the number of Offer Shares validly applied for under the Public Offer:
  - (i) represents 15 times or more but less than 50 times of the number of Offer Shares initially available for subscription under the Public Offer, then up to 50,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be increased to 75,000,000 Offer Shares, representing 30% of the number of Offer Shares initially available under the Share Offer;
  - (ii) represents 50 times or more but less than 100 times of the number of Offer Shares initially available for subscription under the Public Offer, then up to 75,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be increased to 100,000,000 Offer Shares, representing 40% of the number of Offer Shares initially available under the Share Offer; and
  - (iii) represents 100 times or more of the number of Offer Shares initially available for subscription under the Public Offer, then up to 100,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be increased to 125,000,000 Offer Shares, representing 50% of the number of Offer Shares initially available under the Share Offer.

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## STRUCTURE OF THE SHARE OFFER

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### *Under-subscription of Placing Shares*

Where the Placing Shares are under-subscribed:

- (a) if the Public Offer Shares are under-subscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; or
- (b) if the Public Offer Shares are fully subscribed or over-subscribed by whatever number of times of the number of Offer Shares initially available for subscription under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the maximum total number of Offer Shares available under the Public Offer will be increased to not more than the Allocation Cap. In the event of such a reallocation, the Offer Price shall be fixed at the low-end of the indicative Offer Price range, i.e. HK\$0.50 per Offer Share, as stated in this prospectus.

In the event of reallocation of the Placing Shares to the Public Offer, the additional Offer Shares reallocated to the Public Offer will be allocated, if applicable, equally between pool A and pool B.

### **Application**

The Listing is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.62 per Offer Share in addition to any brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share. That means a total of HK\$2,504.99 is payable for every board lot of 4,000 Shares. Please refer to the section headed “How to Apply for the Public Offer Shares” of this prospectus for further details.

Each applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form or the electronic application instructions to HKSCC submitted by him/her/it that he/she/it and any person(s) for which benefit he/she/it is making the application have not applied for nor taken up any Placing Shares under the Placing nor otherwise participated in the Placing. An Applicant should note that if such undertaking and/or confirmation given him/her/it is breached and/or is untrue (as the case may be), his/her/its application under the Public Offer is liable to be rejected.

Multiple applications or suspected multiple applications under the Public Offer and any application for more than 50% of the Public Offer Shares initially available under the Public Offer (i.e. to apply for more than 12,500,000 Share) will be rejected.

Our Company, our Directors, the Sole Sponsor and the Underwriters are required to take reasonable steps to identify and reject applications under the Public Offer from investors who received Shares under the Placing, and to identify and reject indications of interest in the Placing from investors who received Shares under the Public Offer.

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## STRUCTURE OF THE SHARE OFFER

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### THE PLACING

#### Number of Shares initially offered

Subject to reallocation as mentioned above, our Company is initially offering 225,000,000 Shares at the Offer Price under the Placing, representing 90% of the total number of Shares initially available under the Share Offer. Subject to reallocation of the Offer Shares between the Public Offer and the Placing as mentioned above, the number of Shares initially offered under the Placing will represent 22.5% of our total issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

The Placing is expected to be fully underwritten by the Placing Underwriters. Pursuant to the Placing, it is expected that the Placing Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

It is expected that the Placing Underwriting Agreement will be executed on or around the Price Determination Date.

#### Allocation

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on the basis which would lead to the establishment of a solid and broad Shareholder base to the benefit of our Company and our Shareholders as a whole.

Investors to whom the Placing Shares are offered are required to undertake not to apply for the Public Offer Shares under the Public Offer. The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

The Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" in this section.

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## STRUCTURE OF THE SHARE OFFER

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### DETERMINING THE OFFER PRICE

The final Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) on or around the Price Determination Date, which is currently scheduled on Tuesday, 5 March 2019, or such later time as may be agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), but in any event not later than 6:00 p.m. (Hong Kong time) on Friday, 8 March 2019. If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) are unable to reach any agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Friday, 8 March 2019, the Share Offer will not become unconditional and will lapse immediately.

Prospective investors should be aware that the Offer Price to be determined on or around the Price Determination Date may be, but is not expected to be, lower than the Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$0.62 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares being offered under the Share Offer and/or the Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published a notice of reduction on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.henghup.com](http://www.henghup.com). Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed “Summary” of this prospectus, and any other financial information which may change as a result of such reduction. Upon issuing such notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range.

If the number of Offer Shares and/or the Offer Price range is so reduced, all applicants who have already submitted an application will need to confirm their applications in accordance with the procedures set out in a supplemental prospectus to be issued by our Company in connection with such reduction and all unconfirmed applications will not be valid and be deemed to be withdrawn.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Public Offer. In the

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## STRUCTURE OF THE SHARE OFFER

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absence of any such notice of reduction being published on or before the morning of the last day for lodging applications under the Public Offer, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 14 March 2019 on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.henghup.com](http://www.henghup.com).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available through a variety of channels as described in the paragraph headed “How to Apply for the Public Offer Shares — 10. Publication of results” of this prospectus.

### OFFER PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.62 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK\$0.62 per Offer Share plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, amounting to a total of HK\$2,504.99 per board lot of 4,000 Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.62 per Offer Share, appropriate refund payments (including the related brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the excess application monies) will be made to applicants, without interest.

Please refer to the section headed “How to Apply for the Public Offer Shares” of this prospectus for further details.

### OVER-ALLOTMENT OPTION

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by the Joint Global Coordinators (for themselves and on behalf of the other Placing Underwriters) at any time from the Listing Date until the 30th day after the last day for the lodging of applications under the Public Offer, to require our Company to issue up to 37,500,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, at the Offer Price to cover over-allocations in the Placing, if any. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing and/or to satisfy the obligation of the Stabilising Manager to return the Shares borrowed under the Stock Borrowing Agreement. The Joint Global Coordinators may also cover any over-allocations under the Placing through the purchase of Shares in the secondary market or otherwise as may be permitted under the applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares which may be over-allocated may not be



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## STRUCTURE OF THE SHARE OFFER

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greater than the number of Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 27.7% of the enlarged issued share capital of our Company immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.henghup.com](http://www.henghup.com).

Based on an Offer Price of HK\$0.56 per Offer Share (being the mid-point of the Offer Price range between HK\$0.62 per Offer Share and HK\$0.50 per Offer Share), the net proceeds of the Share Offer, assuming that the Over-allotment Option is not exercised and after deducting the related expenses, are estimated to be approximately HK\$94.3 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK\$18.9 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. In Hong Kong, the stabilisation price shall not exceed the initial public offer price.

In connection with the Share Offer, the Stabilising Manager (for itself and on behalf of the other Underwriters and not as our agent), its affiliates or any person acting for it, may over-allocate Shares or effect transactions with a view to stabilising or supporting the market price of the Offer Shares at a level higher than which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Stabilising Manager, or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares which may be over-allocated will not be greater than the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option, being 37,500,000 Shares, which is 15% of the Offer Shares initially being offered under the Share Offer. For purposes of covering such over-allocations, the Stabilising Manager may borrow from 5S Holdings in the aggregate up to 37,500,000 Shares, which is equivalent to the maximum number of Shares to be allotted and issued upon exercise of the Over-allotment Option in full, pursuant to the Stock Borrowing Agreement.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Public Offer (the “**Stabilisation Period**”). The Stabilisation Period is expected to expire on Wednesday, 3 April 2019 and that after such date, when no further stabilising action may be taken, demand for the Shares, and therefore their price, could fall.



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## STRUCTURE OF THE SHARE OFFER

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During the Stabilisation Period, the Stabilising Manager (for itself and on behalf of the other Underwriters and not as our agent), or any person acting for it, may enter into stabilising action such as purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilisation, including the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). In connection with any such stabilisation actions as described above, the Stabilising Manager (for itself and on behalf of the other Underwriters and not as our agent), or any person acting for it, may allocate a greater number of Shares than the number which is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also sell or agree to sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position which has been established by such action.

The Stabilising Manager may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Stabilising Manager will maintain such a position during the Stabilisation Period, are at the sole discretion of the Stabilising Manager and is uncertain. In the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions may be effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions may be effected at a price below the price which the investor has paid for the Offer Shares.

Our Company will ensure to procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the Stabilisation Period.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations, the Stabilising Manager (for itself and on behalf of the other Underwriters and not as our agent), or any person acting for it, may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of the Shares, exercise the Over-allotment Option, engage in a combination of such means or otherwise as may be permitted under the applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Stabilising Manager will enter into the Stock Borrowing Agreement with 5S Holdings whereby the Stabilising Manager may borrow up to 37,500,000 Shares from 5S Holdings, equivalent to the maximum number of additional Shares to be issued upon the exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement

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## STRUCTURE OF THE SHARE OFFER

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is not subject to the restrictions of Rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under Rule 10.07(3) of the Listing Rules are complied with:

- (a) the stock borrowing arrangement under the Stock Borrowing Agreement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares to be borrowed from 5S Holdings is the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option in full;
- (c) the same number of Shares so borrowed is returned to 5S Holdings or its nominee (as the case may be) within three Business Days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- (d) borrowing of Shares pursuant to the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with the Listing Rules, laws and other regulatory requirements; and
- (e) no payments will be made to 5S Holdings in relation to the stock borrowing arrangement under the Stock Borrowing Agreement.

### DEALING ARRANGEMENTS AND BOARD LOT SIZE

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. on Friday, 15 March 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 15 March 2019.

The Shares will be traded in board lots of 4,000 Shares. The stock code of the Shares is 1891.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form; or
- (b) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the US Securities Act); and
- (d) are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- (a) are an existing beneficial owner of the Shares and/or any shares in our subsidiaries;
- (b) are a Director or chief executive officer of our Company and/or a director or chief executive officer of any of our subsidiaries;
- (c) are an associate of any of the above;
- (d) are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- (e) have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR THE PUBLIC OFFER SHARES

#### Which application channel to use

For the Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the application forms

You can collect a **WHITE** Application Form and this prospectus during normal business hours from 9:00 a.m. on Wednesday, 27 February 2019 to 12:00 noon on Monday, 4 March 2019 from:

- (a) the following office of the Public Offer Underwriters:

**Shenwan Hongyuan Capital (H.K.) Limited**

Level 19, 28 Hennessy Road  
Hong Kong

**Elstone Securities Limited**

Suite 3712, 37th Floor, West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

**Haitong International Securities Company Limited**

22nd Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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**SPDB International Capital Limited**

Suites 3207-3212  
One Pacific Place  
88 Queensway  
Hong Kong

(b) the following branches of the receiving bank, Bank of China (Hong Kong) Limited:

District	Branch Name	Address
<b>Hong Kong Island</b>	Johnston Road Branch	152-158 Johnston Road, Wanchai, Hong Kong
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing, Hong Kong
<b>Kowloon</b>	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei, Kowloon
<b>New Territories</b>	Shatin Branch	Shop 20, Level 1, Lucky Plaza, 1-15 Wang Pok Street, Shatin, New Territories

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Wednesday, 27 February 2019 until 12:00 noon on Monday, 4 March 2019 from the depository counter of HKSCC at 1st Floor, One & Two Exchange Square, 8 Connaught Place Central, Hong Kong or from your stockbroker.

### Time for lodging application forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — HENG HUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

**Wednesday, 27 February 2019 — 9:00 a.m. to 5:00 p.m.**

**Thursday, 28 February 2019 — 9:00 a.m. to 5:00 p.m.**

**Friday, 1 March 2019 — 9:00 a.m. to 5:00 p.m.**

**Saturday, 2 March 2019 — 9:00 a.m. to 1:00 p.m.**

**Monday, 4 March 2019 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 4 March 2019, the last application day or such later time as described in the paragraph headed "Effect of bad weather on the opening of the application lists" in this section.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (b) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (f) agree that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares nor participated in the Placing;
- (h) agree to disclose to our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the US Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or our agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or the refund cheque(s) in person;
- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### Additional instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Centre  
1st Floor, One & Two Exchange Square  
8 Connanght Place, Central  
Hong Kong

and complete an input request form.

You can also collect this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

#### Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (b) HKSCC Nominees will do the following things on your behalf:
- (i) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - (ii) agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares;
  - (iv) (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - (vi) confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - (vii) authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - (ix) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
  - (x) agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
  - (xi) agree to disclose your personal data to our Company, the Hong Kong Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- (xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- (xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- (xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **electronic application instructions** to apply for the Public Offer Shares;
- (xvi) agree with our Company, for ourselves and for the benefit of each Shareholder (and so that our Company will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and
- (xvii) agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- (a) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- (c) instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Public Offer Shares. Instructions for more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Wednesday, 27 February 2019 — 9:00 a.m. to 8:30 p.m.** <sup>(Note)</sup>  
**Thursday, 28 February 2019 — 8:00 a.m. to 8:30 p.m.** <sup>(Note)</sup>  
**Friday, 1 March 2019 — 8:00 a.m. to 8:30 p.m.** <sup>(Note)</sup>  
**Monday, 4 March 2019 — 8:00 a.m.** <sup>(Note)</sup> **to 12:00 noon**

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*Note:* The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 27 February 2019 until 12:00 noon on Monday, 4 March 2019 (24 hours daily, except on Monday, 4 March 2019, the last application day).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 4 March 2019, the last application day or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” in this section.

### No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to **give electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to the CCASS Phone System/the CCASS Internet System for submission of **electronic application instructions**, they should either (a) submit a **WHITE** or **YELLOW** Application Form, or (b) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 4 March 2019.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- (a) an account number; or
- (b) some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- (a) control the composition of the board of directors of the company;
- (b) control more than half of the voting power of the company; or
- (c) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 4,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the paragraph headed “Structure of the Share Offer — Offer Price payable on application” of this prospectus.

### 9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 4 March 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 4 March 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong which may affect the dates mentioned in the section headed “Expected Timetable” of this prospectus, an announcement will be made in such event.

### 10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 14 March 2019 on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.henghup.com**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.henghup.com** by no later than 9:00 a.m. on Thursday, 14 March 2019;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (b) from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 14 March 2019 to the midnight on Wednesday, 20 March 2019;
- (c) by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 14 March 2019 to Tuesday, 19 March 2019 (excluding Saturday and Sunday);
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 14 March 2019 to Monday, 18 March 2019 at all the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure of the Share Offer” of this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(a) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(b) If our Company or our agents exercise our discretion to reject your application:**

Our Company, the Joint Global Coordinators and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(c) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or
- (ii) within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(d) If:**

- (i) you make multiple applications or suspected multiple applications;
- (ii) you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- (iii) your Application Form is not completed in accordance with the stated instructions;
- (iv) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (v) the Underwriting Agreements do not become unconditional or are terminated;



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (vi) our Company or the Joint Global Coordinators believe(s) that by accepting your application, we or it would violate applicable securities or other laws, rules or regulations; or
- (vii) your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

### 12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.62 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 14 March 2019.

### 13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account payee only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque,

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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if any. Your bank may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 14 March 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 15 March 2019 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" of this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal collection**

#### **(a) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 March 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 14 March 2019, by ordinary post and at your own risk.

#### **(b) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 14 March 2019, by ordinary post and at your own risk.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 14 March 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(i) *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer shares allotted to you with that CCASS participant.

(ii) *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "Publication of results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 March 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System.

(c) **If you apply via electronic application instructions to HKSCC**

***Allocation of Public Offer Shares***

For the purpose of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

***Deposit of share certificates into CCASS and refund of application monies***

- (i) If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 14 March 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- (ii) Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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paragraph headed “Publication of results” in this section on Thursday, 14 March 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 March 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- (iii) If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- (iv) If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, 14 March 2019. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- (v) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 14 March 2019.

### 14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

*The following is the text of a report set out on pages I-1 to I-3, received from our Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to our Directors and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HENG HUP HOLDINGS LIMITED AND SHENWAN HONGYUAN CAPITAL (H.K.) LIMITED**

***Introduction***

We report on the historical financial information of Heng Hup Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-64, which comprises the combined statements of financial position as at 31 December 2015, 2016 and 2017 and 31 August 2018, the company statement of financial position as at 31 August 2018, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-64 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 27 February 2019 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

***Directors' responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

***Reporting accountant's responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in*

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

*Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 August 2018 and the combined financial position of the Group as at 31 December 2015, 2016 and 2017 and 31 August 2018 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

### *Review of stub period comparative financial information*

We have reviewed the stub period comparative financial information of the Group which comprises the combined statements of comprehensive income, changes in equity and cash flows for the eight months ended 31 August 2017 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review,

nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

***Dividends***

We refer to Note 12 to the Historical Financial Information which contains information about the dividends paid by Heng Hup Holdings Limited in respect of the Track Record Period.

***No statutory financial statements for the Company***

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 27 February 2019

**I. HISTORICAL FINANCIAL INFORMATION OF HENG HUP HOLDINGS LIMITED**

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Malaysian Ringgit (“**RM**”) and all values are rounded to the nearest thousand (“**RM’000**”) except when otherwise indicated.

**COMBINED STATEMENTS OF COMPREHENSIVE INCOME**

		Year ended 31 December			Eight months ended 31 August	
		2015	2016	2017	2017	2018
	Notes	RM’000	RM’000	RM’000	RM’000 (Unaudited)	RM’000
Revenue	5	429,564	378,529	739,428	420,391	568,756
Cost of sales	8	(393,921)	(346,819)	(685,637)	(390,456)	(531,922)
Gross profit		35,643	31,710	53,791	29,935	36,834
Other income	6	252	99	1,073	510	95
Other gains/(losses), net	7	1,799	(554)	253	75	9,397
Distribution and selling expenses	8	(7,697)	(5,778)	(7,570)	(4,747)	(5,863)
Administrative expenses	8	(10,319)	(8,616)	(15,905)	(6,395)	(12,452)
Operating profit		19,678	16,861	31,642	19,378	28,011
Finance income	10	365	215	224	144	344
Finance costs	10	(1,443)	(1,018)	(910)	(588)	(406)
Finance costs, net		(1,078)	(803)	(686)	(444)	(62)
Profit before income tax		18,600	16,058	30,956	18,934	27,949
Income tax expense	11	(4,928)	(4,007)	(7,845)	(4,665)	(6,355)
Profit and total comprehensive income for the years/periods		<u>13,672</u>	<u>12,051</u>	<u>23,111</u>	<u>14,269</u>	<u>21,594</u>
Profit attributable to:						
Owners of the Company		13,634	12,061	22,835	14,065	21,594
Non-controlling interests		38	(10)	276	204	—
		<u>13,672</u>	<u>12,051</u>	<u>23,111</u>	<u>14,269</u>	<u>21,594</u>



## COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 August
		2015	2016	2017	2018
<i>Notes</i>		<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	14	19,546	18,342	17,386	17,163
Investment properties	15	<u>3,766</u>	<u>5,297</u>	<u>3,654</u>	<u>4,075</u>
		<u>23,312</u>	<u>23,639</u>	<u>21,040</u>	<u>21,238</u>
<b>Current assets</b>					
Inventories	16	1,656	1,975	8,542	12,129
Trade and other receivables	17	78,225	90,389	97,870	87,853
Amounts due from related parties	29	10,062	2,050	8,773	—
Pledged bank deposits	18	6,691	6,901	7,103	9,158
Cash and cash equivalents	19	<u>4,566</u>	<u>3,144</u>	<u>14,140</u>	<u>13,160</u>
		<u>101,200</u>	<u>104,459</u>	<u>136,428</u>	<u>122,300</u>
Assets classified as held for sale	20	<u>—</u>	<u>—</u>	<u>1,686</u>	<u>—</u>
<b>Total assets</b>		<u>124,512</u>	<u>128,098</u>	<u>159,154</u>	<u>143,538</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the Company</b>					
Combined capital	21	6,750	6,750	6,750	112,313
Capital reserve		—	—	—	(82,826)
Retained earnings		<u>36,337</u>	<u>40,398</u>	<u>63,233</u>	<u>84,883</u>
		43,087	47,148	69,983	114,370
Non-controlling interests	24	<u>127</u>	<u>117</u>	<u>393</u>	<u>—</u>
<b>Total equity</b>		<u>43,214</u>	<u>47,265</u>	<u>70,376</u>	<u>114,370</u>

**APPENDIX I****ACCOUNTANT'S REPORT**

		<b>As at 31 December</b>			<b>As at 31 August</b>
		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<i>Notes</i>		<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>Non-current liabilities</b>					
Finance lease liabilities	23	865	542	382	243
Borrowings	23	7,153	6,124	6,409	4,131
Deferred income tax liabilities	25	<u>555</u>	<u>486</u>	<u>636</u>	<u>600</u>
		<u>8,573</u>	<u>7,152</u>	<u>7,427</u>	<u>4,974</u>
<b>Current liabilities</b>					
Trade and other payables	22	31,774	24,577	28,346	19,706
Current income tax liabilities		3,710	1,455	3,761	3,290
Finance lease liabilities	23	1,348	531	196	176
Borrowings	23	7,262	6,080	5,525	1,022
Amounts due to related parties	29	6,550	6,376	6,382	—
Amounts due to directors	29	<u>22,081</u>	<u>34,662</u>	<u>37,141</u>	<u>—</u>
		<u>72,725</u>	<u>73,681</u>	<u>81,351</u>	<u>24,194</u>
<b>Total liabilities</b>		<u>81,298</u>	<u>80,833</u>	<u>88,778</u>	<u>29,168</u>
<b>Total equity and liabilities</b>		<u>124,512</u>	<u>128,098</u>	<u>159,154</u>	<u>143,538</u>

**STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

	<b>As at 31 August 2018</b>
	<i>RM'000</i>
<b>ASSETS</b>	
<b>NON-CURRENT ASSET</b>	
Investment in a subsidiary	39
<b>Total assets</b>	39
<b>EQUITY AND LIABILITIES</b>	
<b>Equity attributable to shareholders of the Company</b>	
Share capital	—
<b>Total equity</b>	—
<b>Current liabilities</b>	
Amount due to a related party	39
<b>Total liabilities</b>	39
<b>Total equity and liabilities</b>	39

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company				Non- controlling interests	Total equity
	Combined capital	Capital reserve Note A	Retained earnings	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	<u>6,750</u>	<u>—</u>	<u>22,703</u>	<u>29,453</u>	<u>89</u>	<u>29,542</u>
Total comprehensive income for the year, net of tax	<u>—</u>	<u>—</u>	<u>13,634</u>	<u>13,634</u>	<u>38</u>	<u>13,672</u>
At 31 December 2015	<u>6,750</u>	<u>—</u>	<u>36,337</u>	<u>43,087</u>	<u>127</u>	<u>43,214</u>
At 1 January 2016	<u>6,750</u>	<u>—</u>	<u>36,337</u>	<u>43,087</u>	<u>127</u>	<u>43,214</u>
Total comprehensive income/(loss) for the year, net of tax	<u>—</u>	<u>—</u>	<u>12,061</u>	<u>12,061</u>	<u>(10)</u>	<u>12,051</u>
Transactions with owners in their capacity as owners Dividends (Note 12)	<u>—</u>	<u>—</u>	<u>(8,000)</u>	<u>(8,000)</u>	<u>—</u>	<u>(8,000)</u>
Total transactions with owners in their capacity as owners	<u>—</u>	<u>—</u>	<u>(8,000)</u>	<u>(8,000)</u>	<u>—</u>	<u>(8,000)</u>
At 31 December 2016	<u>6,750</u>	<u>—</u>	<u>40,398</u>	<u>47,148</u>	<u>117</u>	<u>47,265</u>
At 1 January 2017	<u>6,750</u>	<u>—</u>	<u>40,398</u>	<u>47,148</u>	<u>117</u>	<u>47,265</u>
Total comprehensive income for the year, net of tax	<u>—</u>	<u>—</u>	<u>22,835</u>	<u>22,835</u>	<u>276</u>	<u>23,111</u>
At 31 December 2017	<u>6,750</u>	<u>—</u>	<u>63,233</u>	<u>69,983</u>	<u>393</u>	<u>70,376</u>

	Attributable to owners of the Company				Non- controlling interests	Total equity
	Combined capital	Capital reserve Note A	Retained earnings	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2018	6,750	—	63,233	69,983	393	70,376
Total comprehensive income for the period, net of tax	—	—	21,594	21,594	—	21,594
Transactions with owners in their capacity as owners						
Acquisition of non-controlling interests	—	—	56	56	(393)	(337)
Issuance of share capital at the date of incorporation (Note 1.2(iv))	—	—	—	—	—	—
Issuance of ordinary shares pursuant to a Group reorganisation (Note 1.2(vi))	82,826	(82,826)	—	—	—	—
Issuance of ordinary shares pursuant to settlement of balances with related parties (Note 1.2(viii))	22,737	—	—	22,737	—	22,737
Total transactions with owners in their capacity as owners	105,563	(82,826)	56	22,793	(393)	22,400
At 31 August 2018	112,313	(82,826)	84,883	114,370	—	114,370
At 1 January 2017	6,750	—	40,398	47,148	117	47,265
Total comprehensive income/(loss) for the period, net of tax (unaudited)	—	—	14,065	14,065	204	14,269
At 31 August 2017 (unaudited)	6,750	—	54,463	61,213	321	61,534

*Note A: Capital reserve of RM82,826,000 represents the difference between the aggregate value of the capital of group subsidiaries acquired over the share capital of the Heng Hup Holdings (Malaysia) Sdn. Bhd. issued in exchange thereof, please refer to Note 1.2.*

## COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Eight months ended 31 August	
		2015	2016	2017	2017	2018
	Notes	RM'000	RM'000	RM'000	RM'000 (Unaudited)	RM'000
<b>Cash flows from operating activities</b>						
Cash generated from operations	31	9,413	7,755	16,979	9,663	17,935
Tax paid		(5,993)	(6,331)	(5,389)	(2,442)	(6,862)
<b>Net cash generated from operating activities</b>		<u>3,420</u>	<u>1,424</u>	<u>11,590</u>	<u>7,221</u>	<u>11,073</u>
<b>Cash flows from investing activities</b>						
Purchases of property, plant and equipment	14	(2,015)	(990)	(981)	(631)	(1,237)
Purchases of investment properties	15	(88)	(1,563)	(73)	(71)	(433)
Proceeds from disposal of property, plant and equipment	31	8,237	30	225	47	175
Proceeds from disposal of assets classified as held for sale	31	—	—	—	—	465
Interests received		365	215	224	144	344
Decrease/(increase) in pledged bank deposits		<u>4,952</u>	<u>(210)</u>	<u>(202)</u>	<u>(133)</u>	<u>(2,055)</u>
<b>Net cash generated from/(used in) investing activities</b>		<u>11,451</u>	<u>(2,518)</u>	<u>(807)</u>	<u>(644)</u>	<u>(2,741)</u>
<b>Cash flows from financing activities</b>						
Interests paid		(1,443)	(1,018)	(849)	(588)	(406)
Proceeds from borrowings	31	465	—	1,982	6,141	—
Repayments of borrowings	31	(13,051)	(3,778)	(3,492)	(4,440)	(6,407)
Advances from/(repayments to) directors	31	1,502	12,581	2,479	(563)	(1,001)
Dividends paid		—	(8,000)	—	—	—
Listing expenses paid		—	—	(251)	—	(479)
Acquisition of non-controlling interests	24	—	—	—	—	(337)
<b>Net cash (used in)/generated from financing activities</b>		<u>(12,527)</u>	<u>(215)</u>	<u>(131)</u>	<u>550</u>	<u>(8,630)</u>
Cash and cash equivalents at beginning of the years/periods		1,771	4,115	2,806	2,806	13,458
Net increase/(decrease) in cash and cash equivalents		<u>2,344</u>	<u>(1,309)</u>	<u>10,652</u>	<u>7,127</u>	<u>(298)</u>
<b>Cash and cash equivalents at end of the years/periods</b>	19	<u><u>4,115</u></u>	<u><u>2,806</u></u>	<u><u>13,458</u></u>	<u><u>9,933</u></u>	<u><u>13,160</u></u>

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 General information, reorganisation and basis of presentation

#### 1.1 General information

Heng Hup Holdings Limited (the “**Company**”) was incorporated on 12 April 2018 as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in trading of scrap ferrous metals, used batteries, waste paper and other scraps.

The Company’s ultimate holding company is 5S Holdings (BVI) Limited. The ultimate controlling party of the Group are Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong (collectively, the “**Sia Brothers**”).

These Historical Financial Information is presented in Malaysian Ringgit (“**RM**”) unless otherwise stated.

#### 1.2 Reorganisation

In preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the following reorganisation activities were carried out.

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the “**Reorganisation**”), the business of the Group was primarily carried out by Heng Hup Metal Sdn. Bhd., Heng Hup Paper Sdn. Bhd., Heng Hup Paper (Melaka) Sdn. Bhd., Heng Hup Hardware (M) Sdn. Bhd. (formerly known as Heng Hup Recycle Sdn. Bhd.) and Heng Hup Metal (Johor) Sdn. Bhd. (collectively, the “**Operating Companies**”).

Pursuant to the Reorganisation, the Operating Companies were transferred to the Company through the following steps:

- (i) On 22 December 2017, Heng Hup Holdings (Malaysia) Sdn. Bhd. was incorporated in Malaysia. One share was allotted and issued, credited as fully paid, to each of the Sia Brothers, all as initial subscribers.
- (ii) On 18 January 2018, Heng Hup Hardware (M) Sdn. Bhd. acquired 20% of the issued share capital of Heng Hup Metal (Johor) Sdn. Bhd. from Goh Eng Kiat for a cash consideration of RM337,000, which was based on 20% of the net asset value of Heng Hup Metal (Johor) Sdn. Bhd. as at 30 November 2017 and settled by Heng Hup Hardware (M) Sdn. Bhd. in cash in January 2018.

- (iii) On 10 April 2018, 5S Holdings (BVI) Limited was incorporated in the British Virgin Islands. 2,000 shares were allotted and issued, credited as fully paid at par, to each of the Sia Brothers as initial subscribers. On 13 April 2018, 5S Holdings (BVI) Limited allotted and issued 5,000 shares, 1,250 shares, 1,250 shares, 1,250 shares and 1,250 shares, all credited as fully paid at par, to Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong respectively.
- (iv) On 12 April 2018, the Company was incorporated in the Cayman Islands. One share was allotted and issued for cash at par to the initial third party subscriber and such share was transferred to 5S Holdings (BVI) Limited on the same date, and further allotted and issued 6,799 shares, for cash at par, to 5S Holdings (BVI) Limited and 640 shares, for cash at par, to each of the Sia Brothers.
- (v) On 17 April 2018, Heng Hup (BVI) Limited was incorporated in the British Virgin Islands. 10,000 shares were allotted and issued, credited as fully paid at par, to the Company as the initial subscriber.
- (vi) a) On 7 May 2018, Heng Hup Holdings (Malaysia) Sdn. Bhd. acquired the entire issued share capital of Heng Hup Paper Sdn. Bhd. from the Sia Brothers for an aggregate nominal consideration of RM5, which was satisfied by Heng Hup Holdings (Malaysia) Sdn. Bhd. by issuing and allotting one share to each of the Sia Brothers for RM1 per share (the **"Share Swap I"**). The Share Swap I was completed on 24 May 2018.
- b) On 7 May 2018, Heng Hup Holdings (Malaysia) Sdn. Bhd. acquired the entire issued share capital of Heng Hup Paper (Melaka) Sdn. Bhd. from the Sia Brothers for an aggregate nominal consideration of RM5, which was satisfied by Heng Hup Holdings (Malaysia) Sdn. Bhd. by issuing and allotting one share to each of the Sia Brothers for RM1 per share (the **"Share Swap II"**). The Share Swap II was completed on 24 May 2018.
- c) On 7 May 2018, Heng Hup Holdings (Malaysia) Sdn. Bhd. acquired the entire issued share capital of Heng Hup Metal (Johor) Sdn. Bhd. from Heng Hup Hardware (M) Sdn. Bhd. for an aggregate nominal cash consideration of RM1, which was paid by Heng Hup Holdings (Malaysia) Sdn. Bhd. in May 2018.
- d) On 1 June 2018, Heng Hup Holdings (Malaysia) Sdn. Bhd. acquired the entire issued share capital of Heng Hup Hardware (M) Sdn. Bhd. from the Sia Brothers for an aggregate nominal consideration of RM5, which was satisfied by Heng Hup Holdings (Malaysia) Sdn. Bhd. by issuing and allotting one share to each of the Sia Brothers for RM1 per share (the **"Share Swap III"**). The Share Swap III was completed on 13 June 2018.
- e) On 3 July 2018, Heng Hup Holdings (Malaysia) Sdn. Bhd. acquired the entire issued share capital of Heng Hup Metal Sdn. Bhd. from the Sia Brothers for an aggregate nominal consideration of RM5, which was satisfied by Heng Hup Holdings (Malaysia) Sdn. Bhd. by issuing and allotting one share to each of the Sia Brothers for RM1 per share (the **"Share Swap IV"**). The Share Swap IV was completed on 12 July 2018.



As a result of the above reorganisation steps, each of the Operating Companies became a wholly-owned subsidiary of Heng Hup Holdings (Malaysia) Sdn. Bhd.

- (vii) On 31 July 2018, Heng Hup Holdings (Malaysia) Sdn. Bhd. underwent a share sub-division such that every existing share in the capital of Heng Hup Holdings (Malaysia) Sdn. Bhd. was sub-divided into 50 shares.
- (viii)a) The debts due and owing by Heng Hup Metal Sdn. Bhd. to the Sia Brothers and a related company controlled by the Sia Brothers in the aggregate amount of RM27,989,000 as at 31 May 2018 were settled by way of:
- (i) transfer of three properties for an aggregate consideration of RM7,845,000 to the Sia Brothers on 31 July 2018;
  - (ii) set-off of the debts owing by My Santuariee Sdn. Bhd., 5S Foods & Beverages Sdn. Bhd., 5S Battery Sdn. Bhd., Solid Lift Sdn. Bhd., 5S Resources Sdn. Bhd. and 5S Unity Properties Sdn. Bhd. (being companies owned by Sia Brothers) to Heng Hup Metal Sdn. Bhd. in the amount of RM8,817,000 as at 31 May 2018 after being novated to the Sia Brothers;
  - (iii) allotment and issue of 541,959 shares of Heng Hup Metal Sdn. Bhd. to Heng Hup Holdings (Malaysia) Sdn. Bhd. at an issue price of RM20.9 per share on 31 July 2018; and
  - (iv) allotment and issue of 31 shares of Heng Hup Holdings (Malaysia) Sdn. Bhd. to each of the Sia Brothers at an issue price of RM73,536 per share on 31 July 2018.
- b) The debt due and owing by Heng Hup Hardware (M) Sdn. Bhd. to the Sia Brothers in the aggregate amount of RM14,194,000 as at 31 May 2018 was settled by way of:
- (i) transfer of one property for a consideration of RM2,650,000 to the Sia Brothers on 31 July 2018;
  - (ii) set-off of the debt owing by 5S Unity Properties Sdn. Bhd. and Heng Hup Hardware (being entities owned by the Sia Brothers) to Heng Hup Hardware (M) Sdn. Bhd. in the amount of RM133,311 as at 31 May 2018 after being novated to the Sia Brothers;
  - (iii) allotment and issue of 1,558,774 shares of Heng Hup Hardware (M) Sdn. Bhd. to Heng Hup Holdings (Malaysia) Sdn. Bhd. at an issue price of RM7.32 per share on 31 July 2018; and
  - (iv) allotment and issue of 31 shares of Heng Hup Holdings (Malaysia) Sdn. Bhd. to each of the Sia Brothers at an issue price of RM73,536 per share on 31 July 2018.

- (ix) On 13 February 2019, Heng Hup (BVI) Limited acquired the entire issued share capital of Heng Hup Holdings (Malaysia) Sdn. Bhd. from the Sia Brothers for an aggregate nominal cash consideration of RM5 and settled by Heng Hup (BVI) Limited in February 2019.

As a result of the above reorganisation step, Heng Hup Holdings (Malaysia) Sdn. Bhd. became the wholly-owned subsidiary of Heng Hup (BVI) Limited on 13 February 2019.

As a result of the above reorganisation steps, the Operating Companies became indirectly wholly-owned subsidiaries of the Company.

Upon the completion of the Reorganisation and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation	Issued and paid up capital	Principal activities	Effective interest held by the Group					Note
				As at 31 December			As at 31 August	As at date of report	
				2015	2016	2017	2018		
Directly held:									
Heng Hup (BVI) Limited	British Virgin Islands, 17 April 2018	50,000 ordinary shares of US\$1 each	Investment holding	N/A	N/A	N/A	100%	100%	(i)
Indirectly held:									
Heng Hup Holdings (Malaysia) Sdn. Bhd.	Malaysia, 22 December 2017	1,560 ordinary shares	Investment holding	N/A	N/A	100%	100%	100%	(i)
Heng Hup Metal Sdn. Bhd.	Malaysia, 3 July 2008	3,541,959 ordinary shares	Trading of scrap ferrous metals, used batteries and other scraps	100%	100%	100%	100%	100%	(ii)
Heng Hup Paper Sdn. Bhd.	Malaysia, 3 July 2018	1,000,000 ordinary shares	Dealing with recycle paper and its related products	100%	100%	100%	100%	100%	(ii)
Heng Hup Paper (Melaka) Sdn. Bhd.	Malaysia, 13 March 2009	250,000 ordinary shares	Trading and recycling of paper and other related products	100%	100%	100%	100%	100%	(iii)
Heng Hup Hardware (M) Sdn. Bhd. (formerly known as Heng Hup Recycle Sdn. Bhd.)	Malaysia, 24 March 2005	4,058,774 ordinary shares	Trading of scrap ferrous metals, used batteries and other scraps	100%	100%	100%	100%	100%	(iv)

Name of subsidiaries	Place and date of incorporation	Issued and paid up capital	Principal activities	Effective interest held by the Group					Note
				As at 31 December			As at 31 August	As at date of report	
				2015	2016	2017	2018		
Heng Hup Metal (Johor) Sdn. Bhd.	Malaysia, 27 May 2009	100,000 ordinary shares	Trading of scrap ferrous metals, used batteries and other scraps	80%	80%	80%	100%	100%	(iv)

*Notes:*

- (i) No audited financial statements have been issued for these companies as they are newly incorporated.
- (ii) The statutory financial statements of these companies for the years ended 31 December 2015 and 2016 were audited by STH & Co., and for the year ended 31 December 2017 was audited by PricewaterhouseCoopers PLT, Malaysia.
- (iii) The statutory financial statements of this company for the years ended 31 December 2015 and 2016 were audited by SC Chua & Associates, and for the year ended 31 December 2017 was audited by PricewaterhouseCoopers PLT, Malaysia.
- (iv) The statutory financial statements of these companies for the years ended 31 December 2015 and 2016 were audited by Owen Klca., and for the year ended 31 December 2017 was audited by PricewaterhouseCoopers PLT, Malaysia.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation and during the Track Record Period, the business of trading of scrap ferrous metals, used batteries, waste paper and other scraps (the “**Listing Business**”) was primary conducted by the Operating Companies. Pursuant to the Reorganisation, the Listing Business were transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and the transfer does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management and the ultimate owners of the Listing Business remain substantially the same.

Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under the Operating Companies. The acquisitions of the equity interests owned by the Sia Brothers in the Operating Companies through cash considerations and share swaps as described in the Reorganisation steps in Note 1.2 have been accounted for as recapitalisation of the single business by pooling the interests of the Sia Brothers in the Listing Business.

The non-controlling interests in the Listing Business represented equity interests other than that of the Sia Brothers. During the Reorganisation, the Group acquired these non-controlling interests in the Listing Business (Note 24).

For the purpose of this report:

- (a) the Historical Financial Information has been prepared and presented as a continuation of the combined financial statements of the Operating Subsidiaries, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business for all periods presented.
- (b) the excess of the cash consideration of RM56,000 over the carrying amount of the non-controlling interest acquired during the Reorganisation as described above has been accounted as an equity transaction (Note 24).

The Historical Financial Information has been prepared by including the historical financial information of the companies engaged in the Listing Business, under the common control of the Sia Brothers immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of the Sia Brothers, whichever is a shorter period.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these combined financial statements are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

### **2.1 Basis of preparation**

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) for the Track Record Period set out below. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

### **Application of IFRS 9 and IFRS 15**

IFRS 9 “Financial Instruments” addresses the classification, measurement and recognition of financial assets and financial liabilities, and introduces new rules of hedge accounting and a new impairment model for financial assets. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 15, "Revenue from contracts with customers" replaces the previous revenue standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The Group has applied IFRS 9 and IFRS 15 consistently throughout the Track Record Period.

(a) *New standards and amendments to standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretation have been issued but not effective during the Track Record Period and have not been early adopted by the Group in preparing these Historical Financial Information:

		<b>Effective for accounting periods beginning on or after</b>
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IAS 28 (Amendments)	Long-term Interest in Associates and Joint Ventures	1 January 2019
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IFRIC Int-23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements Projects	Annual Improvements 2015-2017 cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IFRS 3 (Amendments)	Definition of a Business	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

The above new standards, new interpretations and amended standards are not expected to have any impact on the combined financial statements of the Group, except those set out below:

(i) IFRS 16 "Leases"

Under IFRS 16, lessees are required to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the balance sheet. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under IAS

17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees.

The Group is a lessee of certain land and buildings and property, plant and equipment which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in Note 2.24, is to record the rental expenses in Group's combined statements of comprehensive income for the current year with the disclosure of related future minimum lease payments as operating lease commitments (Note 27(b)). As at 31 August 2018, the Group's total non-cancellable operating lease commitments amounted to RM4,000 (Note 27(b)). The new standard will therefore result in an increase in right-of-use assets and increase in lease liabilities in the combined statement of financial position. In the combined statements of comprehensive income, as a result, the annual rental will decrease while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. Given that the total non-cancellable operating lease commitments account for less than 0.1% of the total liabilities of the Group as at 31 August 2018, the directors of the Company expect that the adoption of IFRS 16 as compared with the current accounting policy would not result in significant impact on the Group's financial results and positions. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

## **2.2 Subsidiaries**

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Except for the Reorganisation, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former shareholders of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are

measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

### **2.3 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and senior management led by the Group's chief executive officer that makes strategic decisions.

### **2.4 Foreign currency translation**

#### **(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The combined financial statements are presented in RM, which is the Company's functional and the Group's presentation currency.

#### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

### **2.5 Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the combined statements of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated lives, as follows:

Leasehold land	Over unexpired lease period between 60 to 94 years
Buildings	2%
Plant and machinery	10% - 20%
Office furniture and equipment	10% - 40%
Motor vehicles	20%
Leasehold improvements	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses), net' in the combined statements of comprehensive income.

## 2.6 Assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amount are to be recovered principally through sale transactions and sales are considered highly probable. It is stated at the lower of carrying amount and fair value less costs to sell. Investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.7.

## 2.7 Investment properties

Investment properties, principally comprising land and buildings and building in progress, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. 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 of 50 to 99 years 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 disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

## **2.8 Impairment of non-financial assets**

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2.9 Financial assets**

### **2.9.1 *Classification***

The Group classifies its financial assets under the amortised cost category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

### **2.9.2 *Recognition and measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

#### ***Debt instruments measured at amortised cost***

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

## **2.10 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the combined statements of financial position when there is a legally enforceable right to offset the recognised amounts and

there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### **2.11 Impairment of financial assets**

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables only, the Group applies the simplified approach permitted by IFRS 9, which requires to recognise the lifetime expected credit losses. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to its recognised amount is recognised in profit or loss, as an impairment loss or a reversal of an impairment loss.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the trade receivables. Expected credit losses on trade receivables are calculated by using the provision matrix approach. Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Trade and other receivables are written off (either partially or in full) when there is no reasonable expectation of recovery.

### **2.12 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of trading goods comprises the actual cost of purchase plus the costs of bringing the inventories to their present location and condition.

### **2.13 Trade and other receivables**

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.9.2 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

#### **2.14 Cash and cash equivalents**

In the combined statements of cash flows, cash and cash equivalents include cash on hand and bank balances less bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the combined statements of financial position.

#### **2.15 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **2.16 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### **2.17 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### **2.18 Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **2.19 Current and deferred income tax**

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries, joint ventures and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred income tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## **2.20 Employee benefits**

### **(a) Defined contribution plans**

For defined contribution plans, the Group pays contributions to publicly administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### **(b) Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### **(c) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

### **(d) Bonus plan**

The Group recognises a provision for bonus when contractually obligated or when there is a past practice that have created a constructive obligation.

## **2.21 Provisions**

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

## **2.22 Revenue recognition**

Revenue is recognised when or as the control of the goods is transferred to the customers, being when the goods are delivered to the customers.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## **2.23 Interest income**

Interest income is recognised on a time proportion basis, taking into account of the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Group.

## **2.24 Leases**

### ***As the lessee***

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statements of comprehensive income on a straight-line basis over the period of the lease.

### ***As the lessor***

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under an operating lease, the asset is included in the combined statements of financial position based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

## **2.25 Dividends distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## **3 Financial risk management**

### **3.1 Financial risk factors**

The Group's major financial instruments include trade and other receivables, amounts due from related parties, pledged bank deposits, cash and cash equivalents, trade and other payables, amounts due to related parties, amounts due to directors and borrowings. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### **(a) Market risk**

##### **(i) Foreign currency risk**

Our Group operates in Malaysia and our Group's transactions are mainly denominated in RM which is the functional and presentation currency for most of our Group's entities.

Our Group is not exposed to significant foreign currency risk.

##### **(ii) Interest rate risk**

Our Group's interest rate risk mainly arises from borrowings. Borrowings excluding finance lease liabilities obtained at variable rates expose our Group to cash flow interest rate risk.

If the interest rate has increased/decreased by 100 basis points with all other variables held constant, post-tax profit would have been approximately RM144,000, RM122,000, RM119,000 and RM39,000 lower/higher for the year ended 31 December 2015, 2016 and 2017 and for the eight months ended 31 August 2018 respectively.

Based on the simulations performed, the impact on pre-tax profit of a 100 basis points shift would have a maximum increase by the following magnitude:

If interest rates on finance lease liabilities had been 100 basis points higher/lower with all variables held constant, pre-tax profit would have been approximately RM41,000, RM26,000, RM23,000 and RM10,000 higher/lower for the year ended 31 December 2015, 2016 and 2017 and for the eight months ended 31 August 2018, mainly as a results of a decrease/increase in the fair value of the finance lease liabilities.

(b) *Credit risk*

The credit risk of our Group mainly arises from cash and cash equivalents, trade and other receivables and amounts due from related parties. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of individual property owner or the borrower
- significant increases in credit risk on other financial instruments of the individual property owner or the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

(i) *Credit risk of cash and bank balances*

To manage this risk arising from cash and bank deposits, our Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss of cash and bank balances is close to zero.



*(ii) Credit risk of trade receivables*

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. During the Track Record Period, the expected losses rate for customers of sales of goods is minimal (i.e. less than 1%), given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates. Therefore, there is no provision for trade receivables made during the Track Record Period.

The Group made no write-off of trade receivables during the Track Record Period.

Our Group has significant concentration of credit risk from customers for scrap ferrous metals such as steel mills and ferrous metal trading companies. At 31 December 2015, 2016 and 2017 and 31 August 2018, 98%, 91%, 88% and 80% respectively of its total trade receivables was due from this group of customers. As our Group is the few approved scrap metal providers to the steel mill customers and based on the past repayment history and forward-looking estimates, our Directors believe that the credit risk inherent in our Group's outstanding trade receivables from this group of customers is low.

Our Group monitors the outstanding debts from its customers individually due to the concentration of credit risk. Based on historical repayment trend, there is no correlation between the risk of default occurring and the collection past-due status as long as there is no significant change in the credit rating of the customers. Historically, our Group's loss arising from risk of default and time value of money is negligible.

*(iii) Credit risk of amounts due from related parties and other receivables*

Other debt instruments at amortised cost include other receivables and amounts due related parties. Other receivables are mainly loans to employees of our Group.

As at 31 December 2015, 2016 and 2017 and at 31 August 2018, all of these financial assets are considered to have low credit risk, and thus the impairment provision recognised during the years was limited to 12 months expected losses. Management considered other receivables from third parties and related parties to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The Group has assessed that the 12 months expected credit losses for these receivables are not material, and thus, no loss allowance provision was recognised during the Track Record Period.

(c) *Liquidity risk*

Cash flow forecasting is performed by the operating entities of our Group and aggregated by group finance. Group finance monitors rolling forecasts of our Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that our Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration of our Group's debt financing plans, covenant compliance, and if applicable external regulatory or legal requirements, such as currency restrictions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	<b>Within 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>At 31 December 2015</b>			
<b>Non-derivative financial liabilities</b>			
Borrowings (excluding finance lease liabilities) <sup>1</sup>	7,838	3,654	6,631
Finance lease liabilities <sup>1</sup>	1,371	976	—
Trade and other payables	26,271	—	—
Amounts due to related parties	6,550	—	—
Amounts due to directors	22,081	—	—
	<u>64,111</u>	<u>4,630</u>	<u>6,631</u>
<b>At 31 December 2016</b>			
<b>Non-derivative financial liabilities</b>			
Borrowings (excluding finance lease liabilities) <sup>1</sup>	6,396	3,441	7,128
Finance lease liabilities <sup>1</sup>	577	568	—
Trade and other payables	19,580	—	—
Amounts due to related parties	6,376	—	—
Amounts due to directors	34,662	—	—
	<u>67,591</u>	<u>4,009</u>	<u>7,128</u>

	Within 1 year	Between 1 and 5 years	Over 5 years
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>At 31 December 2017</b>			
<b>Non-derivative financial liabilities</b>			
Borrowings (excluding finance lease liabilities) <sup>1</sup>	5,944	3,831	6,772
Finance lease liabilities <sup>1</sup>	228	404	—
Trade and other payables	18,458	—	—
Amounts due to related parties	6,382	—	—
Amounts due to directors	37,141	—	—
	<u>68,153</u>	<u>4,235</u>	<u>6,772</u>
<b>At 31 August 2018</b>			
<b>Non-derivative financial liabilities</b>			
Borrowings (excluding finance lease liabilities) <sup>1</sup>	1,352	2,610	3,228
Finance lease liabilities <sup>1</sup>	191	252	—
Trade and other payables	13,492	—	—
	<u>15,035</u>	<u>2,862</u>	<u>3,228</u>

<sup>1</sup> The amounts include interest payable.

### 3.2 Capital 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged from prior years.

The capital structure of the Group consists of debt, which includes bank borrowings as disclosed in Note 23, net of cash and cash equivalents and equity attributable to owners of the Company, comprising capital and reserves.

The directors of the Company review the capital structure periodically. The directors of the Company also balance the overall capital structure through the payment of dividends and new share issues. No changes were made in the objectives, policies or processes during the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings, including current and non-current borrowings, as shown in the Note 23 to the historical financial information. Total capital is calculated as "total equity", as shown in the combined statements of financial position.

The gearing ratios at 31 December 2015, 2016 and 2017 and 31 August 2018 were as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Total borrowings (Note 23)	<u>16,628</u>	<u>13,277</u>	<u>12,512</u>	<u>5,572</u>
Total capital	<u>43,214</u>	<u>47,265</u>	<u>70,376</u>	<u>114,370</u>
Gearing ratio	<u>38%</u>	<u>28%</u>	<u>18%</u>	<u>5%</u>

#### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### (a) *Current income tax*

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain, such as taxability of income, deductibility of expenses and etc. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### 5 Revenue and segment information

The Group is mainly engaged in trading of scrap ferrous metals, used batteries, waste paper and other scraps.

The Group has been operating in a single operating segment, i.e. trading of recycling materials.

The chief operating decision-makers have been identified as the executive directors and senior management led by the Group's chief executive officer. The executive directors and senior management review the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

The chief operating decision-makers assesses the performance of the operating segment based on a measure of profit before income tax.

(a) **Revenue by location of goods delivery**

During the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2017 and 2018, the Group mainly traded in Malaysia and most of the revenue were generated in Malaysia.

All revenue are recognised at a point in time upon delivery.

(b) **Non-current assets**

As at 31 December 2015, 2016 and 2017 and 31 August 2018, the non-current assets were all located in Malaysia.

(c) **Major customers**

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
				<i>(Unaudited)</i>	
Customer 1	137,842	131,305	292,133	178,418	192,710
Customer 2	76,590	3,671	—	—	—
Customer 3	55,627	8,685	48,694	6,338	9,463
Customer 4	43,217	60,935	64,574	38,570	62,186
Customer 5	36,140	85,220	160,362	93,381	139,443
Customer 6	—	33,314	82,178	51,177	60,128

**6 Other income**

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
				<i>(Unaudited)</i>	
Compensation received ( <i>Note</i> )	174	18	952	472	59
Rental income	6	2	19	13	5
Others	72	79	102	25	31
	<u>252</u>	<u>99</u>	<u>1,073</u>	<u>510</u>	<u>95</u>

*Note:*

Compensation received mainly include compensation from insurance claim. During the year ended 31 December 2017, an insurance compensation of RM453,000 was received in relation to the fire incident occurred in October 2016 at the Group's scrapyard in Melaka, which resulted in a loss of property, plant and equipment with a net book value of RM184,000 (Note 7) and inventory of RM370,000 (Note 16) during the year ended 31 December 2016.

During the year ended 31 December 2017, a compensation of RM314,000 was received from a vendor regarding the termination of a sale and purchase agreement of a piece of land by such vendor.

**7 Other gains/(losses), net**

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
				<i>(Unaudited)</i>	
Gain on disposal of property, plant and equipment	2,022	1	225	47	151
Downpayment to suppliers written-off	(233)	(377)	—	—	—
Property, plant and equipment written-off	—	(184)	(3)	(2)	(38)
Foreign exchange gains	10	6	31	30	10
Gain on disposal of assets classified as held for sale	—	—	—	—	9,274
	<u>1,799</u>	<u>(554)</u>	<u>253</u>	<u>75</u>	<u>9,397</u>

**8 Expenses by nature**

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
				<i>(Unaudited)</i>	
Cost of trading goods sold	388,980	342,116	679,679	386,778	527,791
Employee benefit expenses (Note 9)	9,621	8,802	15,548	6,922	7,735
Depreciation expenses	2,632	2,553	2,304	1,539	1,559
Auditors' remuneration					
- Audit services	88	66	172	100	96
- Non audit services	—	—	30	—	77
Listing expenses	—	—	1,152	—	4,046
Transportation costs	4,383	2,640	4,363	2,644	3,506
Other expenses	6,233	5,036	5,864	3,615	5,427
Total cost of sales, distribution and selling expenses and administrative expenses	<u>411,937</u>	<u>361,213</u>	<u>709,112</u>	<u>401,598</u>	<u>550,237</u>

**9 Employee benefit expenses (including directors' emoluments)**

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
				<i>(Unaudited)</i>	
Salaries, bonus and other allowances	8,861	7,919	14,095	6,204	6,775
Contribution to defined contribution plans	533	555	1,186	492	712
Other employee benefits	227	328	267	226	248
Total employee benefit expenses	<u>9,621</u>	<u>8,802</u>	<u>15,548</u>	<u>6,922</u>	<u>7,735</u>

The five individuals whose emoluments were the highest in the Group for the year/period are five directors whose emoluments are reflected in the analysis shown in Note 30(a).

**10 Finance costs, net**

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
	<i>(Unaudited)</i>				
Interest income from bank deposits	365	215	224	144	344
Interest expense on loans	(1,092)	(823)	(801)	(529)	(339)
Interest expense on finance leases	(147)	(116)	(49)	(19)	(20)
Interest expense on bank overdrafts	(204)	(79)	(60)	(40)	(47)
Finance costs	(1,443)	(1,018)	(910)	(588)	(406)
Finance costs, net	(1,078)	(803)	(686)	(444)	(62)

**11 Income tax expense**

Malaysian corporate income tax has been provided at the rate of 25%, 24%, 24%, 24% and 24% of the estimated assessable profit for the years ended 31 December 2015, 2016 and 2017 and for the eight months ended 31 August 2017 and 2018.



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Malaysian real property gains tax has been provided at the rate of 15% and 5% of the gains derived from disposal of real property investments for the year ended 31 December 2015 and eight months ended 31 August 2018 respectively.

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
	<i>(Unaudited)</i>				
Current tax:					
Malaysian corporate income tax	4,491	4,060	7,695	4,734	5,712
Malaysian real property gains tax	334	—	—	—	441
	4,825	4,060	7,695	4,734	6,153
 (Over)/under provision in prior years/periods:					
Malaysian corporate income tax	(19)	16	—	(181)	238
	4,806	4,076	7,695	4,553	6,391
Deferred income tax (Note 25)	122	(69)	150	112	(36)
Income tax expense	4,928	4,007	7,845	4,665	6,355

The reconciliations from the tax amount at the statutory income tax rate 25%, 24%, 24%, 24% and 24% during the years ended 31 December 2015, 2016 and 2017 and eight months ended 31 August 2017 and 2018 to the Group's tax expense are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
				<i>(Unaudited)</i>	
Profit before tax	<u>18,600</u>	<u>16,058</u>	<u>30,956</u>	<u>18,934</u>	<u>27,949</u>
Tax at Malaysian statutory income tax rate	4,650	3,854	7,429	4,544	6,708
Tax effect of expenses not deductible for tax purpose	508	137	416	302	1,171
Different tax rates arising from gain from real property investments	(211)	—	—	—	(1,762)
(Over)/under provision in respect of prior years/periods	<u>(19)</u>	<u>16</u>	<u>—</u>	<u>(181)</u>	<u>238</u>
Income tax expense for the years/periods	<u>4,928</u>	<u>4,007</u>	<u>7,845</u>	<u>4,665</u>	<u>6,355</u>

## 12 Dividends

Heng Hup Metal Sdn. Bhd. has paid an interim dividend of RM8,000,000 to its then shareholders in respect of the financial year ended 31 December 2016. Other than as disclosed herewith, there was no other dividend paid or proposed during the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2017 and 2018, nor has any dividend been proposed by the Company since 31 August 2018. The rates for dividends and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

## 13 Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group reorganisation and the preparation of the results for each of the years ended 31 December 2015, 2016 and 2017 and the periods ended 31 August 2017 and 2018 on a combined basis as disclosed in Note 1.3 above.

**14 Property, Plant and Equipment**

	Land and buildings	Plant and machinery	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>At 1 January 2015</b>						
Cost	17,880	6,082	1,838	8,792	186	34,778
Accumulated depreciation	(560)	(2,726)	(714)	(5,038)	(84)	(9,122)
Net book amount	<u>17,320</u>	<u>3,356</u>	<u>1,124</u>	<u>3,754</u>	<u>102</u>	<u>25,656</u>
<b>Year ended 31 December 2015</b>						
Opening net book amount	17,320	3,356	1,124	3,754	102	25,656
Additions	51	1,665	545	425	19	2,705
Disposals	(6,195)	(16)	(4)	—	—	(6,215)
Depreciation charge	(207)	(697)	(472)	(1,205)	(19)	(2,600)
Closing net book amount	<u>10,969</u>	<u>4,308</u>	<u>1,193</u>	<u>2,974</u>	<u>102</u>	<u>19,546</u>
<b>At 31 December 2015/ 1 January 2016</b>						
Cost	11,495	7,721	2,070	9,217	205	30,708
Accumulated depreciation	(526)	(3,413)	(877)	(6,243)	(103)	(11,162)
Net book amount	<u>10,969</u>	<u>4,308</u>	<u>1,193</u>	<u>2,974</u>	<u>102</u>	<u>19,546</u>
<b>Year ended 31 December 2016</b>						
Opening net book amount	10,969	4,308	1,193	2,974	102	19,546
Additions	128	292	83	940	87	1,530
Disposals	—	(29)	—	—	—	(29)
Depreciation charge	(303)	(751)	(74)	(1,365)	(28)	(2,521)
Written-off	—	—	(184)	—	—	(184)
Closing net book amount	<u>10,794</u>	<u>3,820</u>	<u>1,018</u>	<u>2,549</u>	<u>161</u>	<u>18,342</u>
<b>At 31 December 2016</b>						
Cost	11,623	7,973	1,930	10,157	292	31,975
Accumulated depreciation	(829)	(4,153)	(912)	(7,608)	(131)	(13,633)
Net book amount	<u>10,794</u>	<u>3,820</u>	<u>1,018</u>	<u>2,549</u>	<u>161</u>	<u>18,342</u>

	Land and buildings	Plant and machinery	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
<b>Year ended 31 December 2017</b>						
Opening net book amount	10,794	3,820	1,018	2,549	161	18,342
Additions	—	827	440	8	46	1,321
Depreciation charge	(176)	(1,196)	(516)	(370)	(16)	(2,274)
Written-off	—	(1)	(2)	—	—	(3)
Closing net book amount	<u>10,618</u>	<u>3,450</u>	<u>940</u>	<u>2,187</u>	<u>191</u>	<u>17,386</u>
<b>At 31 December 2017</b>						
Cost	11,623	7,805	2,249	10,165	338	32,180
Accumulated depreciation	<u>(1,005)</u>	<u>(4,355)</u>	<u>(1,309)</u>	<u>(7,978)</u>	<u>(147)</u>	<u>(14,794)</u>
Net book amount	<u>10,618</u>	<u>3,450</u>	<u>940</u>	<u>2,187</u>	<u>191</u>	<u>17,386</u>
<b>Eight months ended 31 August 2018</b>						
Opening net book amount	10,618	3,450	940	2,187	191	17,386
Additions	28	537	181	566	74	1,386
Disposals	—	—	—	(24)	—	(24)
Depreciation charge	(117)	(484)	(136)	(785)	(25)	(1,547)
Written-off	—	(38)	—	—	—	(38)
Closing net book amount	<u>10,529</u>	<u>3,465</u>	<u>985</u>	<u>1,944</u>	<u>240</u>	<u>17,163</u>
<b>At 31 August 2018</b>						
Cost	11,651	7,833	2,430	9,885	412	32,211
Accumulated depreciation	<u>(1,122)</u>	<u>(4,368)</u>	<u>(1,445)</u>	<u>(7,941)</u>	<u>(172)</u>	<u>(15,048)</u>
Net book amount	<u>10,529</u>	<u>3,465</u>	<u>985</u>	<u>1,944</u>	<u>240</u>	<u>17,163</u>

## Notes:

- (a) As at 31 December 2015, 2016 and 2017 and 31 August 2018, buildings with a net book value of approximately RM10,969,000, RM10,794,000, RM10,618,000 and RM10,529,000 were pledged to banks to secure the banking facilities granted to the Group (Note 26).

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Depreciation expense is charged in the combined statements of comprehensive income as follows:

	<b>As at 31 December</b>			<b>As at 31 August</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
				<i>(Unaudited)</i>	
Cost of sales	697	815	846	516	478
Distribution and administrative expenses	1,903	1,706	1,428	1,023	1,069
	<u>2,600</u>	<u>2,521</u>	<u>2,274</u>	<u>1,539</u>	<u>1,547</u>

Acquisition of property, plant and equipment during the financial years/periods were financed by

	<b>As at 31 December</b>			<b>As at 31 August</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
				<i>(Unaudited)</i>	
Payments by cash	2,015	990	981	631	1,237
Finance leases	690	540	340	374	149
	<u>2,705</u>	<u>1,530</u>	<u>1,321</u>	<u>1,005</u>	<u>1,386</u>

Net book value of certain plant and machinery and motor vehicles where the Group is a lessee under finance lease arrangements are as follows:

	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Cost	4,515	5,179	5,486	5,404
Accumulated depreciation	<u>(1,370)</u>	<u>(2,016)</u>	<u>(2,667)</u>	<u>(2,770)</u>
Net book value	<u>3,145</u>	<u>3,163</u>	<u>2,819</u>	<u>2,634</u>

These leases are between 2 to 5 years and ownership of the assets lie within the Group.

**15 Investment properties**

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Land and buildings:</b>				
At 1 January	3,710	3,766	5,297	3,654
Additions	88	1,563	73	433
Depreciation	(32)	(32)	(30)	(12)
Transfer to assets classified as held for sale (Note 20)	—	—	(1,686)	—
At 31 December/August	<u>3,766</u>	<u>5,297</u>	<u>3,654</u>	<u>4,075</u>

*Notes:*

- (i) The above investment properties, which are located in Malaysia during the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018 are depreciated on a straight-line basis over the remaining useful lives. The carrying amount of land and building held for rental income as at 31 December 2015, 2016 and 2017 and 31 August 2018 amounted to RM215,000, RM213,000, RM210,000 and nil, which was transferred to assets classified as held for sale on 31 December 2017. The remaining balance of carrying amount include land and building held for appreciation.
- (ii) The Group has pledged investment properties to secure banking facilities granted to the Group during the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018 (Note 26).
- (iii) Rental income from these investment properties, which was transferred to assets classified as held for sale on 31 December 2017 recognised in the combined statements of comprehensive income for the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018 amounted to RM6,000, RM2,000, RM19,000 and RM5,000 respectively (Note 6).
- (iv) Depreciation expense has been charged to administrative expenses.
- (v) The fair value of the investment properties at 31 December 2015, 2016 and 2017 and 31 August 2018 amounted to RM11,870,000, RM14,741,000, RM4,310,000 and RM4,450,000. The estimate has been determined by professional valuer engaged by the directors of the Company with reference to the current prices as at the reporting dates in an active market for properties of similar natures. Investment properties comprise land and buildings located in Malaysia.

**16 Inventories**

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Trading goods	<u>1,656</u>	<u>1,975</u>	<u>8,542</u>	<u>12,129</u>

The cost of trading good sold recognised as expense and included in cost of sales amounted to RM388,980,000, RM342,116,000, RM679,679,000 and RM386,778,000 and RM527,791,000 during the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2017 and 31 August 2018. During the year ended 31 December 2016, loss of inventory of RM370,000 in relation to the fire incident occurred in October 2016 at the Group's Scrapyard in Melaka has been recognised in cost of sales.

**17 Trade and other receivables**

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Trade receivables	76,320	85,103	81,256	77,092
Other receivables	70	100	280	464
Deposits and prepayments	838	634	1,220	3,424
Downpayment to suppliers	997	4,552	15,114	6,768
Other tax recoverable	<u>—</u>	<u>—</u>	<u>—</u>	<u>105</u>
	<u>78,225</u>	<u>90,389</u>	<u>97,870</u>	<u>87,853</u>

The Group generally grants credit terms ranging from 0 to 90 days to customers upon the approval of management according to the credit quality of individual customers. At 31 December 2015, 2016 and 2017 and at 31 August 2018, the ageing analysis of the trade receivables based on invoice date were as follows:

	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
0 - 30 days	18,868	45,755	59,781	41,574
31 - 60 days	15,896	15,359	9,258	9,816
61 - 120 days	21,765	7,718	2,111	11,353
Over 120 days	19,791	16,271	10,106	14,349
	<u>76,320</u>	<u>85,103</u>	<u>81,256</u>	<u>77,092</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. During the Track Record Period, the expected losses rate for customers of sales of goods is minimal, given there is no history of significant defaults from customers. Therefore, there is no provision for trade receivables during the Track Record Period.

The carrying amounts of the trade and other receivables are denominated in RM and approximate their fair values.

## **18 Pledged bank deposits**

Pledge bank deposits represents deposits pledged to banks to secure general banking facilities granted to the Group. Deposits amounting to RM6,691,000, RM6,901,000, RM7,103,000 and RM9,158,000 have been pledged to secure short-term bank borrowings in 31 December 2015, 2016 and 2017 and 31 August 2018 respectively.



**19 Cash and cash equivalents**

	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Cash at bank and on hand	<u>4,566</u>	<u>3,144</u>	<u>14,140</u>	<u>13,160</u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
- RM	4,558	3,092	14,048	13,154
- Singapore Dollar	<u>8</u>	<u>52</u>	<u>92</u>	<u>6</u>
	<u>4,566</u>	<u>3,144</u>	<u>14,140</u>	<u>13,160</u>

Cash and cash equivalents include the following for the purpose of the combined statements of cash flows:

	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Cash at bank and on hand	4,566	3,144	14,140	13,160
Bank overdrafts (Note 23)	<u>(451)</u>	<u>(338)</u>	<u>(682)</u>	<u>—</u>
	<u>4,115</u>	<u>2,806</u>	<u>13,458</u>	<u>13,160</u>

**20 Assets classified as held for sale**

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Investment properties	—	—	1,686	—

Pursuant to the directors' resolutions approved on 31 December 2017, the board of directors approved the sale of the investment properties to the directors.

On 31 July 2018, the Group entered into a settlement agreement for the sale of the investment properties located in Malaysia with carrying amount of RM1,331,000 to the directors of the Company at a consideration of RM10,495,000 settled by the amounts due to directors. The transaction was completed on 31 July 2018.

On 9 August 2018, the Group entered into a sale and purchase agreement with Mr. Sia Kok Chin for the sale of a land with carrying amount of RM145,000 at a cash consideration of RM145,000. The transaction was completed on 10 August 2018.

On 9 August 2018, the Group entered into a sale and purchase agreement with the Sia Brothers for the sale of a building with carrying amount of RM210,000 at a cash consideration of RM320,000. The transaction was completed on 10 August 2018.

The assets classified as held for sale were pledged to secure banking facilities granted to the Group in 31 December 2017 (Note 26). The pledge of the assets classified as held for sale have been released in May and June 2018 respectively.

**21 Combined capital**

As mentioned in Note 1.3 above, the Historical Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2015, 2016 and 2017 and eight months ended 31 August 2017 and 2018 or since the respective dates of incorporation/establishment of the combining companies, or since the date when the combining companies first came under the control of the Sia Brothers, where there is a shorter period. Share capital during the Track Record Period represents the combined share capital of the companies comprising the Group after elimination of inter-company transactions and balances.

## 22 Trade and other payables

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Trade payables	23,250	16,095	14,681	9,783
Other tax payables	286	313	713	—
Accrued salaries	4,659	2,634	7,610	3,108
Other payables and accruals	3,579	5,535	5,342	6,815
	<u>31,774</u>	<u>24,577</u>	<u>28,346</u>	<u>19,706</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
- RM	22,899	16,095	13,200	9,783
- Singapore Dollar	351	—	—	—
- Renminbi	—	—	1,481	—
	<u>23,250</u>	<u>16,095</u>	<u>14,681</u>	<u>9,783</u>

The ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
0 - 30 days	8,341	11,043	12,506	9,469
31 - 60 days	1,656	248	831	162
61 - 120 days	9,880	46	846	152
over 120 days	3,373	4,758	498	—
	<u>23,250</u>	<u>16,095</u>	<u>14,681</u>	<u>9,783</u>

The carrying amounts of the trade and other payables approximate their fair values.

## 23 Borrowings

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Non-current</b>				
Bank borrowings				
Term loans (Note a)	7,153	6,124	6,409	4,131
Finance lease liabilities (Note b)	<u>865</u>	<u>542</u>	<u>382</u>	<u>243</u>
	<u>8,018</u>	<u>6,666</u>	<u>6,791</u>	<u>4,374</u>
<b>Current</b>				
Bank borrowings				
Term loans (Note a)	673	601	710	469
Finance lease liabilities (Note b)	1,348	531	196	176
Bank overdraft (Note 19)	451	338	682	—
Trust receipt loans	<u>6,138</u>	<u>5,141</u>	<u>4,133</u>	<u>553</u>
	<u>8,610</u>	<u>6,611</u>	<u>5,721</u>	<u>1,198</u>
Total borrowings	<u>16,628</u>	<u>13,277</u>	<u>12,512</u>	<u>5,572</u>

Notes: All borrowings are denominated in RM.

Certain bank borrowings are guaranteed by personal guarantee provided by the Sia Brothers and are secured by property, plant and equipment, investment properties, assets classified as held for sale and pledged bank deposits of the Group of RM21,426,000, RM22,992,000, RM23,061,000, and RM23,762,000 as at 31 December 2015, 2016 and 2017 and 31 August 2018 respectively (Note 26).

As at 31 December 2015, 2016 and 2017 and 31 August 2018, the Group had aggregate banking facilities of approximately RM28,866,000, RM28,395,000, RM28,395,000 and RM19,514,000 respectively. Unused facilities amounted to approximately RM12,296,000, RM13,406,000 and RM13,857,000, RM11,307,000 as at 31 December 2015, 2016 and 2017 and 31 August 2018 respectively.

The relevant banks have agreed that the personal guarantee provided by the Sia Brothers will be replaced by corporate guarantee provided by the Company upon listing.

(a) *Term loans*

Term loans mature at various dates up to 2031.

As at 31 December 2015, 2016 and 2017 and 31 August 2018, the Group's term loans were repayable as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Within 1 year	673	601	710	469
Between 1 and 2 years	1,218	1,202	683	442
Between 2 and 5 years	1,450	1,378	1,885	1,215
Over 5 years	4,485	3,544	3,841	2,474
	7,153	6,124	6,409	4,131
	7,826	6,725	7,119	4,600

The effective interests rates of term loans (per annum) at the reporting dates are as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	%(p.a.)	%(p.a.)	%(p.a.)	%(p.a.)
Interests rates	4.75 – 8.10	4.75 – 8.10	5.35 – 7.85	5.29 – 7.85

The carrying amounts of the term loans approximate their fair values.

As at 31 December 2015, 2016 and 2017 and 31 August 2018, the carrying amount of term loans from banks in Malaysia that are not repayable within one year from the end of the reporting period but contains repayable on demand clause amounted to RM3,680,000, RM3,284,000, RM3,134,000 and RM1,860,000, respectively.

The directors of the Company have obtained legal opinion that, in accordance with the case laws established in Malaysia, the mere inclusion of a repayment on demand clause in a term loan agreement governed under the laws of Malaysia would not allow the banks to early terminate the facilities granted and to seek immediate repayment from the borrower unless there is a breach by the borrower, as the clause would not override other terms and conditions provided in the term loan agreement.

Accordingly, the liability associated with the term loans of the Group raised in Malaysia that contained a repayable on demand clause is classified as current and/or non-current liability as at 31 December 2015, 2016 and 2017 and 31 August 2018 in accordance with other terms and conditions as stated in the respective term loan agreement.

Any change to the precedence established by the case laws in Malaysia relating to the interpretation of the repayment on demand clause in the future may have an impact to the classification of the term loans of the Group.

(b) *Finance lease liabilities*

The Group has finance leases for various items of plant and machinery and motor vehicles. The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group.

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Gross finance lease liabilities — minimum lease payments</b>				
No later than 1 year	1,371	577	228	191
Later than 1 year and no later than 5 years	976	568	404	252
	2,347	1,145	632	443
Future finance charges on finance leases	(134)	(72)	(54)	(24)
	<u>2,213</u>	<u>1,073</u>	<u>578</u>	<u>419</u>
<b>The present value of finance lease liabilities is as follows:</b>				
No later than 1 year	1,348	531	196	176
Later than 1 year and no later than 5 years	865	542	382	243
	<u>2,213</u>	<u>1,073</u>	<u>578</u>	<u>419</u>

(c) *Trust receipt loans*

Trust receipt loans mature within 1 year.

Trust receipt loans are utilised by the Group to finance sales of goods to selected customers approved by the bank up to 70% of the documentary invoice values.

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The effective interests rates of trust receipt loans (per annum) at the reporting dates are as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)
Interests rates	<u>4.95-6.74</u>	<u>5.10-7.81</u>	<u>4.98-6.49</u>	<u>5.26-5.45</u>

The carrying amounts of the trust receipt loans approximate their fair values.

**24 Non-controlling interests**

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
At 1 January	89	127	117	393
Share of profit/(loss) for the year/period	38	(10)	276	—
Acquisition of non-controlling interests (Note a)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(393)</u>
At 31 December/August	<u>127</u>	<u>117</u>	<u>393</u>	<u>—</u>

**Notes:**

- (a) Acquisition of additional interests in a subsidiary — Heng Hup Metal (Johor) Sdn. Bhd.

On 18 January 2018, the Group acquired the remaining 20% of the issued shares of Heng Hup Metal (Johor) Sdn. Bhd. for a cash consideration of RM337,000. Heng Hup Metal (Johor) Sdn. Bhd. became a wholly-owned subsidiary of the Group after the transaction. As a result, the difference of RM56,000 between the cash consideration of RM337,000 and the carrying amount of the non-controlling interests acquired in the amount of RM393,000 was recorded in equity attributable to the owners of the Company.

**25 Deferred income tax**

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Deferred income tax liabilities	<u>555</u>	<u>486</u>	<u>636</u>	<u>600</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<b>Deferred income tax liabilities</b>	<b>Accelerated tax depreciation</b>
	<i>RM'000</i>
At 1 January 2015	433
Charge to the combined statements of comprehensive income	<u>122</u>
At 1 January 2016	555
Credit to the combined statements of comprehensive income	<u>(69)</u>
At 31 December 2016	486
Charge to the combined statements of comprehensive income	<u>150</u>
At 31 December 2017	636
Charge to the combined statements of comprehensive income	<u>(36)</u>
At 31 August 2018	<u><u>600</u></u>

## 26 Pledges of assets

At the end of each Track Record Period, the Group has pledged the following assets to banks to secure certain bank borrowings and general banking facilities granted to the Group:

	<b>As at 31 December</b>			<b>As at 31 August</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Property, plant and equipment	10,969	10,794	10,618	10,529
Investment properties	3,766	5,297	3,654	4,075
Assets classified as held for sale	—	—	1,686	—
Pledged bank deposits	<u>6,691</u>	<u>6,901</u>	<u>7,103</u>	<u>9,158</u>
	<u><u>21,426</u></u>	<u><u>22,992</u></u>	<u><u>23,061</u></u>	<u><u>23,762</u></u>



**27 Commitments****(a) Capital commitments**

The Group had capital expenditure contracted for but not yet provided as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Capital expenditure contracted for but not provided in the combined financial statements in respect of:				
— acquisition of investment properties	623	552	481	—
— purchase of plant and machinery	—	—	—	2,429

**(b) Operating lease commitments — as lessee**

The future aggregate minimum lease payments under non-cancellable operating leases in respect of rental of premises are as follows:

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
— No later than 1 year	1	1	1	1
— Later than 1 year and no later than 5 years	5	4	3	3
	6	5	4	4

**28 Financial instruments by category**

	<b>Financial assets at amortised cost</b>
	<i>RM'000</i>
<b>31 December 2015</b>	
<b>Assets as per combined statements of financial position</b>	
Trade and other receivables excluding prepayments	76,683
Amounts due from related parties	10,062
Pledged bank deposits	6,691
Cash and cash equivalents (excluding bank overdrafts)	4,566
<b>Total</b>	<b>98,002</b>
<b>31 December 2016</b>	
<b>Assets as per combined statements of financial position</b>	
Trade and other receivables excluding prepayments	85,430
Amount due from related parties	2,050
Pledged bank deposits	6,901
Cash and cash equivalents (excluding bank overdrafts)	3,144
<b>Total</b>	<b>97,525</b>
<b>31 December 2017</b>	
<b>Assets as per combined statements of financial position</b>	
Trade and other receivables excluding prepayments	81,736
Amounts due from related parties	8,773
Pledged bank deposits	7,103
Cash and cash equivalents (excluding bank overdrafts)	14,140
<b>Total</b>	<b>111,752</b>
<b>31 August 2018</b>	
<b>Assets as per combined statements of financial position</b>	
Trade and other receivables excluding prepayments	78,673
Pledged bank deposits	9,158
Cash and cash equivalents (excluding bank overdrafts)	13,160
<b>Total</b>	<b>100,991</b>

	<b>Financial liabilities at amortised cost</b>
	<i>RM'000</i>
<b>31 December 2015</b>	
<b>Liabilities as per combined statements of financial position</b>	
Borrowings	16,628
Trade and other payables excluding non-financial liabilities	26,271
Amounts due to related parties	6,550
Amounts due to directors	22,081
<b>Total</b>	<u><u>71,530</u></u>
<b>31 December 2016</b>	
<b>Liabilities as per combined statements of financial position</b>	
Borrowings	13,277
Trade and other payables excluding non-financial liabilities	19,580
Amounts due to related parties	6,376
Amounts due to directors	34,662
<b>Total</b>	<u><u>73,895</u></u>
<b>31 December 2017</b>	
<b>Liabilities as per combined statements of financial position</b>	
Borrowings	12,512
Trade and other payables excluding non-financial liabilities	18,458
Amounts due to related parties	6,382
Amounts due to directors	37,141
<b>Total</b>	<u><u>74,493</u></u>
<b>31 August 2018</b>	
<b>Liabilities as per combined statements of financial position</b>	
Borrowings	5,572
Trade and other payables excluding non-financial liabilities	13,492
<b>Total</b>	<u><u>19,064</u></u>

**29 Related parties transactions**

The Group is controlled by 5S Holdings (BVI) Limited which owns 68% of the Company's shares. The remaining 32% of shares are equally held by the five directors of the Company. The ultimate controlling party of the Group are the five directors of the Company including, Sia Kok Seng, Sia Kok Chin, Sia Keng Leong, Sia Kok Heong and Sia Kok Chong.

**(a) Transactions**

In addition to those disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with its related parties during the years ended 31 December 2015, 2016 and 2017 and during the eight months ended 31 August 2017 and 2018.

The related party transactions described below were carried out on terms and conditions negotiated and agreed between the Group and the related parties.

	<b>Year ended 31 December</b>			<b>Eight months ended 31 August</b>	
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
				<i>(Unaudited)</i>	
- Sales of goods to related parties controlled by a director/directors	7,962	2,853	21	21	58
- Purchases of goods from related parties controlled by a director/directors	(3,067)	(2,692)	(5,895)	(3,418)	(1,078)
- Disposal of assets classified as held for sale to Sia Brothers (Note 1.2(viii))	—	—	—	—	1,686

**(b) Key management compensation**

Key management includes all directors of the Company. The compensations paid or payable to key management for employee services are shown in Note 30(a).

(c) *Year/period end balances*

	As at 31 December			As at 31 August
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Receivables from:				
— Related parties	10,062	2,050	8,773	—
Payable to:				
— Related parties	6,550	6,376	6,382	—
— Directors	22,081	34,662	37,141	—
	<u>28,631</u>	<u>41,038</u>	<u>43,523</u>	<u>—</u>

The balances are unsecured, non-interest bearing and repayable on demand. The outstanding balances have been subsequently settled pursuant to the arrangement as set out in the Reorganisation in Note 2 and by cash.

**30 Benefits and interests of directors**(a) *Directors' emoluments*

The remuneration shown below represents remuneration received by the directors in their capacity as directors of the companies comprising the Group during the Track Record Period.

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The remuneration of the directors for the year ended 31 December 2015 is set out below:

	<b>Fees</b>	<b>Salaries and allowances</b>	<b>Performance bonus</b>	<b>Employer's contribution to a retirement benefit scheme</b>	<b>Other benefits</b>	<b>Total</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Year ended 31 December 2015:						
Sia Kok Seng	30	416	469	64	1	980
Sia Kok Chin	30	417	469	64	1	981
Sia Keng Leong	30	410	249	65	1	755
Sia Kok Heong	30	411	249	65	1	756
Sia Kok Chong	30	409	339	65	1	844
	<u>150</u>	<u>2,063</u>	<u>1,775</u>	<u>323</u>	<u>5</u>	<u>4,316</u>

The remuneration of the directors for the year ended 31 December 2016 is set out below:

	<b>Fees</b>	<b>Salaries and allowances</b>	<b>Performance bonus</b>	<b>Employer's contribution to a retirement benefit scheme</b>	<b>Other benefits</b>	<b>Total</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Year ended 31 December 2016						
Sia Kok Seng	30	631	—	58	1	720
Sia Kok Chin	30	637	—	58	1	726
Sia Keng Leong	30	511	150	58	1	750
Sia Kok Heong	30	511	100	58	1	700
Sia Kok Chong	30	480	60	46	1	617
	<u>150</u>	<u>2,770</u>	<u>310</u>	<u>278</u>	<u>5</u>	<u>3,513</u>

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The remuneration of the directors for the year ended 31 December 2017 is set out below:

	<b>Fees</b>	<b>Salaries and allowances</b>	<b>Performance bonus</b>	<b>Employer's contribution to a retirement benefit scheme</b>	<b>Other benefits</b>	<b>Total</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Year ended 31 December 2017:						
Sia Kok Seng	72	772	986	172	1	2,003
Sia Kok Chin	72	772	947	172	1	1,964
Sia Keng Leong	72	772	640	172	1	1,657
Sia Kok Heong	72	772	644	172	1	1,661
Sia Kok Chong	72	772	641	163	1	1,649
	<u>360</u>	<u>3,860</u>	<u>3,858</u>	<u>851</u>	<u>5</u>	<u>8,934</u>

The remuneration of the directors for the eight months ended 31 August 2017 is set out below:

	<b>Fees</b>	<b>Salaries and allowances</b>	<b>Performance bonus</b>	<b>Employer's contribution to a retirement benefit scheme</b>	<b>Other benefits</b>	<b>Total</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
Period ended 31 August 2017 (unaudited)						
Sia Kok Seng	—	355	184	48	1	588
Sia Kok Chin	—	355	183	48	1	587
Sia Keng Leong	—	360	183	48	1	592
Sia Kok Heong	—	360	183	48	1	592
Sia Kok Chong	—	400	183	48	1	632
	<u>—</u>	<u>1,830</u>	<u>916</u>	<u>240</u>	<u>5</u>	<u>2,991</u>

The remuneration of the directors for the eight months ended 31 August 2018 is set out below:

				Employer's contribution to a retirement benefit scheme	Other benefits	Total
	Fees	Salaries and allowances	Performance bonus			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Period ended 31 August 2018						
Sia Kok Seng	48	550	—	71	1	670
Sia Kok Chin	48	561	—	75	1	685
Sia Keng Leong	48	532	—	88	1	669
Sia Kok Heong	48	537	—	88	1	674
Sia Kok Chong	48	542	—	66	1	657
	240	2,722	—	388	5	3,355

(b) *Consideration provided to third parties for making available directors' services*

During the years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2017 and 2018, the Company did not pay consideration to any third parties for making available directors' services.

(c) *Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and controlled entities with such directors*

As at 31 December 2015, 2016 and 2017 and as at 31 August 2017 and 2018, there are no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors.

(d) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 2015, 2016 and 2017 and the eight months ended 31 August 2017 and 2018.

Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee were appointed as the Company's independent non-executive directors on 19 February 2019. During the Track Record Period, the independent non-executive directors were not yet appointed and did not receive any remuneration.



**31 Cash generated from operations**

Reconciliation from profit before income tax to cash generated from operations:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
	<i>(Unaudited)</i>				
<b>Cash flows from operating activities</b>					
Profit before income tax	18,600	16,058	30,956	18,934	27,949
Adjustments for:					
Finance costs	1,443	1,018	910	588	406
Finance income	(365)	(215)	(224)	(144)	(344)
Downpayment to suppliers written-off	233	377	—	—	—
Depreciation expenses	2,632	2,553	2,304	1,539	1,559
Gain on disposal of property, plant and equipment	(2,022)	(1)	(225)	(47)	(151)
Gain on disposal of assets held for sale	—	—	—	—	(9,274)
Property, plant and equipment written-off	—	184	3	2	38
	20,521	19,974	33,724	20,872	20,183
Changes in working capital					
Decrease /(increase) in inventories	177	(319)	(6,567)	(8,349)	(3,587)
(Increase)/decrease in trade and other receivables	(14,553)	(12,541)	(7,230)	12,033	10,496
Increase/(decrease) in trade and other payables	13,024	(7,197)	3,769	(10,876)	(8,640)
(Decrease)/increase in amounts with related parties	(9,756)	7,838	(6,717)	(4,017)	(517)
Cash generated from operations	<u>9,413</u>	<u>7,755</u>	<u>16,979</u>	<u>9,663</u>	<u>17,935</u>

In the combined statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
	(Unaudited)				
Net book amount	6,215	29	—	—	24
Gains on disposal of property, plant and equipment	2,022	1	225	47	151
<b>Proceeds from disposal of property, plant and equipment</b>	<b>8,237</b>	<b>30</b>	<b>225</b>	<b>47</b>	<b>175</b>

In the combined statements of cash flows, proceeds from sale of assets classified as held for sale comprise:

	Year ended 31 December			Eight months ended 31 August	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
	(Unaudited)				
Net book amount	—	—	—	—	1,686
Gains on disposal of assets classified as held for sale	—	—	—	—	9,274
Less: Consideration settled by amounts due to directors	—	—	—	—	(10,495)
<b>Proceeds from disposal of assets classified as held for sale</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>465</b>

**APPENDIX I****ACCOUNTANT'S REPORT**

This section sets out an analysis of reconciliation of liabilities from financing activities for each of the periods presented.

	<b>Finance lease liabilities</b>	<b>Bank borrowings</b>	<b>Amount due to directors</b>	<b>Total</b>
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>
As at 1 January 2015	3,088	24,985	20,579	48,652
Proceeds	—	465	1,502	1,967
Repayments	(1,565)	(11,486)	—	(13,051)
Other non-cash movement	690	—	—	690
As at 31 December 2015	<u>2,213</u>	<u>13,964</u>	<u>22,081</u>	<u>38,258</u>
As at 1 January 2016	2,213	13,964	22,081	38,258
Proceeds	—	—	12,581	12,581
Repayments	(1,680)	(2,098)	—	(3,778)
Other non-cash movement	540	—	—	540
As at 31 December 2016	<u>1,073</u>	<u>11,866</u>	<u>34,662</u>	<u>47,601</u>
As at 1 January 2017	1,073	11,866	34,662	47,601
Proceeds	—	1,982	2,479	4,461
Repayments	(835)	(2,657)	—	(3,492)
Other non-cash movement	340	61	—	401
As at 31 December 2017	<u>578</u>	<u>11,252</u>	<u>37,141</u>	<u>48,971</u>
As at 1 January 2018	578	11,252	37,141	48,971
Repayments	(308)	(6,099)	(1,001)	(7,408)
Other non-cash movement ( <i>Note</i> )	149	—	(36,140)	(35,991)
As at 31 August 2018	<u>419</u>	<u>5,153</u>	<u>—</u>	<u>5,572</u>

*Note:* Pursuant to the Reorganisation (*Note* 1.2(viii)), the amounts due to directors amounted to RM36,140,000 were settled by consideration other than cash.

**32 Subsequent events**

Saved as disclosed in Note 1.2 and elsewhere in the Historical Financial Information, there is no subsequent event took place subsequent to 31 August 2018.

**III SUBSEQUENT FINANCIAL INFORMATION**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2018 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2018.

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## APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" of this prospectus and the Accountant's Report set out in Appendix I to this prospectus.*

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below for the purpose of illustrating the effect of the Share Offer on the net tangible assets of our Group attributable to equity holders of our Company as at 31 August 2018 as if the Share Offer had taken place on that date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our net tangible assets of our Group as at 31 August 2018 or at any future dates following the completion of the Share Offer.

	<b>Audited combined net tangible assets of our Group attributable to equity holders of our Company as at 31 August 2018<sup>(1)</sup></b>	<b>Estimated net proceeds from the Share Offer<sup>(2)</sup></b>	<b>Unaudited pro forma adjusted net tangible assets of our Group attributable to equity holders of our Company as at 31 August 2018<sup>(3)</sup></b>	<b>Unaudited pro forma adjusted net tangible assets per Share<sup>(4)(5)</sup></b>	
	<i>RM'000</i>	<i>RM'000</i>	<i>RM'000</i>	<i>RM</i>	<i>HK\$</i>
Based on an Offer Price of HK\$0.50 per Share	114,370	45,588	159,958	0.16	0.32
Based on an Offer Price of HK\$0.62 per Share	114,370	59,088	173,458	0.17	0.34

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*Notes:*

- (1) The audited combined net tangible assets of our Group attributable to equity holders of our Company as at 31 August 2018 has been extracted from the Accountant's Report of our Company as set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to equity holders of our Company as at 31 August 2018 of approximately RM114,370,000.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HK\$0.50 per Share and HK\$0.62 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RM5,198,000 which have been accounted for in the Group's combined statements of comprehensive income prior to 31 August 2018) payable by our Company and takes no account of any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

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## APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares were in issue assuming that the Share Offer and Capitalisation Issue had been completed on 31 August 2018 but takes no account of any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may granted under the Share Option Scheme.
- (4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the amounts stated in Malaysian ringgit are converted into Hong Kong dollars at the rate of RM1.0 to HK\$2.0, as set out in “Information about this Prospectus and the Share Offer” to this prospectus. No representation is made that Malaysian ringgit amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 31 August 2018.

### B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per Share for the year ended 31 December 2018 has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2018.

This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of our Group for the year ended 31 December 2018 or for any future periods.

Estimated unaudited combined profit attributable to owners of our Company <sup>(Note 1)</sup>	Not less than RM23.5 million
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Unaudited pro forma estimated earnings per Share <sup>(Note 2)</sup>	Not less than RM2.35 cents
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#### Notes:

- (1) The bases on which the above profit estimate for the year ended 31 December 2018 has been prepared are summarised in Appendix III to this prospectus. Our Directors have prepared the estimated combined profit attributable to owners of our Company for the year ended 31 December 2018 based on the audited combined results of our Group for the eight months ended 31 August 2018 and the unaudited combined results based on management accounts of our Group for the four months ended 31 December 2018. The profit estimate has been prepared on the basis that is consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 2 of Section II in Appendix I to this prospectus.
- (2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated combined profit for the year ended 31 December 2018 attributable to owners of our Company by 1,000,000,000 Shares that had been in issue for the year ended 31 December 2018, assuming that the Share Offer and the Capitalisation Issue had been completed on 1 January 2018. The calculation of the estimated earnings per Share does not take into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

**C.    REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT    REPORTING    ACCOUNTANT'S    ASSURANCE    REPORT    ON    THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Heng Hup Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Heng Hup Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 August 2018, the unaudited pro forma estimated earnings per share for the year ended 31 December 2018 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 27 February 2019, in connection with the proposed share offer of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed share offer on the Group's financial position as at 31 August 2018 and the Group's estimated earnings per share for the year ended 31 December 2018 as if the proposed share offer had taken place at 31 August 2018 and 1 January 2018 respectively. As part of this process, information about the Group's financial position and estimated earnings have been extracted by the directors from the Group's historical financial information for the period ended 31 August 2018, on which an accountant's report has been published and from the Group's profit estimate for the year ended 31 December 2018, on which no audit or review report has been published.

*Directors' Responsibility for the Unaudited Pro Forma Financial Information*

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*  
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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### *Reporting Accountant's Responsibilities*

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed share offer at 31 August 2018 or 1 January 2018 would have been as presented.



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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 27 February 2019

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## APPENDIX III      PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2018

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*The estimate of our combined profit attributable to owners of the Company for the year ended 31 December 2018 is set out in the sections headed “Summary” and “Financial Information” in this prospectus.*

### **A. BASES**

The Directors have prepared the estimate of the combined profit attributable to owners of the Company for the year ended 31 December 2018 (the “Profit Estimate”) on the basis of the audited combined results of the Group for the eight months ended 31 August 2018 and the unaudited combined results based on the management accounts of the Group for the four months ended 31 December 2018. The Profit Estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as set out in note 2 of Section II in Appendix I to this prospectus.

**B. LETTER FROM THE REPORTING ACCOUNTANT**

*The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

The Board of Directors  
Heng Hup Holdings Limited

Shenwan Hongyuan Capital (H.K.) Limited

27 February 2019

Dear Sirs,

Heng Hup Holdings Limited (the “Company”)

**Profit Estimate for the Year Ended 31 December 2018**

We refer to the estimate of the combined profit attributable to owners of the Company for the year ended 31 December 2018 (the “Profit Estimate”) set forth in the section headed Financial Information in the prospectus of the Company dated 27 February 2019 (the “Prospectus”).

**Directors’ Responsibilities**

The Profit Estimate has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (collectively referred to as the “Group”) for the eight months ended 31 August 2018 and the unaudited combined results based on the management accounts of the Group for the four months ended 31 December 2018.

The Company’s directors are solely responsible for the Profit Estimate.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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T: +852 2289 8888, F: +852 2810 9888, [www.pwchk.com](http://www.pwchk.com)*

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500, *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* issued by the HKICPA and with reference to International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board ("IAASB"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with International Standards on Auditing issued by the IAASB. Accordingly, we do not express an audit opinion.

### **Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountant's report dated 27 February 2019, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong

**C    LETTER FROM THE SOLE SPONSOR**

The following is the text of a report, prepared for inclusion in this prospectus, received from Shenwan Hongyuan Capital (H.K.) Limited, the Sole Sponsor, in connection with the estimate of our combined profit attributable to owners of the Company for the year ended 31 December 2018.



The Directors  
**Heng Hup Holdings Limited**  
No. 264, Jalan Satu A,  
Kampung Baru Subang  
Shah Alam  
Selangor  
Malaysia

27 February 2019

Dear Sirs,

We refer to the estimate of the combined profit attributable to owners of Heng Hup Holdings Limited (the “**Company**”, together with its subsidiaries, hereinafter collectively referred to as the “**Group**”) for the year ended 31 December 2018 (the “**Profit Estimate**”) as set out in the prospectus issued by the Company dated 27 February 2019 (the “**Prospectus**”).

The Profit Estimate, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by the Directors, based on the audited combined results of the Group for the eight months ended 31 August 2018 and the unaudited combined results based on the management accounts of the Group for the four months ended 31 December 2018.

We have discussed with you the bases upon which the Profit Estimate has been made. We have also considered the letter dated 27 February 2019 addressed to you and us from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which the Directors are solely responsible, has been made after due and careful enquiry.

For and on behalf of  
**Shenwan Hongyuan Capital (H.K.) Limited**  
**Willis Ting**  
*Managing Director*

*The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this prospectus received from Greater China Appraisal Limited, an independent valuer, in connection with their valuation as at 31 December 2018 of the real property interests of Heng Hup Holdings Limited.*

**GREATER CHINA APPRAISAL LIMITED**  
**漢 華 評 值 有 限 公 司**

Room 2703, 27th Floor,  
Shui On Centre,  
6-8 Harbour Road,  
Wanchai, Hong Kong

27 February 2019

The Board of Directors  
Heng Hup Holdings Limited  
No. 264, Jalan Satu A  
Kampung Baru Subang  
52100 Shah Alam  
Selangor  
Malaysia

Dear Sirs,

In accordance with the instructions from Heng Hup Holdings Limited (the “Company”) to value a real property interest held by the Company and/or its subsidiaries (together referred to as the “Group”) in Malaysia, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the real property interest as at 31 December 2018 (referred to as the “valuation date”).

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of the real property and the limiting conditions.

**I. BASIS OF VALUATION**

The valuation of the real property interest is our opinion of the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

**II. VALUATION METHODOLOGY**

We have valued the real property interest by using direct comparison approach assuming sale of the real property interest in its existing state with the benefit of immediate vacant possession and by making references to comparable sale transactions as available in the relevant market.

**III. ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the real property interest on the open market in its existing state without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the real property interest.

For the real property which is held under freehold, we have assumed that the owner of the real property has free and uninterrupted rights to use, transfer or lease the real property. In our valuation, we have assumed that the real property can be freely disposed of, transferred and leased to third parties on the open market without any additional payment to the relevant government authorities.

All applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation report.

No environmental impact study has been ordered or made. Full compliance with applicable local, provincial and national environmental regulations and laws is assumed. In addition, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

Other specific assumptions of the valuation, if any, have been stated out in the footnotes of the valuation certificate.

**IV. TITLESHP INVESTIGATION**

We have caused searches made at the Pejabat Daerah Dan Tanah Melaka Tengah in Malaysia. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copy handed to us.

In the course of our valuation, we have relied upon the legal opinion given by the Company's Malaysian legal advisers — Julius Leonie Chai in relation to the legal title of the real property in Malaysia. All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the real property interest set out in this report.

**V. LIMITING CONDITIONS**

We have inspected the exterior and, where possible, the interior of the real property. However, no structural survey has been made and we are therefore unable to report as to whether the real property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the areas of the real property but have assumed that the areas shown on the relevant documents provided to us are correct. Based on our experience of valuation of similar real properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company and have accepted advice given to us by it on such matters as, as relevant, planning approvals, statutory notices, easements, tenure, occupation and floor areas and in the identification of the real property. We have had no reason to doubt the truth and accuracy of the information provided by the Company. We were also advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the real property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the real property interest is free of encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

**VI. OPINION OF VALUE**

Our opinion of the market value of the real property interest is set out in the attached valuation certificate.

**VII. REMARKS**

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

In valuing the real property interest, we have complied with the requirements contained in the HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors.

Site inspection of the real property was conducted in January 2019 by Ng Chee Woei (registered valuer). Upon our site inspection, the real property was vacant land.

Unless otherwise stated, all monetary amounts herein are denominated in the currency of Malaysian Ringgit (refer to as “RM”).



We enclose herewith the valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,  
For and on behalf of  
**GREATER CHINA APPRAISAL LIMITED**  
**Mr. Gary Man**  
*Registered Professional Surveyor (G.P.)*  
*FRICS, FHKIS, MCIREA*  
*Director*

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*Note:* Mr. Gary Man is a Chartered Surveyor who has more than 31 years of valuation experience in countries such as The PRC, Hong Kong, Singapore, Vietnam, Philippines and the Asia Pacific region.

## VALUATION CERTIFICATE

## Real property held for investment by the Group in Malaysia

Real Property	Descriptions and Tenure	Particulars of Occupancy	Market Value in existing state as at 31 December 2018								
GM 225, Lot No. 236 and GM 226, Lot No. 237 both in Mukim of Bukit Rambai, Daerah Melaka Tengah, Melaka, Malaysia	<p>The real property comprises two parcels of development land located along Jalan Bukit Rambai, Melaka. It is situated at approximately 11 kilometres north-west of the Melaka town centre, and it is approximately 123 kilometres south-east of Kuala Lumpur, the capital of Malaysia. The locality is a mixed of developments of residential and industrial properties.</p> <p>The real property has a total land area of approximately 16,451 square metres (equivalent to approximately 177,071.30 square feet). The breakdown is listed as follow:</p> <table><tr><th>Land Lot</th><th>Land Area (sq.ft.)</th></tr><tr><td>GM 225, Lot No. 236</td><td>144,009.26</td></tr><tr><td>GM 226, Lot No. 237</td><td><u>33,062.04</u></td></tr><tr><td>Total</td><td><u>177,071.30</u></td></tr></table> <p>The real property is held under freehold.</p>	Land Lot	Land Area (sq.ft.)	GM 225, Lot No. 236	144,009.26	GM 226, Lot No. 237	<u>33,062.04</u>	Total	<u>177,071.30</u>	Upon our site inspection, the real property is vacant.	RM1,950,000 (Malaysian Ringgit One Million Nine Hundred and Fifty Thousand)
Land Lot	Land Area (sq.ft.)										
GM 225, Lot No. 236	144,009.26										
GM 226, Lot No. 237	<u>33,062.04</u>										
Total	<u>177,071.30</u>										

## Notes:

- (i) Pursuant to 2 sets of land title certificate, “Catatan Carian Persendirian”, the freehold interest of the real property is held by Heng Hup Metal Sdn. Bhd., (“HH Metal”), an indirect wholly-owned subsidiary of the Company.
- (ii) Pursuant to a Sale and Purchase Agreement entered into between Lau Leok Kim@ Low Hon Sin, Low Soon An, Ng Tiam Aik and Ng Tiam Siew (the vendor) and HH Metal (the purchaser), and dated 19 December 2013, the real property was contracted to be transferred to HH Metal at a consideration for RM1,894,725.
- (iii) We have been provided with a legal opinion regarding the real property by the Company’s Malaysian legal advisers, which contains, inter alia, the following:
  - a. HH Metal is the sole legal and beneficial owner of the real property;
  - b. the real property is held under freehold; and
  - c. the current use of the real property as a vacant land. Owning vacant land or leaving the land vacant is neither an offence in Malaysia nor constitute a breach of any laws, regulations and rules of Malaysia.

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## APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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Set out below is a summary of certain provisions of the Memorandum and the Articles and of certain aspects of Cayman company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 April 2018 under the Companies Law. Our Company's constitutional documents consist of the Memorandum and the Articles.

### 1. THE MEMORANDUM

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### 2. THE ARTICLES

The Articles were conditionally adopted on 19 February 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

#### (a) **Shares**

##### (i) *Classes of Shares*

The share capital of our Company consists of ordinary Shares.

##### (ii) *Variation of rights of existing Shares or classes of Shares*

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of Shares, all or any of the special rights attached to the Shares or any class of Shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing

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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*

Our Company may by ordinary resolution of its members:

- (1) increase its share capital by the creation of new Shares;
- (2) consolidate all or any of its capital into Shares of larger amount than its existing Shares;
- (3) divide the Shares into several classes and attach to such Shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as our Directors may determine;
- (4) subdivide the Shares or any of them into Shares of smaller amount than is fixed by the Memorandum; or
- (5) 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.

Our Company may reduce the 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 or in such other form as our 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 our Board may approve from time to time.

Notwithstanding the foregoing, for so long as any Shares are listed on the Stock Exchange, titles to such listed Shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed Shares. The register of members in respect of the listed Shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed Shares.

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The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that our 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.

Our 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.

Our 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 our Directors is paid to our 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 our 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 our Board may determine. The register of members must not be closed for periods exceeding in the whole 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 our Company.

### (v) *Power of our Company to purchase Shares*

Our Company is empowered by the Companies Law and the Articles to purchase the Shares subject to certain restrictions and our Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where our 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 our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

Our Board may accept the surrender for no consideration of any fully paid Shares.

### (vi) *Power of any subsidiary of our Company to own Shares*

There are no provisions in the Articles relating to ownership of Shares by a subsidiary.

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### (vii) *Calls on Shares and forfeiture of Shares*

Our 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 instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as our Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but our Board may waive payment of such interest wholly or in part. Our Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any Shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as our Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, our Board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of our Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Share and not actually paid before the forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the Shares, together with (if our Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as our Board determines.

### (b) **Directors**

#### (i) *Appointment, retirement and removal*

At each annual general meeting, one third of our Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Our Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

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Neither a Director nor an alternate Director is required to hold any Shares by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

Our Directors have the power to appoint any person as a Director either to fill a casual vacancy on our Board or as an addition to our 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 our existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our 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 our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our 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:

- (1) he resigns by notice in writing delivered to our Company;
- (2) he becomes of unsound mind or dies;
- (3) without special leave, he is absent from meetings of our Board for six consecutive months, and our Board resolves that his office is vacated;
- (4) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (5) he is prohibited from being a director by law; or
- (6) he ceases to be a Director by virtue of any provision of law or is removed from office pursuant to the Articles.

Our 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 our Company for such period and upon such terms as our Board may determine and our Board may revoke or terminate any of such appointments. Our Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as our 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 our Board.

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### ***(ii) Power to allot and issue Shares and warrants***

Subject to the provisions of the Companies Law, the Memorandum and the Articles and to any special rights conferred on the holders of any Shares or class of Shares, any Share may be issued (1) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Directors may determine; or (2) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

Our Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all unissued Shares are at the disposal of our Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no Shares shall be issued at a discount to their nominal value.

Neither our Company nor our Board is obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of our Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

### ***(iii) Power to dispose of the assets of our Company or any of our subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries. Our Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

### ***(iv) Borrowing powers***

Our Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.



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### (v) *Remuneration*

The ordinary remuneration of our Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as our Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. Our 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 our 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 our Company or who performs services which in the opinion of our Board go beyond the ordinary duties of a Director may be paid such extra remuneration as our 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 our Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

Our Board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our 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 past Director who may hold or have held any executive office or any office of profit with our Company or any of our subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

Our 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 our Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

Our Board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued Shares to be allotted to (1) employees (including directors) of our Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than our Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, our

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Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (2) any trustee of any trust to whom Shares are to be allotted and issued by our Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which our Director is contractually entitled) must be approved by our Company in general meeting.

(vii) *Loans and provision of security for loans to Directors*

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance as if our Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with our Company or any of our subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and upon such terms as our Board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Our Board may also cause the voting power conferred by the Shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or

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proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of our Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of our Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (1) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of our subsidiaries;
- (2) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which our Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (3) any contract or arrangement concerning an offer of Shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where our 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;
- (4) any contract or arrangement in which our Director or his close associate(s) is/are interested in the same manner as other holders of Shares or debentures or other securities of our Company by virtue only of his/their interest in Shares or debentures or other securities of our Company; or
- (5) 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 our Company or of any of our 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 our Board**

Our 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.

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### (d) **Alterations to constitutional documents and our Company's name**

The Articles may be rescinded, altered or amended by our 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 our Company.

### (e) **Meetings of members**

#### (i) *Special and ordinary resolutions*

A special resolution of our 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 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

#### (ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any Shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or instalments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have

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been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the Shares held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any Shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.

### **(iii) *Annual general meetings and extraordinary general meetings***

Our Company must hold an annual general meeting of our Company every year within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of not more than 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to our Board or our secretary for the purpose of requiring an extraordinary general meeting to be called by our Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, our Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Board shall be reimbursed to the requisitionist(s) by our Company.

### **(iv) *Notices of meetings and business to be conducted***

An annual general meeting must be called by notice of not less than 21 clear days and not less than 20 clear business days. All other general meetings must be called by notice of at least 14 clear days and not less than 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 our 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 our Company, and also to, among others, the auditors for the time being of our 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 our 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 our Company to any member by electronic means.

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## APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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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:

- (1) the declaration and sanctioning of dividends;
- (2) the consideration and adoption of the accounts and balance sheet and the reports of our Directors and the auditors;
- (3) the election of Directors in place of those retiring;
- (4) the appointment of auditors and other officers; and
- (5) the fixing of the remuneration of our Directors and of the auditors.

(v) ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class.

(vi) ***Proxies***

Any member of our Company entitled to attend and vote at a meeting of our 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 our Company or at a class meeting. A proxy need not be a member of our Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) **Accounts and audit**

Our Board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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The accounting records must be kept at the registered office or at such other place or places as our 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 our Company except as conferred by law or authorised by our Board or our 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 our Company at our general meeting, together with a printed copy of the directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

### **(g) Dividends and other methods of distribution**

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by our Board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.



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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever our Board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, our Board may further resolve either (i) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that our Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (ii) 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 our Board may think fit.

Our Company may also upon the recommendation of our Board by an ordinary resolution resolve in respect of any one particular dividend of our 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 our 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 our 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 our Board or our Company in general meeting has resolved that a dividend be paid or declared our 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 our Board for the benefit of our Company until claimed and our 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 our Board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any Share shall bear interest against our Company.



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## APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (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 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 our 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 our Board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

### (i) **Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority Shareholders in relation to fraud or oppression. However, certain remedies are available to our Shareholders under Cayman Islands law, as summarised in paragraph 3(f) of this appendix.

### (j) **Procedures on liquidation**

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares:

- (i) if our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding-up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively; and
- (ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding-up on the Shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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### **(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for Shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a Share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a Share on any exercise of the warrants.

### **3. CAYMAN ISLANDS COMPANY LAW**

Our 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, our Company's operations must be conducted mainly outside the Cayman Islands. Our 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 (i) paying distributions or dividends to members; (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (iii) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (iv) writing-off the preliminary expenses of the company; and (v) 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.

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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

### **(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

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A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding-up) may be made to the company, in respect of a treasury share.

### **(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (i) an act which is ultra vires the company or illegal; (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and (iii) 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, (i) an order regulating the conduct of the company's affairs in the future; (ii) 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; (iii) 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 (iv) an order

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providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

### **(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

### **(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **(j) Taxation**

Pursuant to the Tax Concessions Law of the Cayman Islands, our Company has obtained an undertaking:

- (i) 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 our Company or its operations; and

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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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- (ii) 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 our Company.

The undertaking for our Company is for a period of twenty years from 25 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 our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

### **(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

### **(m) Inspection of corporate records**

Members of our Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in the 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

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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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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**

Our 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 60 days of any change in such Directors or officers.

**(p) Beneficial ownership register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Shares are listed on the Stock Exchange, our Company is not required to maintain a beneficial ownership register.

**(q) Winding-up**

A company may be wound up (i) compulsorily by order of the Court; (ii) voluntarily; or (iii) under the supervision of the Court.

The Court has authority to order winding-up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding-up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding-up) from the time of passing the resolution for voluntary winding-up or upon the expiry of the period or the occurrence of the event referred to above.



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## **APPENDIX V      SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW**

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For the purpose of conducting the proceedings in winding-up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding-up, showing how the winding-up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

### **(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).



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### **4.    GENERAL**

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation**

- (a) Our Company is an exempted company incorporated in the Cayman Islands with limited liability on 12 April 2018 under the Companies Law. Our Company has established our principal place of business in Hong Kong at 21st Floor, CCB Tower, 3 Connaught Road Central, Hong Kong and has been registered as a non-Hong Kong company under Division 2 in Part 16 of the Companies Ordinance. Ms. Ng Wing Yan of 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong has been authorised to accept on behalf of our Company service of process and any notices required to be served on our Company.
- (b) As our Company was incorporated in the Cayman Islands, our corporate structure, the Memorandum and the Articles are subject to the Cayman Islands law. A summary of the relevant provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law is set out in Appendix V to this prospectus.

**2. Changes in the share capital of our Company**

The authorised share capital of our Company as at the date of incorporation was HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of incorporation:

- (a) On 12 April 2018, our Company allotted and issued one Share, credited as fully paid at par, to an independent third party as the initial subscriber, who then transferred such one Share to 5S Holdings on the same day, and further allotted and issued 6,799 Shares, credited as fully paid, to 5S Holdings and 640 Shares, credited as fully paid, to each of the Sia Brothers on the same day; and
- (b) On 19 February 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,962,000,000 Shares pursuant to a written resolution passed by our Shareholders as disclosed in the paragraph headed "A. Further information about our Group — 4. Written resolutions of our Shareholders" of this appendix.

As at the Latest Practicable Date, the authorised share capital of our Company was HK\$20,000,000 divided into 2,000,000,000 Shares. Assuming that the Share Offer becomes unconditional, the Shares under the Capitalisation Issue are issued and the Over-allotment Option is exercised in full, immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Share which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$10,375,000 divided into 1,037,500,000 Shares fully paid or credited as fully paid, and 962,500,000 Shares will remain unissued.

Other than the Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any Share out of the authorised but unissued share capital of our Company.

### **3. Changes in the share capital of our subsidiaries**

Our subsidiaries are referred to in the accountant's report set out in Appendix I to this prospectus. The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus.

#### **(a) *HH (BVI)***

On 17 April 2018, HH (BVI) allotted and issued 10,000 shares, credited as fully paid at par, to our Company as the initial subscriber.

#### **(b) *HH Holdings***

On 22 December 2017, HH Holdings allotted and issued one share to each of the Sia Brothers, all as initial subscribers.

On 24 May 2018, HH Holdings allotted and issued one share to each of the Sia Brothers in consideration of the Sia Brothers transferring the entire issued share capital of HH Paper to HH Holdings.

On 24 May 2018, HH Holdings allotted and issued one share to each of the Sia Brothers in consideration of the Sia Brothers transferring the entire issued share capital of HH Paper (Melaka) to HH Holdings.

On 13 June 2018, HH Holdings allotted and issued one share to each of the Sia Brothers in consideration of the Sia Brothers transferring the entire issued share capital of HH Hardware to HH Holdings.

On 12 July 2018, HH Holdings allotted and issued one share to each of the Sia Brothers in consideration of the Sia Brothers transferring the entire issued share capital of HH Metal to HH Holdings.

On 31 July 2018, HH Holdings underwent a share sub-division such that every existing share in the capital of HH Holdings was sub-divided into 50 shares.

On 31 July 2018, HH Holdings allotted and issued 31 shares to each of the Sia Brothers at an issue price of RM73,536 per share as part of the settlement arrangement in relation to the debts due and owing by HH Metal to the Sia Brothers and Heng Hup Metal.

On 31 July 2018, HH Holdings allotted and issued 31 shares to each of the Sia Brothers at an issue price of RM73,536 per share as part of the settlement arrangement in relation to the debt due and owing by HH Hardware to the Sia Brothers.

(c) ***HH Metal***

On 31 July 2018, HH Metal allotted and issued 541,959 shares to HH Holdings at an issue price of RM20.9 per share as part of the settlement arrangement in relation to the debts due and owing by HH Metal to the Sia Brothers and Heng Hup Metal.

(d) ***HH Hardware***

On 31 July 2018, HH Hardware allotted and issued 1,558,774 shares to HH Holdings at an issue price of RM7.32 per share as part of the settlement arrangement in relation to the debt due and owing by HH Hardware to the Sia Brothers.

(e) ***HH Metal (Johor)***

On 6 September 2018, HH Metal (Johor) allotted and issued 150,000 shares at an issue price of RM1 per share to HH Holdings, as required by the Land Public Transport Commission of Malaysia to facilitate its application for the relevant licence under the LPTA.

Please refer to the paragraph headed “Regulations — Licences, permits and approvals” of this prospectus for details of the licences, permits and approvals which are material and specific to our business operations in Malaysia.

Save as disclosed in this prospectus, there had been no other alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

**4. Written resolutions of our Shareholders**

Pursuant to the written resolutions of our Shareholders passed on 19 February 2019:

- (a) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,962,000,000 Shares which shall, when issued and paid, rank pari passu in all respects with the existing issued Shares (other than participation in the Capitalisation Issue);
- (b) conditional upon the conditions stated in the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” of this prospectus being fulfilled or waived:
  - (i) the Share Offer on the terms and conditions of this prospectus and the Application Forms at the Offer Price was approved and our Directors were authorised to allot and issue such number of Shares forming part of the Offer Shares;

- (ii) conditional further on the Listing Committee granting the listing of, and the permission to deal in, such number of Shares which may be allotted and issued upon the exercise in full of the options which may be granted under the Share Option Scheme, the Share Option Scheme was approved and adopted, and our Directors or any committee of our Board were authorised, at their sole discretion, to make such further changes to the Share Option Scheme as may be requested by the Stock Exchange and which they may consider necessary, desirable or expedient in connection with the grant of options to subscribe for the Shares under the Share Option Scheme up to the limits as referred to in the Share Option Scheme and to allot, issue and deal with the Shares upon the exercise of any option which may be granted under the Share Option Scheme and to take all such action as they may consider necessary, desirable or expedient to implement the Share Option Scheme;
- (iii) subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to allot and issue a total of 749,990,000 Shares, credited as fully paid at par, to our Shareholders whose names appear on the register of members of our Company on Thursday, 14 March 2019 (or such other time as our Directors may direct) by way of capitalisation of a sum of HK\$7,499,900 standing to the credit of the share premium account of our Company, and that the Shares to be allotted and issued, as nearly as possible, without involving fractions, and such Shares to rank *pari passu* in all respects with the then existing issued Shares;
- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which may require the Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (A) a Rights Issue (as defined below); (B) any scrip dividend scheme or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Articles; (C) any specific authority granted by our Shareholders in general meeting; or (D) the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, shall not exceed 20% of the number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue;
- (v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which was recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue, excluding any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme; and

- (vi) the general unconditional mandate as mentioned in paragraph 4(b)(iv) above was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under such general mandate of an amount representing the aggregate number of Shares purchased by our Company under the mandate to repurchase Shares as referred to in paragraph 4(b)(v) above,

for the purpose of paragraph 4(b)(iv) above, “Rights Issue” means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for the Shares open for a period fixed by our Directors to our Shareholders whose names appear on the register of members of our Company (and, where appropriate, to holders of other securities of our Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or, where appropriate, such other securities) (subject in all cases to such exclusions or other arrangements as our Directors may consider necessary, desirable or expedient (but in compliance with the relevant Listing Rules) in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to our Company);

each of the general mandates referred to in paragraphs 4(b)(iv) and 4(b)(v) above will remain in effect until the earliest of (i) the conclusion of our Company’s next annual general meeting; (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting;

- (c) the appointment of our Directors was approved and confirmed; and
- (d) the Memorandum was adopted with immediate effect and the Articles were approved and conditionally adopted with effect from the Listing Date.

## 5. Reorganisation

In preparation for the Share Offer, we have undertaken the Reorganisation to rationalise the business and structure of our Group, details of which are set out in the paragraph headed “History, Development and Reorganisation — Reorganisation” of this prospectus.

## 6. Repurchase of our own securities

This paragraph includes information relating to the repurchase of Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

### (a) *Relevant legal and regulatory requirements*

The Listing Rules permit our Shareholders to grant to our Directors the general mandate to repurchase Shares which are listed on the Stock Exchange. The general mandate to repurchase Shares is required to be given by way of an ordinary resolution passed by our Shareholders in general meeting.

(b) *Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 19 February 2019, our Directors were granted the general mandate to repurchase up to 10% of the number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our securities may be listed and which was recognised by the SFC and the Stock Exchange for this purpose. The general mandate to repurchase Shares will expire at the earliest of (i) the conclusion of our Company's next annual general meeting, (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; or (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting (the "**Relevant Period**").

(c) *Source of funds*

Repurchase of Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles and the applicable laws of the Cayman Islands. We may not repurchase Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the Listing Rules. Subject to the foregoing, we may make repurchases out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company or out of the share premium account of our Company. Subject to the Companies Law, a repurchase may also be made out of capital.

(d) *Reasons for repurchases*

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement to the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(e) *Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the Listing Rules, the Companies Law and other applicable laws of the Cayman Islands. On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the general mandate to repurchase Shares were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as

compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an 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 us.

(f) *Share capital*

The exercise in full of the current general mandate to repurchase Shares, on the basis of 1,000,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), could accordingly result in up to 100,000,000 Shares being repurchased by us during the Relevant Period.

(g) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Share to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they shall exercise the general mandate to repurchase Shares in accordance with the Listing Rules and the laws of the Cayman Islands.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

None of the core connected persons of our Company has notified us that he or she or it has a present intention to sell his or her or its Shares to us, or has undertaken not to do so, if the general mandate to repurchase Shares is exercised.

## **B. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of material contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus which are or may be material:

- (a) the settlement agreement dated 31 July 2018 entered into between HH Metal, the Sia Brothers, My Santuariee Sdn. Bhd., Heng Hup F & B Sdn. Bhd. (currently known as 5S Foods & Beverages Sdn. Bhd.), 5S Battery Sdn. Bhd., Solid Lift Sdn. Bhd., 5S Resources Sdn. Bhd., Heng Hup Properties Sdn. Bhd. (currently known as 5S Unity Properties Sdn. Bhd.) (together with My Santuariee Sdn. Bhd., Heng Hup F & B Sdn. Bhd., 5S Battery Sdn. Bhd., Solid Lift Sdn. Bhd. and 5S Resources Sdn. Bhd. are collectively referred to as the







“**Other Companies I**”) and HH Holdings regarding the settlement of debts due and owing by HH Metal to the Sia Brothers and Heng Hup Metal in the aggregate amount of RM27,988,501 as at 31 May 2018 by way of (i) transfer of three properties for an aggregate consideration of RM7,845,000 to the Sia Brothers or their nominee (i.e. Heng Hup Properties Sdn. Bhd. (currently known as 5S Unity Properties Sdn. Bhd.)); (ii) set-off of the debt owing by the Other Companies I to HH Metal in the amount of RM8,816,558 as at 31 May 2018 after being novated to the Sia Brothers; (iii) allotment and issue of 541,959 shares of HH Metal to HH Holdings at an issue price of RM20.9 per share; and (iv) allotment and issue of an aggregate of 155 shares of HH Holdings to the Sia Brothers at an issue price of RM73,536 per share;

- (b) the settlement agreement dated 31 July 2018 entered into between HH Hardware, the Sia Brothers, Heng Hup Properties Sdn. Bhd. (currently known as 5S Unity Properties Sdn. Bhd.), Heng Hup Hardware (together with Heng Hup Properties Sdn. Bhd. are collectively referred to as the “**Other Companies II**”) and HH Holdings regarding the settlement of debt due and owing by HH Hardware to the Sia Brothers in the amount of RM14,193,535 as at 31 May 2018 by way of (i) transfer of one property for a consideration of RM2,650,000 to the Sia Brothers or their nominee (i.e. Heng Hup Properties Sdn. Bhd. (currently known as 5S Unity Properties Sdn. Bhd.)); (ii) set-off of the debt owing by the Other Companies II to HH Hardware in the amount of RM133,311 as at 31 May 2018 after being novated to the Sia Brothers; (iii) allotment and issue of 1,558,774 shares of HH Hardware to HH Holdings at an issue price of RM7.32 per share; and (iv) allotment and issue of an aggregate of 155 shares of HH Holdings to the Sia Brothers at an issue price of RM73,536 per share;
- (c) the cornerstone investor placing agreement dated 25 January 2019 and the supplemental cornerstone investor placing agreement dated 20 February 2019, both entered into between our Company, Mr. Tan Gim Lin and Mr. Teo Giin Liang, pursuant to which both Mr. Tan Gim Lin and Mr. Teo Giin Liang shall subscribe for, and our Company shall issue and/or the Joint Global Coordinators shall place and allocate or procure the placement and allocation to Mr. Tan Gim Lin such number of Shares offered by our Company in the Placing equal to the maximum number of Shares that may be purchased with HK\$20,000,000 at the Offer Price, and to Mr. Teo Giin Liang such number of Shares offered by our Company in the Placing equal to the maximum number of Shares that may be purchased with HK\$10,000,000 at the Offer Price, both rounded down to the nearest board lot;
- (d) the Deed of Indemnity dated 19 February 2019 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) regarding certain indemnities, as more particularly set out in the paragraph headed “E. Other information — 1. Estate duty, tax and other indemnities” of this appendix;
- (e) the Deed of Non-competition dated 19 February 2019 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertakings, as more particularly set out in the paragraph headed “Relationship with Controlling Shareholders — Deed of Non-competition” of this prospectus; and
- (f) the Public Offer Underwriting Agreement dated 26 February 2019 entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators and the Public Offer Underwriters regarding the Public Offer, as more particularly set out in the section headed “Underwriting” of this prospectus.

## 2. Intellectual property rights

(a) *Trademark*

As at the Latest Practicable Date, we had registered the following trademarks:

Trademark	Owner	Trademark number	Class	Place of registration	Expiry date
	HH Hardware	2010018565	6	Malaysia	4 October 2020
	HH Hardware	2010018566	40	Malaysia	4 October 2020
A 	HH Hardware	304392009AA	6	Hong Kong	8 January 2028
B 					

(b) *Domain name*

As at the Latest Practicable Date, we had registered the following domain name:

Domain name	Registrant	Expiry date
www.henghup.com	HH Hardware	22 October 2019

### C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

#### 1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed on the Stock Exchange, will be as follows:

Director	Company concerned	Nature of interests	Class and number of securities held <sup>(Note 1)</sup>	Percentage of interests in the company concerned
Mr. Sia 4	Our Company	Interest in controlled corporation/Interests held jointly with another person/ Beneficial owner	750,000,000 ordinary Shares <sup>(L)</sup> <sup>(Note 2)</sup>	75%
	5S Holdings	Beneficial owner	7,000 ordinary shares	35%
Mr. Sia 1	Our Company	Interest in controlled corporation/Interests held jointly with another person/Beneficial owner	750,000,000 ordinary Shares <sup>(L)</sup> <sup>(Note 2)</sup>	75%
	5S Holdings	Beneficial owner	3,250 ordinary shares	16.25%

Director	Company concerned	Nature of interests	Class and number of securities held <sup>(Note 1)</sup>	Percentage of interests in the company concerned
Mr. Sia 2	Our Company	Interest in controlled corporation/Interests held jointly with another person/Beneficial owner	750,000,000 ordinary Shares <sup>(L)</sup> <sup>(Note 2)</sup>	75%
	5S Holdings	Beneficial owner	3,250 ordinary shares	16.25%
Mr. Sia 3	Our Company	Interest in controlled corporation/Interests held jointly with another person/Beneficial owner	750,000,000 ordinary Shares <sup>(L)</sup> <sup>(Note 2)</sup>	75%
	5S Holdings	Beneficial owner	3,250 ordinary shares	16.25%
Mr. Sia 5	Our Company	Interest in controlled corporation/Interests held jointly with another person/Beneficial owner	750,000,000 ordinary Shares <sup>(L)</sup> <sup>(Note 2)</sup>	75%
	5S Holdings	Beneficial owner	3,250 ordinary shares	16.25%

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Notes:

- The letter “L” denotes our Director’s long position in the Shares.
- The Sia Brothers entered into a deed of acting in concert confirmation and undertaking dated 20 August 2018. As such, each of the Sia Brothers, being parties to the deed of acting in concert confirmation and undertaking, is deemed under the SFO to be interested in the 510,000,000 Shares collectively held through 5S Holdings and the 48,000,000 Shares held by each of the other Sia Brothers upon the Listing.

In other words, each of the Sia Brother is interested in the 750,000,000 Shares upon the Listing in the following capacities:

Interest in controlled corporation	510,000,000
Interests held jointly with another person	192,000,000
Beneficial owner	48,000,000
<b>Total</b>	<b>750,000,000</b>

## 2. Interests and/or short positions discloseable under the SFO and our Substantial Shareholders

So far as is known to any Director and the chief executive of our Company, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), the following persons (other than a Director or the chief executive of our Company) will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Entity	Company concerned	Nature of interests	As at the Latest Practicable Date		Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	
			Class and number of securities held (Note 1)	Percentage of interests in the company concerned	Class and number of securities held (Note 1)	Percentage of interests in the company concerned
5S Holdings	Our Company	Beneficial owner	6,800 ordinary Shares <sup>(L)</sup>	68%	510,000,000 ordinary Shares <sup>(L)</sup> (Note 2)	51%
Ms. Koo Lee Ching	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 3)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Loh Hui Mei	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 4)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Peong Ai Teen	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 5)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Yang Mei Feng	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 6)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%
Ms. Juan Sook Fong	Our Company	Interest of spouse	10,000 ordinary shares <sup>(L)</sup> (Note 7)	100%	750,000,000 ordinary shares <sup>(L)</sup>	75%

Notes:

- The letter “L” denotes the entity’s long position in the Shares.

2. Of these 510,000,000 Shares, 37,500,000 Shares may be subject to the stock borrowing arrangement to be effected pursuant to the Stock Borrowing Agreement.
3. Ms. Koo Lee Ching is the spouse of Mr. Sia 4. As such, Ms. Koo Lee Ching is deemed under the SFO to be interested in the Shares in which Mr. Sia 4 is interested upon the Listing.
4. Ms. Loh Hui Mei is the spouse of Mr. Sia 1. As such, Ms. Loh Hui Mei is deemed under the SFO to be interested in the Shares in which Mr. Sia 1 is interested upon the Listing.
5. Ms. Peong Ai Teen is the spouse of Mr. Sia 2. As such, Ms. Peong Ai Teen is deemed under the SFO to be interested in the Shares in which Mr. Sia 2 is interested upon the Listing.
6. Ms. Yang Mei Feng is the spouse of Mr. Sia 3. As such, Ms. Yang Mei Feng is deemed under the SFO to be interested in the Shares in which Mr. Sia 3 is interested upon the Listing.
7. Ms. Juan Sook Fong is the spouse of Mr. Sia 5. As such, Ms. Juan Sook Fong is deemed under the SFO to be interested in the Shares in which Mr. Sia 5 is interested upon the Listing.

### 3. Particulars of service agreements and appointment letters

#### (a) *Executive Directors*

Each of our executive Directors has entered into a service agreement with our Company under which they have agreed to act as our executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months' written notice to terminate the service agreement.

Each of our executive Directors is entitled to a remuneration and a discretionary bonus. The aggregate annual remuneration of our executive Directors is RM2,880,000.

#### (b) *Independent non-executive Directors*

Each of our independent non-executive Directors has entered into an appointment letter with our Company under which they have agreed to act as our independent non-executive Directors for an initial term of three years commencing from the Listing Date. The aggregate annual fees payable to our independent non-executive Directors is RM180,000.

#### (c) *Remuneration of our Directors*

- (i) The aggregate of the remuneration paid and benefits in kind granted to our Directors (including fees, salaries and allowances, performance bonus, employer's contribution to retirement benefit scheme and other benefits) by any member of our Group in respect of the year ended 31 December 2018 is approximately RM8.2 million.

- (ii) The aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including fees, salaries and allowances, employer's contribution to retirement benefit scheme and other benefits) by any member of our Group in respect of the year ending 31 December 2019 under the arrangements in force at the date of this prospectus are estimated to be approximately RM8.7 million.

#### **D. SHARE OPTION SCHEME**

The followings are the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our Shareholder passed on 19 February 2019:

##### **1. Conditions**

- (a) The Share Option Scheme is conditional upon:
  - (i) the Listing Committee granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit (as defined in paragraph 7(b)) to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and
  - (ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholder(s).
- (b) If the conditions referred to in paragraph 1(a) are not satisfied on or before the date falling 30 days after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.
- (c) Reference in paragraph 1(a)(i) to the Listing Committee formally granting the listing and permission referred to therein shall include any such listing and permission which are granted subject to the fulfilment of any condition precedent or condition subsequent.

##### **2. Purpose, duration and administration**

- (a) The purpose of the Share Option Scheme is to enable our Company to grant options to the Eligible Participants (as defined in paragraph 3(a) below) as incentives or rewards for their contribution to our Group.
- (b) The Share Option Scheme shall be subject to the administration of our Directors whose decision on all matters arising in relation to the Share Option Scheme or their interpretation or effect shall (save for the grant of options referred to in paragraph 3(b) which shall be approved in the manner referred to therein and save as otherwise provided herein) be final and binding on all persons who may be affected thereby.

- (c) Subject to paragraphs 1 and 13, the Share Option Scheme shall be valid and effective until the close of business of our Company on the date which falls 10 years (the “**Termination Date**”) after the date on which the Share Option Scheme is adopted upon fulfilment of the condition set out in paragraph 1(a) (the “**Adoption Date**”), after which period no further options may be issued but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.
- (d) An Eligible Participant who accepts the offer in accordance with the terms of the Share Option Scheme or (where the context so permits and as referred to in paragraph 5(d)(i)) his personal representative (the “**Grantee**”) shall ensure that the acceptance of an offer, the holding and exercise of his option in accordance with the Share Option Scheme, the allotment and issue of Shares to him upon the exercise of his option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. Our Directors may, as a condition precedent of making an offer and allotting Shares upon an exercise of an option, require an Eligible Participant or a Grantee (as the case may be) to produce such evidence as it may reasonably require for such purpose.

### 3. Grant of options

- (a) Subject to paragraph 3(b), our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the Adoption Date to make an offer to any person belonging to the following classes of participants (the “**Eligible Participants**”) to subscribe, and no person other than the Eligible Participant named in such offer may subscribe, for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such price per Share at which a Grantee may subscribe for the Shares on the exercise of an option, as determined in accordance with paragraph 4 (the “**Subscription Price**”), as our Directors shall, subject to paragraph 4, determine:
  - (i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the “**Invested Entity**”) (the “**Eligible Employee**”);
  - (ii) any non-executive director (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
  - (iii) any supplier of goods to any member of our Group or any Invested Entity;
  - (iv) any customer of any member of our Group or any Invested Entity;



- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

- (b) Without prejudice to paragraph 7(d) below, the making of an offer to any Director, chief executive of our Company or Substantial Shareholder, or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of an option).
- (c) The eligibility of any of the Eligible Participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.
- (d) An offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as our Directors may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares under the option and the **"Option Period"** (which means, in respect of any particular option, a period (which may not expire later than 10 years from the offer date of that option) to be determined and notified by our Directors to the Grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses under the provisions of paragraph 6; and (ii) 10 years from the offer date of that option) in respect of which the offer is made and further requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period of up to 21 days from the offer date.

- (e) An offer shall state, in addition to the matters specified in paragraph 3(d) above, the following:
  - (i) the name, address and position of the Eligible Participant;
  - (ii) the number of Shares under the option in respect of which the offer is made and the Subscription Price for such Shares;
  - (iii) the Option Period in respect of which the offer is made or, as the case may be, the Option Period in respect of separate parcels of Shares under the option comprised in the offer;
  - (iv) the last date by which the offer must be accepted (which may not be later than 21 days from the offer date);
  - (v) the procedure for acceptance;
  - (vi) the performance target(s) (if any) that must be attained by the Eligible Participant before any option can be exercised;
  - (vii) such other terms and conditions of the offer as may be imposed by our Directors as are not inconsistent with the Share Option Scheme; and
  - (viii) a statement requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme including, without limitation, the conditions specified in, inter alia, paragraphs 2(d) and 5(a).
- (f) An offer shall have been accepted by an Eligible Participant in respect of all Shares under the option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.
- (g) Any offer may be accepted by an Eligible Participant in respect of less than the number of Shares under the option which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such Eligible Participant and received by our Company together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

- (h) Upon an offer being accepted by an Eligible Participant in whole or in part in accordance with paragraph 3(f) or 3(g), an option in respect of the number of Shares in respect of which the offer was so accepted will be deemed to have been granted by our Company to such Eligible Participant on the offer date. To the extent that the offer is not accepted within the time specified in the offer in the manner indicated in paragraph 3(f) or 3(g), it will be deemed to have been irrevocably declined.
- (i) The Option Period of an option may not end later than 10 years after the Offer Date of that Option.
- (j) Options will not be listed or dealt in on the Stock Exchange.
- (k) For so long as the Shares are listed on the Stock Exchange:
  - (i) our Company may not grant any option after inside information has come to our knowledge until we have announced the information. In particular, we may not grant any option during the period commencing one month immediately before the earlier of:
    - (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
    - (bb) the deadline for our Company to announce our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),and ending on the date of the results announcement; and
  - (ii) our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

#### 4. Subscription Price

The Subscription Price in respect of any option shall, subject to any adjustments made pursuant to paragraph 8, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;

- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and
- (c) the nominal value of the Share,

except that for the purpose of calculating the Subscription Price under paragraph 4(b) above for an option offered within five Business Days of the Listing Date, the price at which the Shares are to be offered for subscription under the Share Offer shall be used as the closing price for any Business Day falling within the period before the Listing Date.

#### **5. Exercise of options**

- (a) An option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a Grantee shall entitle our Company to cancel any option granted to such Grantee to the extent not already exercised.
- (b) Unless otherwise determined by our Directors and stated in the offer to a Grantee, a Grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him/her.
- (c) Subject to, inter alia, paragraph 2(d) and the fulfilment of all terms and conditions set out in the offer, including the attainment of any performance targets stated therein (if any), an option shall be exercisable in whole or in part in the circumstances and in the manner as set out in paragraphs 5(d) and 5(e) by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the option remains unexercised is less than one board lot or where the option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for Shares in respect of which the notice is given. Within 21 days (seven days in the case of an exercise pursuant to paragraph 5(d)(iii)) after receipt of the notice and, where appropriate, receipt of the certificate of the auditors or the independent financial advisers pursuant to paragraph 8, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or, in the event of an exercise of option by a personal representative pursuant to paragraph 5(d)(i), to the estate of the Grantee) fully paid and issue to the Grantee (or his estate in the event of an exercise by his personal representative as aforesaid) a share certificate for every board lot of Shares so allotted and issued and a share certificate for the balance (if any) of the Shares so allotted and issued which do not constitute a board lot.

- (d) Subject as hereinafter provided, an option may (and may only) be exercised by the Grantee at any time or times during the Option Period provided that:
- (i) if the Grantee is an Eligible Employee and in the event of his/her ceasing to be an Eligible Employee by reason of his/her death, ill-health or retirement in accordance with his/her contract of employment before exercising the option in full, his/her personal representative(s) or, as appropriate, the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the Grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv), respectively;
  - (ii) if the Grantee is an Eligible Employee and in the event of his/her ceasing to be an Eligible Employee for any reason other than his/her death, ill-health or retirement in accordance with his/her contract of employment or the termination of his/her employment on one or more of the grounds specified in paragraph 6(a)(iv) before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within such period as our Directors may determine following the date of such cessation or termination or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv), respectively. The date of cessation or termination as aforesaid shall be the last day on which the Grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not;
  - (iii) if a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all our Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the Grantee shall, notwithstanding any other terms on which his options were granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in accordance with the provisions of paragraph 5(c) at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be;

- (iv) in the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the Grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of paragraph 5(c) and our Company shall allot and issue to the Grantee the Shares in respect of which such Grantee has exercised his/her option not less than one day before the date on which such resolution is to be considered and/or passed whereupon he/she shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up; and
- (v) if the Grantee is a company wholly owned by one or more Eligible Participants:
  - (aa) the provisions of paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall apply to the Grantee and to the options granted to such Grantee, *mutatis mutandis*, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall occur with respect to the relevant Eligible Participant; and
  - (bb) the options granted to the Grantee shall lapse and determine on the date the Grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.
- (e) Shares to be allotted and issued 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 the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

**6. Early termination of the Option Period**

- (a) The Option Period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall lapse on the earliest of:
  - (i) the expiry of the Option Period;
  - (ii) the expiry of any of the periods referred to in paragraph 5(d);
  - (iii) the date of commencement of the winding-up of our Company;
  - (iv) in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee by reason of a termination of his/her employment on the grounds that he/she has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the Grantee or our Group or the Invested Entity into disrepute);
  - (v) in respect of a Grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (aa) (1) such Grantee or his/her close associate has committed any breach of any contract entered into between such Grantee or his/her close associate on the one part and our Group or any Invested Entity on the other part; or (2) such Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his/her creditors generally; or (3) such Grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (bb) the Option shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above; and
  - (vi) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph 5(a) by the Grantee in respect of that or any other option.
- (b) A resolution of our Directors to the effect that the employment of a Grantee has been terminated on one or more of the grounds specified in paragraph 6(a)(iv) or that any event referred to in paragraph 6(a)(v)(aa) has occurred shall be conclusive and binding on all persons who may be affected thereby.
- (c) Transfer of employment of a Grantee who is an Eligible Employee from one member of our Group to another member of our Group shall not be considered a cessation of employment. It shall not be considered a cessation of employment if a Grantee who is an Eligible Employee is placed on such leave of absence which is considered by the directors of the relevant member of our Group not to be a cessation of employment of the Grantee.



**7. Maximum number of Shares available for subscription**

- (a) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by our Group if the grant of such option will result in the limit referred to in this paragraph 7(a) being exceeded.
- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, i.e. 100,000,000 Shares, (without taking into account the Shares (if any) which may be allotted and issued pursuant to the exercise of the Over-allotment Option) (the “**General Scheme Limit**”) provided that:
  - (i) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(ii), our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted; and
  - (ii) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(i), our Company may seek separate Shareholders’ approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph 7(b)(i) to Eligible Participants specifically identified by our Company before such approval is sought.
- (c) Subject to paragraph 7(d), the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options to a Grantee under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and



issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his/her close associates (or his/her associates if such Grantee is a connected person of our Company) abstaining from voting.

- (d) Without prejudice to paragraph 3(b), where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting.

- (e) For the purpose of seeking the approval of our Shareholders under paragraphs 7(b), 7(c) and 7(d), our Company must send a circular to our Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

#### **8. Adjustments to the Subscription Price**

- (a) In the event of any alteration in the capital structure of our Company while any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:
- (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
  - (ii) the Subscription Price of any option; and/or
  - (iii) (unless the relevant Grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

- (i) any such adjustment shall give the Grantee the same proportion of the issued share capital of our Company for which such Grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be allotted and issued at less than its nominal value;
- (iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (iv) any such adjustment shall be made in compliance with such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to in this paragraph 8(a), other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

- (b) If there has been any alteration in the capital structure of our Company as referred to in paragraph 8(a), our Company shall, upon receipt of a notice from a Grantee in accordance with paragraph 5(c), inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made in accordance with the certificate of the auditors or the independent financial adviser obtained by our Company for such purpose or, if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the auditors or the independent financial adviser as soon as practicable thereafter to issue a certificate in that regard in accordance with paragraph 8(a).
- (c) In giving any certificate under this paragraph 8, the auditors or the independent financial adviser appointed under paragraph 8(a) shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby.

## **9. Cancellation of options**

- (a) Subject to paragraph 5(a) and Chapter 17 of the Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.
- (b) Where our Company cancels any option granted to a Grantee but not exercised and issues new option(s) to the same Grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph 7(b)(i) or 7(b)(ii).

**10. Share capital**

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient authorised but unissued share capital of our Company to allot and issue the Shares on the exercise of any option.

**11. Disputes**

Any dispute arising in connection with the number of Shares the subject of an option, or any adjustment under paragraph 8(a) shall be referred to the decision of the auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

**12. Alteration of the Share Option Scheme**

- (a) Subject to paragraphs 12(b) and 12(d), the Share Option Scheme may be altered in any respect by a resolution of our Directors except that:

- (i) the provisions of the Share Option Scheme as to the definitions of “Eligible Participants”, “Grantee”, “Option Period” and “Termination Date”; and
- (ii) the provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules;

shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of our Shareholders under the Articles for a variation of the rights attached to the Shares.

- (b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (c) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.
- (d) The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant rules, codes and guidance notes of the Stock Exchange from time to time.

### 13. Termination

Our Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme, and in such event no further options will be offered, but in all other respects the provisions of the Share Option Scheme shall remain in force, to the extent necessary to give effect to the exercise of any option (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be allotted and issued upon the exercise of the options granted under the Share Option Scheme, being 100,000,000 Shares in total. As at the date of this prospectus, no option had been granted by our Company under the Share Option Scheme.

## E. OTHER INFORMATION

### 1. Estate duty, tax and other indemnities

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into the Deed of Indemnity (being one of the material contracts referred to in the paragraph headed “B. Further information about our business — 1. Summary of material contracts” of this appendix) with and in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) to provide joint and several indemnities in respect of:

- (a) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer, incur or be imposed by any regulatory authority or court in Hong Kong, Malaysia or any applicable jurisdiction as a result of any violation or non-compliance by any member of our Group with any applicable law, rule or regulation on all matters subsisting prior to the date on which the conditions stated in the paragraph headed “Structure of the Share Offer — Conditions of the Share Offer” of this Prospectus are fulfilled (the “**Effective Date**”);
- (b) taxation, together with all reasonable costs (including all legal costs), expenses or other liabilities which any member of our Group may incur in connection with (i) the investigation, assessment, contesting or settlement of any taxation claim under the Deed of Indemnity; (ii) any legal proceeding in relation to taxation claim in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or (iii) the enforcement of any such settlement or judgment falling on any member of our Group resulting from or by reference to any income, profits or gains, transactions, events, acts, omissions, matters or things earned, accrued or received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company;

- (c) any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or our associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) or the equivalent thereof under the laws of Malaysia or any jurisdiction outside Hong Kong to any member of our Group on or before the Effective Date;
- (d) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur as a result of directly or indirectly or in connection with any litigation, proceeding, claim, investigation, enquiry, enforcement proceeding or process by any governmental, administrative or regulatory body which (i) any member of our Group, their respective directors and/or representatives or any of them is/are involved; and/or (ii) arises due to some act or omission of, or transaction voluntarily effected by, any member of our Group or any of them (whether alone or in conjunction with some other act, omission or transaction) on or before the Effective Date;
- (e) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur arising from or in connection with the title defects of the properties owned by any member of our Group or any lease entered into by any member of our Group (either due to non-registration of the lease agreements or any other reasons) in any jurisdiction which were occurred on or before the Effective Date; and
- (f) all or any damages which our Company and/or any of our subsidiaries may sustain, suffer and incur as a result of or in connection with the implementation of the Reorganisation in the preparation for the Listing on the Stock Exchange as described in this prospectus.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation liability or claim mentioned in the paragraph immediately above:

- (a) to the extent that allowance, provision or reserve has been made for such taxation in the audited accounts of our Group for the three years ended 31 December 2017 and the eight months ended 31 August 2018, respectively;
- (b) to the extent that such claim for taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any introduction of new legislation or any retrospective change in law or the interpretation or practice by the relevant tax authority coming into force after the Effective Date or to the extent that the taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;
- (c) for which any member of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business on or before the Effective Date;

- (d) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the consent of the Indemnifiers and otherwise than in the ordinary course of business on or before the Effective Date;
- (e) to the extent of any allowance or provision or reserve made for taxation in the audited accounts of our Group for the three years ended 31 December 2017 and the eight months ended 31 August 2018, respectively, which is finally established to be an over-allowance or over-provision or an excessive reserve provided that the amount of any such allowance or provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter;
- (f) to the extent that such claim or taxation claim arises or is incurred as a consequence of a change in any accounting policy or practice adopted by any other member of our Group after the Effective Date; or
- (g) to the extent that any member of our Group shall have admitted liability in respect of the circumstances giving rise to the claim for taxation after the Effective Date.

Our Directors have been advised that no material liability for estate duty would be likely to fall upon our Company or any of our subsidiaries in Malaysia, the Cayman Islands and the BVI.

## **2. Claims or litigations**

As at the Latest Practicable Date, no member of our Group was subject to any actual, pending or threatened litigations or claims of material importance which would have a material impact on our operations, financials and reputation.

## **3. The Sole Sponsor**

Save for the advisory fees in the amount of HK\$5.1 million to be paid to Shenwan Hongyuan Capital (H.K.) Limited as the Sole Sponsor in connection with the Listing, the advisory fees to be paid to Shenwan Hongyuan Capital (H.K.) Limited as our compliance adviser with effect from the Listing Date and the commission as disclosed in the section headed "Underwriting" of this prospectus to be paid to Shenwan Hongyuan Capital (H.K.) Limited for its obligations under the Underwriting Agreements, neither the Sole Sponsor nor any of its close associates has or may, as a result of the Listing, have any interests in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities).

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

**4. Preliminary expenses**

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately HK\$63,000 and are payable by our Company.

**5. Promoters**

Our Company has no promoter for the purpose of the Listing Rules.

**6. Qualification of experts**

The qualifications of the experts (as defined under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Listing Rules) who have given their opinions or advice in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
Shenwan Hongyuan Capital (H.K.) Limited	A corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
Julius Leonie Chai	Legal advisers as to Malaysian law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
PricewaterhouseCoopers	Certified Public Accountants
Frost & Sullivan	Industry consultant
Greater China Appraisal Limited	Property valuer
KGV International Property Consultants (M) Sdn. Bhd.	Property valuer
Baker Tilly Monteiro Heng Tax Services Sdn. Bhd.	Tax advisers

Save for the Underwriting Agreements, none of the experts named above 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 members of our Group.

**7. Consents of experts**

Each of the Sole Sponsor, Julius Leonie Chai, Conyers Dill & Pearman, PricewaterhouseCoopers, Frost & Sullivan, Greater China Appraisal Limited, KGV International Property Consultants (M) Sdn. Bhd. and Baker Tilly Monteiro Heng Tax Services Sdn. Bhd. has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

**8. Miscellaneous**

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the parties listed in the paragraph headed “E. Other information — 6. Qualification of experts” of this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (c) no capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option;
- (d) we have not issued or agreed to issue any founder or management or deferred Shares;
- (e) we have no outstanding debentures or convertible debt securities;
- (f) no commissions, discounts, brokerages or other special terms were granted within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group, and none of our Directors nor any of the parties listed in the paragraph headed “E. Other information — 6. Qualification of experts” of this appendix has received any such payment or benefit;
- (g) within the two years immediately preceding the date of this prospectus, no commission (excluding the commission to the Underwriters) had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Share in or debentures of our Company; and
- (h) in case of discrepancy, the English version of this prospectus shall prevail over the Chinese version.

**9. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, 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. Bilingual prospectus**

The English version and the Chinese version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).



**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the **WHITE** and **YELLOW** Application Forms; (b) the written consents referred to in the paragraph headed “E. Other information — 7. Consents of experts” in Appendix VI to this prospectus; and (c) copies of each of the material contracts referred to in the paragraph headed “B. Further information about our business — 1. Summary of material contracts” in Appendix VI to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Loeb & Loeb LLP of 21st Floor, CCB Tower, 3 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the service agreements and appointment letters referred to in the paragraph headed “C. Further information about our Directors and Substantial Shareholders — 3. Particulars of service agreements and appointment letters” in Appendix VI to this prospectus;
- (c) the material contracts referred to in the paragraph headed “B. Further information about our business — 1. Summary of material contracts” in Appendix VI to this prospectus;
- (d) the written consents referred to in the paragraph headed “E. Other information — 7. Consents of experts” in Appendix VI to this prospectus;
- (e) the legal opinions issued by our Malaysian Legal Advisers;
- (f) the letter prepared by Conyers Dill & Pearman, being the legal advisers to our Company as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law as referred to in Appendix V to this prospectus;
- (g) the accountant’s report of our Group from PricewaterhouseCoopers, being our reporting accountant, the text of which is set out in Appendix I to this prospectus;
- (h) the report from PricewaterhouseCoopers, being our reporting accountant, relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (i) the letters from PricewaterhouseCoopers, being our reporting accountant, and the Sole Sponsor relating to the profit estimate, the text of which is set out in Appendix III to this prospectus;

- (j) the audited combined financial statements of our Group for each of FY2015, FY2016, FY2017 and 8M2018;
- (k) the Frost & Sullivan Report issued by Frost & Sullivan;
- (l) the letter and the valuation certificate issued by Greater China Appraisal Limited, the text of which is set out in Appendix IV to this prospectus;
- (m) the rental valuation report issued by KGV International Property Consultants (M) Sdn. Bhd. in respect of the properties rented by our Group in Malaysia, i.e. part of the Melaka Scrapyard I and the Melaka Scrapyard II;
- (n) the transfer pricing report of HH Metal for the financial years of 2014 to 2017 issued by Baker Tilly Monteiro Heng Tax Services Sdn. Bhd.;
- (o) the transfer pricing report of HH Metal (Johor) for the financial years of 2014 to 2017 issued by Baker Tilly Monteiro Heng Tax Services Sdn. Bhd.;
- (p) the Companies Law; and
- (q) the Share Option Scheme.



**Heng Hup Holdings Limited**

興合控股有限公司