An [REDACTED] in our Shares involves various risks. You should consider carefully all the information set out in this document and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in our Company before making any [REDACTED]. The business, financial position, or results of business operation of our Group can be materially and adversely affected by the occurrence of any of following events. The [REDACTED] of the our Shares could fall significantly and you may lose all or part of your [REDACTED]. You should seek professional advice from your relevant advisers regarding your prospective [REDACTED] in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our track record performance may not be indicative of our future revenue and profit

Our revenue during the Track Record Period were approximately HK$69.5 million, HK$132.3 million and HK$127.7 million respectively, representing a CAGR of 22.5%. Our profit for the year attributable to owners of our Company were approximately HK$13.6 million, HK$35.1 million and HK$34.9 million, respectively. There was an one-off expense of approximately HK$[REDACTED] in relation to the [REDACTED] in FY2022. The trends of the historical performance and financial information of our Group is a mere presentation and analysis of our past performance only and do not carry any implication or may not reflect our financial performance in future. We cannot guarantee that our performance in future will remain positive or at a level comparable to the Track Record Period.

Our profitability may be adversely affected by the fluctuations in the price of raw materials

Cost of raw materials is one of the key factors which will significantly affect our profitability. The raw materials we use in our manufacturing process for our slewing ring products are primarily forged rings and steel balls, of which forged rings accounted for the biggest item of our total purchases. For FY2020, FY2021 and FY2022, the total purchase of forged rings accounted for approximately 91.5%, 91.0% and 93.4% of the total purchase of raw materials for slewing rings production for the corresponding years. The forged rings are primarily made from gear steel and carbon round steel. We also purchase various semi-finished products as the raw materials for the production of mechanical parts and components. Nearly all of our raw materials are sourced from suppliers based in the PRC.

There are many factors which can cause fluctuation in the price of raw materials, in particular the economic conditions in the PRC, the labour cost, supply and demand of raw materials and international trade restrictions. For details of the sensitivity analysis illustrating the change in our financial performance as a result of hypothetical change in our cost of inventories and consumables during the Track Record Period, please refer to the section headed "Financial Information — Description of selected items in consolidated statements of comprehensive income — Cost of sales" of this document. In addition, given that our Group does not enter into long-term contracts with suppliers, and that the majority of our revenue was generated from the sales of slewing rings, there is no guarantee that we will be able to maintain the same or similar levels of revenue and profitability during the Track Record Period. If we cannot pass the increase in the costs of raw materials to our customers, our operating margin and cash flow may be adversely affected, resulting in lower profitability, or loss making in the extreme case.

Our five largest customers accounted for an aggregate of 63.9%, 58.6% and 55.1% of our revenue for FY2020, FY2021 and FY2022. If we fail to maintain our business relationship with them or any of them or other key customers, this could adversely affect our business, results of operations, financial condition and prospects

A significant part of our revenue is derived from a limited number of customers. For FY2020, FY2021 and FY2022, sales to our five largest customers collectively accounted for 63.9%, 58.6% and 55.1%, respectively, of our total revenue. For the same periods, sales to our largest customer accounted for 18.8%, 17.9% and 22.6% respectively, of our total revenue for the respective periods.

If we cannot expand our customer base, we expect the present top five customers will continue to account for a significant portion of our total revenue for a considerable period of time. There is no assurance that we will be able to maintain the same or achieve even higher sales amounts with those customers. Our sales to these customers may be affected by many factors beyond their control. For instance, if the companies within our top five customers are unable to launch their marketing plans for their products successfully, or if there is any material and adverse change in political, economic or social conditions, foreign trade or monetary policies, legal or regulatory requirements or taxation or tariff regime or if the demand for their products weakens materially, and if we are unable to develop new customers and secure purchase orders of comparable size or under substantially the same terms, our business, financial condition, results of operations and prospects may be materially and adversely affected. Further, if we fail to achieve more diversified income or reduce our reliance on such customers, or if we fail to secure a similar level of business from other customers on comparable commercial terms, such that the reduction in revenue from our top five largest customers could be partly or wholly offset, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our current concentration on a few significant customers exposes us to the risk of substantial loss if any of our key customers, including our top five customers, were (i) to substantially reduce the volume and/or value of the orders to be placed with us or (ii) to terminate its business relationship with us entirely. If any of such circumstances arises, there is no guarantee that we will be in a position to obtain orders from other customers to replace such loss of sales, or whether we could obtain orders from other customers on similar terms.

Furthermore, if any of our customers fails to settle payment in accordance with the credit terms extended by us, the working capital position or cash flow of our Group could be adversely affected. If customers default in settling our invoices, provision for bad debts or write-offs will have an adverse effect on our profitability. If we fail to maintain our existing customer relationship and are unable to secure new orders, or if there is a drop in the credibility of our customers, our business, results of operations, financial conditions and prospects could be adversely affected.

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

During the Track Record Period, the sales agreements we entered into with our customers were on an order-by-order basis and there was no guaranteed minimum purchase from our customers. There was hence no purchase commitment from our customers. Our customers typically placed individual purchase order with us from time to time and on a case by case basis based on their needs on our products. There is no guarantee that our major customers will continue to place orders with us for the same amount of products they ordered during the Track Record Period, and/or at similar selling price or profit margin. Given there is no purchase commitment from our customers, the purchase volume or amount of customers' purchase orders we receive may fluctuate from time to time, and it will be difficult for our Group to forecast the future sales with certainty. If we cannot secure consistent and regular purchase orders from our customers, or we cannot expand our clientele or secure new customers, our revenue and profits may be materially and adversely affected.

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

We sell our products mainly to (i) wholesalers, (ii) traders, (iii) construction contractors, and (iv) manufacturers (including leading Japanese manufacturers or their affiliates). The business performance of our customers will in turn affect their purchase patterns from us. The business performance of our customers can be affected by a number of factors, such as changes in the economic conditions, business strategies, market demand, etc. If the business performance of our customers deteriorates, that could reduce their purchases from us, or even terminate their business relationship with us altogether. If the situation worsens, they may close down their businesses which could adversely and materially affect our business and financial conditions, results of operations and prospects as not only will we lose their orders, we may have difficulty in recovering the reduced orders from other customers shortly.

Our marketing plan and sales efforts may be unsuccessful and in such event, we may be unable to recoup our marketing costs and increased staff costs

In a bid to capture a larger market share in both the PRC and overseas, we strengthened our marketing efforts through hiring additional marketing staff and enhancing our online marketing. We believe that such marketing plan and increase in sales force is crucial for us to continue or at least maintain the momentum of our business growth. However, we cannot guarantee that our marketing plan and sales efforts will be successful. Our products and marketing campaign may not be well-received by our customers as well as our potential customers. We may be unable to attract and secure sufficient level of business leads to recoup our significant marketing costs and increased staff costs. In such event, our results of operation, financial conditions and business prospects may be adversely affected.

Our purchase of new machineries will result in increased depreciation expenses

It is one of our business strategies to acquire up-to-date machinery and equipment with an aim to enhance our production capacity at our production facilities in Dongguan, the PRC. Since the GEM Listing, we have acquired a number of new machineries by utilising HK$17.2 million from the proceeds from the GEM Listing. For FY2020, FY2021 and FY2022, we recorded depreciation on property, plant and equipment of approximately HK$1.7 million, HK$1.8 million and HK$2.2 million respectively. It is estimated that the depreciation expense in relation to the new machineries will last for 10 years, according to our accounting policy. As such, the increased depreciation expenses would have a negative effect on our business, financial position and results of operations in future.

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

The production of our slewing rings and machining of mechanical parts and components are not fully automated. Such process requires skilled workers to operate at various stages of production, in particular, turning, heat treatment, gear cutting and assembling. To support our business operation, we had a total of 93 full-time employees as at the Latest Practicable Date. For FY2020, FY2021 and FY2022, our direct labour costs accounted for approximately 8.8%, 6.3% and 6.7% of our total costs of sales, respectively. Our performance partly relies on the steady supply of skilled labour in the PRC. There is no assurance that we can secure a sufficient number of skilled workers to meet our production needs, or even if we can, with the rising trend in labour costs, it will push up the costs of production. COVID-19 and the corresponding quarantine measures imposed by the government prompted fiercer competition for qualified and skilled personnel and increase in staff costs. As our production process requires skilled technical workers in design, operating and quality control, we cannot guarantee that we can retain and attract sufficient qualified employees on reasonable employment terms. In the event that we cannot keep the existing skilled workers or recruit sufficient skilled workers to replace the existing skilled workers who left, or to cope with our expansion plan on a timely basis at reasonable costs, or if the turnover rate of our workers is high and we do not have time to train up the workers to cope with our requirement, our production process can be severely affected or interrupted. If we are unable to meet the delivery deadlines set by our customers, or achieve the high level of production as expected by our customers, or to accommodate any sudden increase in the demand for our products, our business, prospects, financial condition and results of operations could be materially and adversely affected. We cannot guarantee that labour disputes, work stoppages or strikes will not arise in future. Increases in our staff costs and future disputes with our employees could materially and adversely affect our business, financial condition and results of operations.

The market for our products are highly competititve

While we recorded a notable growth during the Track Record Period, the markets for slewing rings productions, mechanical parts and components are highly competitive. According to the Industry Report, the slewing rings market in China is fairly fragmented and there are approximately 200 slewing ring manufacturers in the PRC. Although we sell our products to various countries, we face an increasing competition from local and regional manufacturers which are also in a position to produce a vast range of similar products. Seeing the increasing demand in infrastructure work, affordable labour cost, encouraging local government policies as well as industry agglomeration in Southeast Asia, a number of slewing rings manufacturers are setting up production sites in the region. We expect there will be tough competition from local and foreign competitors which could adversely affect the labour market as well as the market price of slewing rings, mechanical parts and components, which in turn will affect our business, financial condition and results of operations. If we are unable to enhance our competitive advantages in the market, control our costs, adapt our production to new standards of our products or maintain our stringent quality and operation efficiency, we may not be able to compete effectively or benefit from the growing demand for slewing rings, mechanical parts and components in future.

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

As our business relies on our sales to the overseas market, any fluctuation in the global economy, especially the economy in Singapore, Malaysia, the Philippines and Japan, where we recorded over 50% of our revenue in aggregate during the Track Record Period, may adversely affect our business operation and profitability. Apart from changes in international trade policies and barriers, our sales to the overseas market are generally subject to certain inherent risks, including but not limited to the changes and development in the geopolitical, regulatory and business conditions, compliance with the requirements of applicable restrictions, sanctions and related laws and regulations, political tension arising from dispute between the PRC and countries where we sell our products, and material foreign currency fluctuations. These uncertainties could have a material adverse effect on our business, results of operation and financial conditions, and affect our ability to remain profitable and achieve business growth.

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

We are exposed to risks arising from fluctuations of foreign currency exchange rates

Our Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. As at 31 December 2020, 2021 and 2022, if RMB had strengthened/weakened by 5% against USD, with all other variables remain unchanged, the respective post-tax profit for the respective FY2020, FY2021 and FY2022 would have been approximately HK$0.8 million, HK$1.1 million and HK$1.2 million lower/higher, mainly as a result of foreign exchange loss/gain on conversion of HKD with other currencies (including in particular currencies of countries where we purchase raw materials from and sell our products to) on cash and cash equivalent, trade and other receivables and trade and other payables. For further details about the foreign exchange risk, please refer to the section headed "Financial Information — Qualitative and quantitative disclosure about financial risk — Foreign exchange risk" and Note 3 to the "Accountant's Report" in Appendix I to this document. The currency translation differences for FY2020, FY2021 and FY2022 were approximately gain of HK$3.0 million, gain of HK$1.4 million and loss of HK$4.9 million, respectively. We have not entered into any agreement to hedge our exchange rate exposure in such regard and there is no assurance that we will be able to enter into such agreements on commercially viable terms in future. Accordingly, there can be no assurance that future exchange rate fluctuations will not adversely affect our business.

The delay in payments from customers may adversely affect our sufficiency of working capital to support a relatively long aging of trade receivables

There may be time lags between making payments to our suppliers and receiving payments from our customers, resulting in mismatch of timing of settlement with suppliers and receipts of revenue from our customers. When we place orders with our suppliers to acquire raw materials such as forged rings, steel balls and semi-finished mechanical parts and components, we incur payment obligations before we utilise them for our production of slewing rings and mechanical parts and components. We are generally granted a credit period of 0 to 90 days by our suppliers. However, we do run into situations where we receive no credit period at all from some of our suppliers.

We rely on timely and full payment from our customers to meet our payment obligations to our suppliers, in particular when we have a high level of inventory and a long period of inventory turnover and our production cycle takes up a considerable period of time. During the Track Record Period, our total trade receivables amounted to approximately HK$22.0 million, HK$38.9 million and HK$41.7 million respectively. Our trade receivables turnover days were 102 days for FY2020, 84 days for FY2021 and 115 days for FY2022, respectively.

As we generally grant a credit term of 30 to 90 days to our customers for slewing rings and mechanical parts and components orders and up to 120 days for machineries orders, we are exposed to a long aging of the trade receivables of up to 120 days. Most of our trade receivables, being HK$20.5 million and HK$14.8 million as at 31 December 2021 and 2022 respectively, were payable within 30 days. However, there is no guarantee that we can continue to grant the same credit terms to our customers. If they request for a longer credit term, we will experience significant increase in amounts due from customers, which may lead to insufficient working capital and our cash flow conditions may be adversely affected. For further details, please refer to the paragraphs headed "Financial Information — Analysis of major components of the consolidated balance sheets "Trade receivables" of this document.

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

Our operation is susceptible to the availability of external funding

Our business operations is capital intensive in nature and we rely on timely payment from our customers to support our working capital and operating cash flow. Sufficient working capital is required to manage our significant trade receivables as well as long aging of trade receivables. Whilst we had banking facilities in place and may utilise them for working capital management, the banks have the overriding rights to demand repayment from us as well as the right to call for cash cover on demand for prospective and contingent liabilities. The banking facilities also required, amongst others, Mr. YP Chan, one of our Controlling Shareholders, to continue to hold more than 50% of the beneficial interest of our Company and remain as a Director. Our banking facilities are subject to their review any time. As at the Latest Practicable Date, we had secured HK$31 million of banking facilities in aggregate and had HK$30.1 million unutilised amount available. Should we fail to maintain our banking facilities on similar terms or are requested to repay the funds drawn and unable to secure new banking facilities or borrowings on similar terms or at all, or if Mr. YP Chan does not hold more than 50% of the beneficial interest in our Company or remain as a Director in future, we may experience tight in cashflows and our business, financial conditions and operations could be materially and adversely affected.

We are exposed to credit risk under our operations and any material defaults by our customers may negatively affect our financial position and incur impairment losses

We generally grant a credit period of 30 to 90 days to our customers for slewing rings and mechanical parts and components orders and generally do not require any deposit in advance. For machineries, we are required a 25% deposit in advance before we place the order with our suppliers in some occasions and the credit terms of our customers could be up to 120 days. We are therefore subject to the credit risk of our customers and our cash flow may be adversely affected if our customers default or not paying in full and we will record impairment losses on trade receivables which will affect our operating profits. We make impairment on receivables based on assumption of risk of default and expected loss rates. Whilst we monitor the credibility and collectability of our customers and no provision of impairment for trade receivables was made during the Track Record Period as the expected loss rate was minimal, there is no assurance that our customers will not default in future thus we have to record impairment losses.

We may be subject to transfer pricing challenge

Our Group operates mainly in Hong Kong and the PRC and we have an international customer base. During the Track Record Period, we sold our products to customers located in different countries, for instance Singapore, Malaysia, the Philippines and Japan which involve cross-border business arrangements and inter-company buy-sell transaction arrangements in relation to the sale of finished goods from Kyoei Seiki to Best Linking. The amount of this intra-group transactions were approximately HK$15.6 million, HK$15.5 million and HK$27.0 million for FY2020, FY2021 and FY2022, respectively. While our independent tax adviser concluded that our transfer pricing arrangements were in compliance with the applicable rules and regulations in the PRC nad Hong Kong during the Track Record Period, there were uncertainties associated with the profit allocation and the tax position in respect of the intra-group transaction arrangements. The tax treatments of these transaction arrangements may be subject to interpretation by the respective tax authorities in Hong Kong and the PRC. For details, please refer to the section headed "Business — Regulatory compliance — Transfer pricing arrangement" of this document.

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

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

Our Dongguan factory premises were constructed on a property leased from an Independent Third Party during the Track Record Period. The owner of such property (i.e. our landlord) did not possess a valid property ownership certificate and the construction planning permit for the construction of our production factory and utilities. According to our PRC Legal Advisers, the absence of a valid property ownership certificate could deem our lease invalid and the absence of the construction planning permit could lead to our landlord being ordered by the relevant PRC authorities to dismantle our production factory and utilities. For further details, please refer to the section headed "Business — Property interests — Title defect of our Leased Property in Dongguan City" of this document. As a tenant, we are not imposed with any mandatory requirement to apply for such certificate or permit under the PRC law. As advised by the PRC Legal Advisers, (i) the landlord already paid tax on the rent received and (ii) the title defect was reported to and registered with the relevant authority in Dongguan in 2009 and no action has been taken up to the Latest Practicable Date. Nevertheless, if there is an order to dismantle our production factory and facilities, we will be forced to relocate our factory premises and the related facilities to another location. If for any reason our production process is put to a halt, or if for any reason we fail to relocate our production factory and facilities within the statutory six months period from the commencement of administrative proceedings against the government's decision to dismantle the relevant facilities, this may impair our ability to meet our customers' schedule and hence expose us to claims from customers. This can in turn affect our goodwill as well. As a result, our business operation and hence our profitability may be adversely and materially affected.

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

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

We rely on independent logistic service providers for the transportation of our products.

We engage independent logistics service providers to transport raw materials from our suppliers and to deliver our products to our customers. During the Track Record Period, we incurred freight and transportation charges of approximately HK$0.7 million, HK$1.6 million and HK$2.1 million, respectively. In the event any of such service providers is unable to provide logistic services to us or provides poor quality services or cannot provide logistics services to us on the same or similar terms, we will need to identify other logistic service provides on a timely basis. If we cannot secure another service provider on similar terms, we may experience delay in our products delivery, increase in our transportation costs and suffer reputational damage and financial losses.

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

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

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

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

Our production facilities are powered by electricity, which is supplied by the local electricity grid administered by the local government. As our manufacturing process relies on a consistent and sufficient supply of utilities, in particular electricity and water, any power interruption or rationing could disrupt our manufacturing process. There is no guarantee that our production facilities will not suffer power failure or water supply failure in future, which may cause disruption to our operation. During the Track Record Period, we experienced temporality suspension of power supply on a number of occasions.

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

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

We position ourselves as a premium manufacturer of slewing rings. We pride ourselves in our ability to produce slewing rings that conform to different industry standards and JIS in particular. Our reputation in the market depends to a large extent on the quality of our products and our ability to effectively maintain our quality assurance systems. If we deliver any products which are not compliant with these standards, our reputation in the market can be adversely impaired, which may in turn affect our ability to continually secure repeated orders from customers, or to enlarge our customer base. Our Group obtained ISO 9001 certificate for the first time in 2009 and continued such achievement up to the Latest Practicable Date. We also produce slewing rings on an OEM basis for leading manufacturers from Japan. We believe that these recognitions and accreditations are pivotal to our past as well as future success. In the event that our products fail to adhere to the requested standards in quality leading to a significant number of product recalls, our market reputation, business operation and results of operation will be adversely affected. Further, we cannot guarantee that our quality assurance system can eliminate all of our product defects. Our quality control and assurance protocol for mechanical parts and components and machineries rely heavily on physical and visual inspection due to the products nature and limitation on the machines. Any significant failure or deterioration of our quality assurance system could result in a loss of such recognitions and certifications, which may translate into loss of customers and hence revenue, and could expose us to claims, and would therefore have a material adverse impact on our business, financial condition and results of operations.

Further, there is no assurance that the reputation of our brands and our products will continue to be recognised as a premium status by our customers and suppliers. Our recognition in the heat treatment process and capability to produce JIS, JB or JB/T compliant products could fade out due to technological advancement or new standard requirements or other unforeseen reasons.

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

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

During the Track Record Period, Kyoei Seiki made social insurance contributions for all our employees in the PRC which reached the minimum regulatory requirements of the Dongguan Human Resources and Social Security Bureau (東莞市人力資源和社會保障局). For FY2020, FY2021 and FY2022, we estimate that the amount of social insurance payments and housing provident fund contributions that Kyoei Seiki fell short of the standards required under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》) were approximately RMB36,000, RMB0.4 million and RMB0.5 million respectively, in respect of social insurance payments and approximately RMB0.1 million, RMB0.3 million and RMB0.4 million respectively, in respect of housing provident fund contributions.

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

For further details, please refer to the section headed "Business — Employees" of this document.

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

Our Group takes out insurance policies covering our directors and employees. For each of FY2020, FY2021 and FY2022, the total insurance costs paid by our Group amounted to approximately HK$57,000, HK$68,000 and HK$79,000, respectively. However we cannot guarantee the insurance that we have taken out is sufficient to cover all losses or potential claims.

We do not maintain product liability insurance for our products. Firstly, the maintenance of product liability insurance is not a market practice in our trade. Secondly, our products are usually examined by our customers upon delivery. If the customers reject our products, we will at our own costs repair the products, or replace them.

Further, while we do maintain business interruption insurance and third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations, the coverage could be insufficient. There are certain types of losses, such as losses arising from wars, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which we cannot obtain insurance at a reasonable cost. As such, we can be subject to liabilities against which we are not insured sufficiently or we cannot be insured at all. Should an uninsured loss or a loss in excess of insured limits occur, we may have to pay such claims out of our own resources, and any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

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

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

We are exposed to risk of inventories obsolescence

We had inventories of approximately HK$23.9 million, HK$25.6 million, and HK$20.6 million as at 31 December 2020, 2021 and 2022, respectively. Our average inventory turnover days were recorded at approximately 198 days, 116 days and 121 days for FY2020, FY2021 and FY2022, respectively. The demand for our products depends on the economic condition of the markets as well as the application of our slewing rings to the machineries in use by our customers or their ultimate customers, which are factors beyond our control. We have stock of slewing rings which come in different designs and sizes suitable for different machineries or models, and sufficient mechanical parts and components for a short turnaround time and delivery. Any unexpected change in the product design and standard of machineries in use by our customers or their ultimate customers may render our inventory obsolete as our slewing rings and mechanical parts and components may not be applicable for such new design or standard of machineries. If our products fail to suit the up-to-date models or standards required for the machineries in future, the volume of obsolete inventory may increase. Such unexpected change in the demand for our products may result in over-stocked items which may lead to decline in inventory values, and significant write-offs. Furthermore, obsolescent inventories may directly impact our sales and pricing as we may be required to lower the sale price of our products to reduce the inventory level, which may lead to lower profit margin. All these factors may in turn affect our Group's business, results of operations and financial position.

The global occurrence and possible recurrence of COVID-19 may result in a significant delay in the delivery of our products, thus leading to a possible material and severe disruption on our business, financial condition and operations

The outbreak of COVID-19 has spread across various parts of the world, particularly in the PRC and Hong Kong (the "**Outbreak**") since December 2019, and was declared a pandemic by the World Health Organisation on 11 March 2020. The Outbreak has created a negative impact on macro-economy globally.

Various countries and regions from which we derive revenue had introduced emergency measures to combat and contain the quick development and widespread of COVID-19. COVID-19 has impacted industries across the spectrum, including the slewing rings and machineries industries, which had resulted in the forced closure of factories, travel bans, grounding of flights, traffic control, compulsory quarantine, restrictions on enterprises from resuming work, and forced "work from home" procedures implemented by employers. Our normal business activities were disrupted due to those measures. As our revenue is derived mainly from the overseas markets, the global spread and recurrence of COVID-19 may materially and adversely affect our business, results of operations and financial performance. Resumption of our factory operations following the Chinese New Year holidays was postponed in 2020. Our Directors confirm that in compliance with the relevant government policies, the PRC Factory resumed their full operations since April 2020, which resulted in delay in fulfilling some of our outstanding purchase orders.

The Outbreak has taken a toll on the global economy worldwide. While government policies had been generally relaxed in 2023, there is no assurance that the Outbreak will slow down, end or will not recur. Although we have maintained a steady revenue generation during the Track Record Period, we cannot guarantee that our business and our growth rate will not be adversely affected by any further Outbreak in future. There remains uncertainties concerning the Outbreak with regard to the recent regional resurgence of COVID-19 cases in certain areas of the PRC and overseas. If the Outbreak continues or recur drastically in future, our business, financial conditions and operations may be materially and adversely affected.

If the implementation of travel and logistics restrictions, quarantine measures and lockdown were imposed again and extended to countries where our customers are located, there may be a decrease or delay in, or cancellation of, purchase orders. It may also lead to delay in payments from our customers. There is no assurance that we could procure raw materials from our suppliers or arrange for the transportation and delivery without disruption from certain customers which experienced difficulties in business operations due to the impact and restrictions caused by the Outbreak.

If in the future there is a spread of COVID-19 or outbreak of any other severe communicable disease, this could disrupt our business operations and render us unable to deliver our products in a timely manner which may increase our production costs or lead to termination or cancellation of orders from our customers. Even though our business was not substantially affected during the Track Record Period, and there had been no instance of cancellation of orders from customers, the Outbreak could, in extreme circumstances, lead to the forced suspension or closure of our production facilities and the operations of our customers or suppliers. These adverse impacts, if materialise and persist for a substantial period of time, could materially and adversely affect our operations, the purchase orders of our customers and the supply or shortage of raw materials from our suppliers.

Supply of raw materials and production equipments may be disrupted or become unstable. Due to the Outbreak supply of raw materials had been temporarily disrupted. According to the Industry Report, the production of slewing ring is highly correlated with the raw material price of gear steel, carbon round steel and other types of steel. The price of steel has fluctuated over the past five years. We cannot guarantee that the steel price will remain the same in future. Constraints in material sourcing and increase in steel price may directly affect the production costs as well as sale price of slewing rings.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantial amount of our assets and business operations are in the PRC. As our production lines are located in Dongguan, the PRC, our results of operations, financial position, performance and prospects are subject to the risk of, to a significant degree, economic, political and legal developments in the PRC.

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

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

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

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

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

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

Goods exported from the PRC are entitled to a refund of VAT based on a range from 0% to 16%. These goods include raw materials and supplies used for our production in the PRC, as our products are subsequently exported to overseas countries. During the Track Record Period, we obtained VAT tax refund from the PRC tax authority at the rate of 13% for our products exported from the PRC, which was determined on a prescribed formula. There is no guarantee that we will continue to obtain similar tax refund from the PRC tax authority and that there will be no change to the relevant PRC laws and/or policies on tax refund which may materially affect our business and financial position. In the event that there is any decrease or discontinuation of VAT refund for export goods, we will be subject to increase in tax liability and our business and results of operations will be adversely affected.

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

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

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

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

Under the EIT Law, the applicable income tax rate for Kyoei Seiki in the PRC is 25%. Our principal operating subsidiary in the PRC, namely Kyoei Seiki, has been recognised as a High and New Technology Enterprise since 2017. As a result, Kyoei Seiki has been subject to a preferential income tax rate of 15%. During the Track Record Period, income tax expense incurred in the PRC were approximately HK$0.9 million, HK$0.7 million and HK$2.2 million for FY2020, FY2021 and FY2022, respectively. If our Group were not entitled to the preferential tax rate, our income tax rate would have been 25% and our income tax expense in the PRC would have been approximately HK$1.6 million, HK$1.1 million and HK$3.7 million instead for FY2020, FY2021 and FY2022, respectively. For further details regarding the breakdown of income tax expenses during the Track Record Period, please refer to section headed "Financial Information — Income tax expense" of this document.

The qualification of a High and New Technology Enterprise is subject to review by the relevant PRC authorities every three years. The current qualification granted to Kyoei Seiki will expire in December 2023. If Kyoei Seiki fails to renew its status as a High and New Technology Enterprise, or ceases to be entitled to any other preferential tax treatment that it was previously entitled to, or if such preferential tax treatment becomes less favourable, Kyoei Seiki will be subject to income tax up to the ordinary rate of 25%. In such event our income tax expenses may increase, which will adversely affect our results of operations.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our indirect PRC subsidiary

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

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

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

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

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

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

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

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

We are subject to various PRC laws and regulations relating to the manufacture of slewing rings and machining of mechanical parts and components, including those relating to environmental protection. For details, please refer to the section headed "Regulatory Overview" of this document. Given the complexity and uncertainties of the relevant PRC laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require significant amount of financial resources and attention of our management. In addition, the relevant environmental protection administration authorities in the PRC may impose more stringent standards in future which could increase our operational costs to meet such higher standards. There is no assurance that the PRC government will not impose more stringent laws and regulations applicable to the manufacturing of slewing rings and compliance may require additional or significant investment in upgrading our facilities and employing additional staffs. Any failure to control associated costs could adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

RISKS RELATING TO [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]