BUSINESS OVERVIEW

We are a structural steelwork contractor in Hong Kong, specialising in the supply, fabrication and installation of structural steel for construction projects in Hong Kong. We were established in 1999 and have since undertaken structural steelwork in the role of subcontractor. With two production facilities in Dongguan, the PRC, we possess our in-house capacity to process and fabricate structural steel tailored to the specifications of our customers. All of our structural steel production capacity is currently used to cater to our own project needs. According to the Industry Report, our Group ranked third in the Hong Kong structural steelwork industry in terms of revenue in 2022, and accounted for approximately 3.4% of the market share in 2022.

Structural steelwork refers to the fabrication and forming of steel structures, typically serving as the backbone of buildings and infrastructure during initial construction stage. Essentially, structural steelwork involves columns and beams which are riveted, bolted or welded together. Structural steelwork providers supply, cut, bend, weld and assemble structural steel frames, trusses and other components into structures in accordance with the specifications provided in the building plans and designs.

We mainly focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform a substantial part of the construction site works under our supervision. Typically, our major responsibilities in a project include (i) arranging site preparatory and preliminary works; (ii) engaging and supervising our subcontractors; (iii) maintaining regular communication with our customers; (iv) monitoring the implementation of construction site works; (v) conducting site safety supervision and quality control; and (vi) developing detailed work schedule and work allocation plan. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we incurred subcontracting fees of approximately HK$71.0 million, HK$48.9 million, HK$91.6 million and HK$57.2 million for our construction site works, representing approximately 29.3%, 32.9%, 39.8% and 34.9% of our total purchases, respectively.

During the Track Record Period, we were mainly engaged in public sector projects in Hong Kong. Our public sector projects mainly involved infrastructure and public facilities as well as public residential developments. The customers of our public sector projects were generally main contractors engaged by different Hong Kong government departments, authorities and statutory bodies. To a lesser extent, we were also engaged in private sector projects in Hong Kong. Our private sector projects mainly involved private commercial, residential and industrial developments. The project owners of our private sector projects were generally property developers, and our customers were main contractors engaged under such projects. Based on enquiries with our major customers, save for certain mega-scale construction projects, our Group was generally engaged by our customers as a subcontractor exclusively for carrying out the structural steelwork involved in the projects that we participated in during the Track Record Period.

During the Track Record Period, the majority of our revenue was derived from structural steelwork for infrastructure and public facilities. The following table sets forth a breakdown of our revenue during the Track Record Period by reference to project sectors and the types of development involved:

	FY2020			FY2021			FY2022		
	No. of projects	Revenue	% of total revenue	No. of projects	Revenue	% of total revenue	No. of projects	Revenue	% of total revenue
		HK$'000	*%*		*HK$'000*	*%*		*HK$'000*	*%*
Public sector									
– Infrastructure and public facilities	17	117,650	36.2	10	142,717	62.4	18	273,912	81.4
– Residential	5	25,476	7.9	4	8,936	3.9	3	10,721	3.2
Sub-total	22	143,126	44.1	14	151,653	66.3	21	284,633	84.6
Private sector									
– Commercial	12	169,410	52.2	13	76,850	33.6	13	51,741	15.4
– Residential	2	560	0.2	3	237	0.1	1	10	negligible
– Industrial	2	11,196	3.5	1	36	negligible	–	–	–
Sub-total	16	181,166	55.9	17	77,123	33.7	14	51,751	15.4
Total	38	324,292	100.0	31	228,776	100.0	35	336,384	100.0

	For the nine months ended 30 September					
	2022			2023		
	No. of projects	Revenue	% of total revenue	No. of projects	Revenue	% of total revenue
		HK$'000	*%*		*HK$'000*	*%*
		(Unaudited)				
Public sector						
– Infrastructure and public facilities	16	202,523	80.5	19	191,720	81.5
– Residential	3	6,207	2.5	2	3,915	1.7
Sub-total	19	208,730	83.0	21	195,635	83.2
Private sector						
– Commercial	10	42,828	17.0	8	37,053	15.8
– Residential	1	3	negligible	1	2,350	1.0
– Industrial	–	–	–	–	–	–
Sub-total	11	42,831	17.0	9	39,403	16.8
Total	30	251,561	100.0	30	235,038	100.0

Our Group's revenue decreased by approximately 29.5% from approximately HK$324.3 million for FY2020 to approximately HK$228.8 million for FY2021, which was mainly attributable to:

(i) Project No. #01, being our top project for FY2020 involving a private sector commercial development located at the Hong Kong International Airport with an estimated contract sum of approximately HK$191.4 million. Project No. #01 contributed revenue of approximately HK$120.7 million to our Group for FY2020, representing approximately 37.2% of our total revenue for the corresponding year. Project No. #01 was completed at the end of FY2020, and no revenue was derived from Project No. #01 for FY2021; and

(ii) the unexpected change to our works schedule of Project No. #02, which involved a public infrastructure development located at Kai Tak with an estimated contract sum of approximately HK$380.2 million. Our Group secured Project No. #02 from Hip Hing Group in late 2019 and started generating revenue from Project No. #02 by October 2019. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group recognised revenue of approximately HK$71.3 million, HK$69.5 million, HK$193.2 million and HK$40.9 million, from Project No. #02, respectively. According to the original project schedule, our contract works were supposed to commence in or around late 2019 and complete by mid-2021. In anticipation of the tight project schedule and scale of works under Project No. #02, our Group had started procuring materials and commenced part of the structural steel fabrication works shortly after we secured this project.

    By mid-2020, we were informed that our works schedule of Project No. #02 would be revised primarily due to changes in design and drawings of structural steelwork by the project owner and that the substantial part of our construction site works would be rescheduled to 2021.

    Being mindful of the revised project schedule of Project No. #02 and in light of the constraint in our available resources, during the second half of 2020, our executive Directors considered that it was vital to temporarily refrain from tendering for sizeable projects which may substantially overlap with the revised project schedule of Project No. #02. Our Group also decided to reserve a substantial amount of our then available resources, including the capacity at our production facilities and manpower of our project management staff, for Project No. #02, taking into consideration (a) the substantial part of our construction site works under Project No. #02 would be rescheduled to 2021; (b) the sizeable scale and amount of works involved under such project; (c) the expected workloads for other ongoing projects; (d) the uncertainty arising from the COVID-19 outbreak and the associated risks of labour shortage and disruption to the transportation between Hong Kong and the PRC; and (e) the need to preserve our industry reputation and business relationship with Hip Hing Group via the satisfactory completion of Project No. #02, which is a landmark sports infrastructure development in Hong Kong.

Later in mid-2021, our Group was informed that the substantial part of our construction site works under Project No. #02 would be further rescheduled due to the late handover of the relevant work sites to us. While pending instruction from Hip Hing Group for proceeding with our construction site works, we had continued to perform fabrication works in 2021 to ensure we could meet the revised project schedule of Project No. #02. The fabricated items have occupied significant storage space at our production facilities, thereby reducing our production capacity for undertaking other projects in 2021.

Amid the repeated rescheduling of Project No. #02, during the second half of FY2021, we attempted to recoup the expected revenue which would otherwise be generated from Project No. #02 in the absence of such rescheduling. We did this by tendering for new projects that have relatively shorter duration and could readily commence in the near term. Despite our efforts, the revenue generated from the projects we obtained during the second half of 2021 was not sufficient to compensate for the decrease in our revenue due to the lower amount of works performed under Project No. #02. In addition, as mentioned above, during the second half of 2020, we had temporarily refrained from tendering for sizeable projects which may substantially overlap with the revised project schedule of Project No. #02, resulting in lower amount of works performed by us in FY2021. After mid-2021, our Group did not receive any further notice in relation to the rescheduling of Project No. #02 and a substantial part of our construction site works were carried out in 2022 in accordance with the last revised schedule. Pursuant to the contract terms of the service agreement for Project No. #02, in the event our contract works under Project No. #02 was not completed within the original schedule due to reason(s) other than our default, our Group shall be entitled to apply in writing to Hip Hing Group for an extension to project duration and claim for any additional costs reasonably incurred by us arising from the delay. Based on (i) our negotiation with Hip Hing Group; and (ii) the aggregate payment certification certified by Hip Hing Group exceeds the original contract sum of this project, the Directors are of the view that our Group was able to claim for substantial part of the increase in costs incurred by us arising from the rescheduling of Project No. #02 to Hip Hing Group.

During the Track Record Period, we had a total of 73 projects with revenue contribution to us. During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any loss-making projects. As at the Latest Practicable Date, we had 22 projects on hand. For further details, please refer to the paragraph headed "Projects on hand" below in this section.

Our Group recorded a relatively lower gross profit margin of approximately 15.5% for FY2021 as compared to approximately 17.0% and 19.9% for FY2020 and FY2022, respectively, which was mainly due to the unforeseen rescheduling of our construction site works for Project No. #02 in mid-2021 as aforementioned. Due to the unanticipated rescheduling of Project No. #02, a substantial amount of the then available resources of our Group originally reserved for Project No. #02 such as direct labour and structural steel production capacity were rendered idle or not fully utilised during FY2021, resulting in certain direct labour costs, manufacturing overheads and project administrative costs incurred, which amounted to approximately HK$1.9 million during FY2021 (the "**Idle Cost**"). In accordance with the relevant accounting standard, as the Idle Cost did not contribute to our Group's progress in satisfying our performance obligations amid the rescheduling of Project No. #02, our Group did not recognise the corresponding revenue for the Idle Cost by the time they were incurred, and such Idle Cost was not allocated to Project No. #02 or any particular project undertaken by our Group, but were recognised as unallocated costs in our Group's cost of services for FY2021. As a result, the gross profit margin of Project No. #02 was not adversely affected by the Idle Cost. Nonetheless, since the Idle Cost had been recognised as unallocated cost of services of our Group for FY2021 and did not contribute the corresponding revenue to our Group for FY2021, our Group's overall gross profit margin for FY2021 was lower as compared to that of FY2020 and FY2022.

During the Track Record Period, we identified business opportunities mainly through invitation for tender from customers. As we undertake structural steelwork in the role of subcontractor, all of our revenue generated was derived from projects awarded by construction contractors during the Track Record Period. Therefore, to a significant extent, our tender exposure depends on the types of projects obtained by our construction contractor customers. Our Group has all along remained open to, and possesses substantial track record in undertaking both public sector and private sector projects. Based on our past experience, as far as structural steelwork is concerned, our executive Directors consider that there is no material difference in the expertise and know-how required for public sector and private sector projects. Our Group generally determines whether we should proceed with the preparation of tender based on, amongst others, the scope of services, our capability, the expected complexity, our production capacity of structural steel, the available space at our production facilities for the fabrication process and storage of materials, our available financial and human resources and feasibility and profitability of the project. As long as our capacity and available resources allow, our Group will endeavor to respond to tender invitations received from customers, with little regard to the sector that the relevant projects belong to. Therefore, the proportion of our revenue derived from private and public sector projects may vary from period to period, largely affected by the projects obtained and undertaken by our construction contractor customers at the relevant times, rather than caused by any change in our business focus or strategy.

Private sector projects contributed approximately 55.9%, 33.7%, 15.4% and 16.8% of our total revenue for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively. Our Group recorded a relatively higher percentage of revenue contribution from private sector projects for FY2020 mainly because we performed a substantial amount of works for Project No. #01 in the same year. Project No. #01 involved a private sector commercial development located at the Hong Kong International Airport with an estimated contract sum of approximately HK$191.4 million. Project No. #01 contributed revenue of approximately HK$120.7 million to our Group for FY2020, representing approximately 37.2% of our total revenue for the corresponding year. Project No. #01 was completed at the end of FY2020 and no revenue was generated therefrom since FY2021.

Our principal operating subsidiary in Hong Kong, Wing Kei Hong Kong, is currently a registered subcontractor under the category of structural steelwork on the Register of Subcontractors maintained by the Construction Industry Council. Wing Kei Hong Kong is also registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of structural steelwork. For further details, please refer to the paragraph headed "Licences, registrations and permits" in this section.

Wing Kei Dongguan, being our PRC operating subsidiary, operates two production facilities located in Dongguan, the PRC, which process and fabricate structural steel required by our steelwork projects. Our Dapianmei Production Facility commenced operations back in 2000, and our Xinlong Production Facility subsequently came into operation in 2020 in light of the increasing needs of our structural steelwork projects. All of our structural steel production capacity is currently used to cater to our own project needs.

Our Dapianmei Production Facility and Xinlong Production Facility could fabricate up to 6,600 tonnes and 3,300 tonnes of structural steel per year, respectively. Our ability to undertake additional and sizeable structural steelwork projects, to a large extent, depends on the available capacity and space of our production facilities. Structural steel fabrication is a space-intensive activity which involves significant areas for the storage, maneuver and processing of bulky metal items. The size, shape, density and specifications of steel required vary from project to project. As a general practice, each batch of steel used in a project is bundled together and then physically endorsed with the signature of our customers' representatives for identification purpose. To avoid intermingling of the steel bundle earmarked for different projects, we generally place and store the steel bundle for each project under designated and separate area in our production facilities. In addition, as we operate gantry cranes for lifting and transporting bulky items within our production premises, we would have to allow adequate room for moving around the loads in a safe and unobstructed manner. Further, sufficient space has to be given to our workers to ensure their safety and efficiency as they carry out manual works throughout the steel fabrication process.

Our Directors consider that our ability to process and fabricate structural steel at our own production facilities enables us to provide tailored solutions to our customers with better quality assurance, achieve stability in supply and cost efficiency and allows us to offer more competitive prices as compared to our competitors which have to source structural steel from third party suppliers.

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) suppliers of materials such as steel; (ii) subcontractors of construction site works; (iii) subcontractors of structural steel fabrication works; and (iv) suppliers of other miscellaneous services such as testing, machinery services, transportation and technical engineering services.

We place emphasis on providing consistently high quality services. We have adopted and implemented a quality control system that complies with international standards. Our quality management system has been certified to satisfy the requirement of ISO 9001:2015.

According to the Industry Report, the demand for structural steelwork in Hong Kong will continue to grow at a CAGR of approximately 4.8% from 2023 to 2027, reaching a gross value of approximately HK$12,580.1 million in 2027. Driven by various growth drivers including (i) the demand for structural steelwork generated from the planned and ongoing infrastructural and property developments in both public and private sectors in Hong Kong such as the Three Runway System development, Kwu Tung North, Hung Shui Kiu/Ha Tsuen and Yuen Long South New Development Areas, New Central Harbourfront development and the Caroline Hill Road Causeway Bay commercial project; (ii) the increasingly common adoption of structural steelwork for construction in Hong Kong owing to its eco-friendliness nature, flexibility of use and better performance in achieving space efficiency; and (iii) the growing emphasis and continuous support from the Hong Kong government for the development of the structural steelwork industry, including the increase in use of steel structures by the Hong Kong government in major infrastructure projects and the establishment of the Chinese National Engineering Research Centre for Steel Construction at the Hong Kong Polytechnic University ("**PolyU**"), which is likely to improve applied research and technology in structural steel engineering and infrastructure sustainability, as well as strengthen the structural steel engineering industry's productivity, capability and competitiveness. The gross value of structural steelwork in Hong Kong is expected to maintain a steady growth. With our experienced management team and past track record, our executive Directors believe that we are well-positioned to capture the growing demand for structural steelwork in Hong Kong. For details on the market drivers relating to our Group, please refer to the section headed "Industry overview" in this prospectus.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

We provide tailored solutions in relation to structural steelwork to our customers

We provide tailored solutions to our customers comprising the supply, fabrication and installation of structural steel for construction projects in Hong Kong. According to the Industry Report, the structural steelwork industry in Hong Kong is highly competitive and fragmented. Structural steelwork contractors which offer comprehensive engineering contracting services are generally able to differentiate themselves from other market participants and are typically preferred by customers such as property developers and government agencies. In particular, structural steelwork contractors which possess in-house capacity to process and fabricate structural steel and operate its own processing or manufacturing facilities are generally able to control production costs more effectively, respond to market demand more quickly, ensure a consistent supply of products for customers and enjoy greater flexibility in adjusting the supply and installation schedules to meet supplemental orders and tight timeline from unforeseen demand, thereby enhancing their appeal to potential customers. As advised by F&S, within the pool of over 500 structural steelwork contractors in Hong Kong, only around 2% of them, such as KPa-BM Holdings Limited, being one of the top structural steelwork contractors in Hong Kong, have possessed in-house capacity to fabricate structural steel.

Our Group, being one of the structural steelwork contractors in Hong Kong which possesses in-house capacity to fabricate structural steel, operates two production facilities located in Dongguan, the PRC, for structural steel fabrication. Our Dapianmei Production Facility and Xinlong Production Facility could fabricate up to 6,600 tonnes and 3,300 tonnes of structural steel per year, respectively. Our Directors consider that our established in-house capacity to process and fabricate structural steel tailored to the specifications of our customers gives us greater flexibility in undertaking projects of different scale and enables us to cater to the project schedule required by our customers. Our in-house steel fabrication capacity also enables us to maintain better quality control and assurance over the structural steel used in our projects, achieve stability in supply and allows us to achieve cost efficiency which in turn allows us to offer more competitive prices to our customers as compared to our competitors which have to source structural steel from third party suppliers.

We have an established track record in the structural steelwork industry in Hong Kong

The history of our Group can be traced back to 1999, when Mr. WH Chan and Mr. Kelvin Chan established Wing Kei Hong Kong. According to the Industry Report, our Group ranked third in the Hong Kong structural steelwork industry in terms of revenue in 2022, and accounted for approximately 3.4% of the market share in 2022. In our operating history of over 24 years, we have focused on providing structural steelwork services in the role of subcontractor and built up our expertise and track record in structural steelwork.

Wing Kei Hong Kong is currently a registered subcontractor under the category of structural steelwork on the Register of Subcontractors maintained by the Construction Industry Council. Wing Kei Hong Kong is also registered on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau under the category of structural steelwork. According to the Industry Report, as part of the tender conditions and to ensure quality assurance, main contractors would generally select structural steelwork contractors registered on the List of Approved Specialist Contractors for Public Works to carry out the structural steelwork in a construction project. As at the Latest Practicable Date, there were in total 50 structural steelwork contractors registered on the List of Approved Specialist Contractors for Public Works. In light of the limited number of structural steelwork subcontractors with such registration, our executive Directors consider that our registration on the List of Approved Specialist Contractors for Public Works distinguished our market position in the Hong Kong structural steelwork industry.

We take pride in our project portfolio of structural steelwork which involves a wide range of buildings and facilities, including public infrastructure and facilities, residential, commercial and industrial developments in Hong Kong. In particular, we have participated in a number of sizeable landmark public infrastructure developments in Hong Kong including Kai Tak Sports Park, Hong Kong-Zhuhai-Macao Bridge, Hong Kong International Airport, Hong Kong Post Central Mail Centre and Liantang/Heung Yuen Wai Boundary Control Point in our operating history.

Further, our commitment to service quality has been well-recognised in the Hong Kong structural steelwork industry. We have received a number of commendations from our customers and/or project owners as recognition of our satisfactory performance in their projects, such as the well-performed contractor award, the best subcontractor awards and certain certificates recognising our commitment to achieving a safe workplace and/or quality works.

We believe that our proven track record of quality works, our expertise in structural steelwork and our ability to deliver works on time are the crucial factors that enable us to gain trust from our customers and give us a competitive edge when tendering for projects.

Our management team is experienced and dedicated

Our management team has extensive industry knowledge and project experience in the structural steelwork industry in Hong Kong. Mr. Kelvin Chan, an executive Director, the chief executive officer of our Group and one of our founders, has more than 24 years of experience in the structural steelwork industry. Mr. Kelvin Chan is primarily responsible for the overall management and formulation of business strategies of our Group. Mr. Eddie Chan, an executive Director and the chief operating officer of our Group, has more than 20 years of experience in the structural steelwork industry. Mr. Eddie Chan is primarily responsible for the overall project management and day-to-day management of the operations of our Group. Ms. Karen Chan, an executive Director, has over seven years of experience in the structural steelwork industry. Ms. Karen Chan is primarily responsible for the overall day-to-day management of the operations and administration of our Group. Our executive Directors are supported by our project management team consisting of 10 personnel as at 30 September 2023, who possess practical skills and experience as required in handling our projects. For example, Mr. Leung Lok Him, our project manager and a member of our senior management, has over seven years of experience in the structural steelwork industry. For further details regarding the background and experience of our management team, please refer to the section headed "Directors and senior management" in this prospectus.

Under the leadership of Mr. Kelvin Chan, Mr. Eddie Chan and Ms. Karen Chan, we have a strong and dedicated execution team in liaising with our existing and potential customers for their needs and market trends. In particular, we maintain frequent interactions with our customers for their feedbacks on the quality of our services. Our executive Directors believe that our management's technical expertise and professional knowledge of the industry have been our Group's valuable assets and will continue to strengthen our competitiveness in the industry.

We impose stringent quality control systems

We place emphasis on providing consistently high quality services. We have adopted and implemented a quality control system that complies with international standards. Our quality management system has been certified to satisfy the requirements of ISO 9001:2015.

Our Group maintains an approved list of suppliers which is updated on a regular basis. Depending on the contract terms with our customers, we may be required to procure materials with certain specifications or quality standards. Our Group would generally arrange for testing of the materials by external laboratory selected by the Hong Kong government or by us. We typically conduct inspection on the materials upon their delivery to our production facilities in the PRC. Our customers would also direct representatives to conduct inspection and endorse on the materials for identification and tracking purpose.

Our quality control department closely monitors our structural steel fabrication process to ensure strict compliance with our standard operating procedures. Our Group submits quality control report to our customers throughout the structural steel fabrication process on a regular basis. Our Group also engages third party testing service providers for weld testing to ensure the strength and quality of our semi-finished products. The third party testing service provider will issue testing reports to our Group, which will be submitted to our customers for approval.

We perform in-house inspections on each batch of finished goods to ensure our products comply with the specifications and requirements of our customers. We are generally required to provide outgoing quality inspection reports to our customers for approval before the products are delivered to the construction sites in Hong Kong. Our foremen and our customers' representatives at the construction sites would also conduct inspection on the finished products upon their arrival.

Our executive Directors believe that stringent quality control system allows us to be better positioned to deliver quality works on time and within budget, thereby strengthening our position as a structural steelwork contractor in Hong Kong.

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the Hong Kong structural steelwork industry. We intend to achieve our business objective by expanding our scale of operation through our intended effort in actively seeking opportunities in undertaking additional structural steelwork projects, from both our existing and potential new customers, on top of our present scale of operation and our current projects on hand.

Taking into consideration (i) our competitive strengths set out in the paragraph headed "Competitive strengths" above in this section; (ii) our proven track record and expertise in undertaking structural steelwork; (iii) our capability in providing tailored solutions to our customers comprising the supply, fabrication and installation of structural steel for construction projects in Hong Kong; and (iv) the forecasted growth of the structural steelwork industry in Hong Kong as provided in the Industry Report, our Directors believe that our Group would be able to capture the potential business opportunities associated with the forecasted increase in demand for structural steelwork as discussed in the paragraphs below if we continue to increase our available resources.

In this connection, our key business strategies are as follows:

Competing for structural steelwork projects and expanding our market share

According to the Industry Report, it is expected that the gross value of structural steelwork in Hong Kong will increase from approximately HK$10,409.2 million in 2023 to approximately HK$12,580.1 million in 2027, representing a CAGR of approximately 4.8% from 2023 to 2027. Driven by various growth drivers including (i) the demand for structural steelwork generated from the planned and ongoing infrastructural and property developments in both public and private sectors in Hong Kong such as the Three Runway System development, Kwu Tung North, Hung Shui Kiu/Ha Tsuen and Yuen Long South New Development Areas, New Central Harbourfront development and the Caroline Hill Road Causeway Bay commercial project; (ii) the increasingly common adoption of structural steelwork for construction in Hong Kong owing to its eco-friendliness nature, flexibility of use and better performance in achieving space efficiency; and (iii) the growing emphasis and continuous support from the Hong Kong government for the development of the structural steelwork industry, including the increase in use of steel structures by the Hong Kong government in major infrastructure projects and the establishment of the Chinese National Engineering Research Centre for Steel Construction at the Hong Kong Polytechnic University ("**PolyU**"), which is likely to improve applied research and technology in structural steel engineering and infrastructure sustainability, as well as strengthen the structural steel engineering industry's productivity, capability and competitiveness. The gross value of structural steelwork in Hong Kong is expected to maintain a steady growth. Our Group has received tender invitations for projects in relation to the abovementioned infrastructural and property developments in Hong Kong, including the Three Runway System development, Kwu Tung North, Hung Shui Kiu/Ha Tsuen and Yuen Long South New Development Areas, New Central Harbourfront development and the Caroline Hill Road Causeway Bay commercial project. In particular, we have secured a project, namely Project No. #13, in relation to the Caroline Hill Road Causeway Bay commercial project with an estimated contract sum of approximately HK$388.0 million, details of which are disclosed under the paragraph headed "Future plans and use of proceeds - Use of proceeds" in this prospectus. With our experienced management team and past track record, our executive Directors believe that we are well-positioned to capture the growing demand for structural steelwork in Hong Kong. For details on the market drivers relating to our Group, please refer to the section headed "Industry overview" in this prospectus.

In light of the steady growth in demand for structural steelwork in Hong Kong, our Directors believe that we should focus on deploying our resources towards competing for additional and more sizeable structural steelwork projects. The number of projects that can be executed by our Group concurrently at any given time is constrained by our then available resources. Hence our Directors believe that our Group will only be able to undertake additional projects on top of our present scale of operation and our current projects on hand if we are able to continue to increase our available resources, including the capacity and available space of our production facilities, our manpower and financial resources. As at the Latest Practicable Date, our Group had a total of 22 projects on hand with an aggregate of approximately HK$574.5 million yet to be recognised as revenue.

According to the Industry Report, our Group accounted for approximately 3.4% of the market share in the Hong Kong structural steelwork industry in terms of revenue in 2022. Taking into consideration the forecasted growth in the Hong Kong structural steelwork industry as provided in the Industry Report, our executive Directors consider that there is plenty of room for us to expand our business operations and strengthen our market standing in the Hong Kong structural steelwork industry by actively seeking opportunities in undertaking additional and sizeable structural steelwork projects from both our existing and potential new customers. During the Track Record Period, Our Group has experienced growth in tender opportunities for sizeable projects. This is illustrated by (i) the increasing average tender value in respect of the tenders submitted by our Group from approximately HK$13.5 million for FY2020 to approximately HK$16.1 million for FY2021 and further increased to approximately HK$28.5 million for FY2022; and (ii) the fact that the number of tenders submitted by our Group with tender amount above HK$50.0 million increased from two for FY2020 to three for FY2021 and further increased to 13 for FY2022.

According to the Industry Report, as part of the tender conditions and to ensure quality assurance, main contractors would generally select structural steelwork contractors registered on the List of Approved Specialist Contractors for Public Works to carry out the structural steelwork in a construction project. As at the Latest Practicable Date, there were in total 50 structural steelwork contractors registered on the List of Approved Specialist Contractors for Public Works. In light of the limited number of structural steelwork contractors with such registration, our Directors consider that our registration on the List of Approved Specialist Contractors for Public Works distinguished our market position in the Hong Kong structural steelwork industry and give us competitive advantages in capturing the increase in demand for structural steelwork in Hong Kong.

Further, our Directors consider that the Listing will enhance our corporate profile and credibility which will enable our Group to be considered more favourably by our existing and potential new customers, given that a listed company is subject to ongoing regulatory compliance for announcements, financial disclosure and corporate governance. Based on the above, our Directors consider that upon our successful Listing, our Group will have greater exposure to potential opportunities, and our competitiveness for structural steelwork projects will increase accordingly.

Expanding our production capacity of structural steel

We take pride in being a structural steelwork contractor which can provide tailored solutions comprising the supply, fabrication and installation of structural steel. As advised by F&S, within the pool of over 500 structural steelwork contractors in Hong Kong, only around 2% of them have possessed in-house capacity to fabricate structural steel. Our in-house capacity to fabricate structural steel gives us competitive edge in the structural steelwork industry in Hong Kong as it gives our customers better quality assurance and allows us to achieve stability in supply and cost efficiency, thereby allowing us to offer more competitive prices as compared to our competitors which have to source structural steel from third party suppliers. In addition, we demonstrate a high level of transparency in the production process of our structural steel. As a general practice, our customers would assign their own representatives to carry out multiple rounds of inspection throughout the fabrication process to ensure the materials and products conform to their standards and specifications. As a substantial portion of structural steel used in our projects are fabricated at our own production facilities, we are able to give timely and full access to our customers as they request for on-site inspection, which in turn could enhance their confidence in our production process and product quality.

We are committed to expanding our production capacity and efficiency. We currently operate two production facilities located in Dongguan, the PRC, for structural steel fabrication, namely (i) the Dapianmei Production Facility with a gross floor area of approximately 7,000 sq.m.; and (ii) the Xinlong Production Facility with a gross floor area of approximately 8,700 sq.m.. The Dapianmei Production Facility and the Xinlong Production Facility are both located in Dongguan, the PRC.

Our Group has been exposed to growing tender opportunities for more sizeable scale of projects which can be demonstrated by the increase in number of tender invitations received by us for projects with higher tender value. As at the Latest Practicable Date, our Group had a total of 51 submitted tenders with an aggregate estimated tender value of approximately HK$1.7 billion, that were still pending tender results. Out of the 51 submitted tenders, our executive Directors consider that we would likely be able to secure at least two projects (the "**Identified Projects**"), with an estimated contract sum of approximately HK$367.7 million in aggregate. In addition to those two Identified Projects, our remaining tenders submitted which were pending tender results included, among others, three projects with an estimated contract sum of approximately HK$264.5 million, HK$180.4 million and HK$91.5 million, respectively. Further, in September 2023, our Group secured Project No. #13 with an estimated contract sum of approximately HK$388.0 million, involving a commercial development in Causeway Bay, from Hip Hing Group, details of which are set out in the paragraph headed "Projects on hand" below in this section. Project No. #13 represents the largest project obtained by us in terms of estimated contract sum during the Track Record Period. Our Directors consider that the increasing scale of projects obtained by our Group is a recognition of our service quality and reliability as demonstrated in our previous projects. Given our Group is generally required to fabricate the structural steel required in a project, our Directors anticipate that the increase in scale of projects tendered and obtained by us will inevitably result in greater demand for our production capacity.

In this regard, we plan to acquire a piece of land within or in proximity to Dongguan, the PRC (the "**Proposed Acquisition**") and construct an additional production facility (the "**New Production Facility**") with a gross floor area of approximately 16,000 sq.m.. It is estimated that the New Production Facility will have a maximum annual production capacity of approximately 6,600 tonnes.

As at the Latest Practicable Date, our Group had engaged a property agent in the PRC for identifying suitable land for the New Production Facility based on the following criteria: (i) being located within or in proximity to Dongguan, the PRC; (ii) the estimated consideration for the land shall range from RMB20.0 million to RMB25.0 million; (iii) the land is for industrial use and our Group shall be allowed to construct production facilities, offices and ancillary facilities on the land; (iv) having obtained valid land use certificate; (v) being free from any subsisting or potential defects to the title of land or any third party claims; (vi) there being no major difficulties in obtaining approval or consent from relevant government authorities for the transfer of land; and (vii) being equipped with the necessary infrastructural facilities such as electricity, drainage and sewage treatment. The property agent has informed us that based on the search and enquiry performed, at least five targets which fulfil the above criteria are available in the market for the time being. In order to ensure that suitable land which fulfil our criteria will be readily available for sale, the property agent had agreed to continue updating the list of identified land parcels on a regular basis. In the event any of the identified land parcels is no longer available for sale, the property agent shall identify alternative land parcels that fulfil our criteria.

Depending on (i) the progress and time required for conducting formal due diligence on suitable targets; (ii) the final consideration for the land based on negotiation with potential sellers; and (iii) the prevailing condition of the property market in Dongguan, the PRC, our executive Directors currently expect that the Proposed Acquisition will be carried out within three to six months from the Listing. Based on our management's best estimation and past experience, it would take approximately six to nine months to complete the construction of the New Production Facility and commence operation and an additional three months for the New Production Facility to come into full operation. As advised by our PRC Legal Advisers, the following licenses would be required for the New Production Facility and the underlying land to operate without any material legal risks: the land use right certificate（土地使用權書), construction planning permit（建設工程規劃許可證）and property ownership certificate（房屋所有權證).

If the construction of the New Production Facility is successfully completed on or before October 2024, by which the lease of the Xinlong Production Facility would expire, we will relocate those productions carried out at the Xinlong Production Facility to the New Production Facility so as to reduce our rental costs and achieve better operational efficiency. Meanwhile, if the New Production Facility is not yet available for use when the current lease of the Xinlong Production Facility expires, our Group will either (i) negotiate with the landlord of the Xinlong Production Facility for an extension of the lease term; or (ii) identify and relocate to other leased premises on temporary basis until the New Production Facility is completed.

(I) Fabrication of structural steel is space intensive in nature

Structural steel fabrication is a space-intensive activity which involves significant areas for the storage, maneuver and processing of bulky metal items. The size, shape, density and specifications of steel required vary from project to project. As a general practice, each batch of steel used in a project is bundled together and then physically endorsed with the signature of our customers' representatives for identification purpose. To avoid intermingling of the steel bundle earmarked for different projects, we generally place and store the steel bundle for each project under designated and separate area in our production facilities.

Due to the weight and size of the materials involved (e.g. steels plates etc.), it is inherently difficult to lift and transport the materials to different sections of the production premises with general lifting equipment. In view of this, gantry cranes were installed in each of our two production facilities for lifting and transporting bulky items within the production premises throughout the fabrication process. As we operate gantry cranes for lifting and transporting bulky items, we would have to allow adequate room for moving around the loads in a safe and unobstructed manner.

Further, sufficient space has to be given to our workers to ensure their safety and efficiency as they carry out manual works throughout the steel fabrication process. Notwithstanding the limitation of available storage space in our production facilities, we usually refrain from piling up steel bundles or articles of different specifications on each other as this may easily result in confusion over the segregation of materials for different projects, and excessive piling of materials may also pose risks to work safety and hinder the operations of our gantry cranes as the materials may collide with the hanging objects as the lifting trolley moves along the rail tracks.

Our ability to undertake additional and sizeable structural steelwork projects, to a large extent, depends on our production capacity of structural steel. Owing to the space-intensive nature of structural steel fabrication, our production capacity is partly limited by the available space at our production facilities. In order to enhance our capacity for undertaking structural steelwork projects and strengthen our market position in the Hong Kong structural steelwork industry, our Directors consider that it is imperative for our Group to expand the available space for our fabrication works.

(II) Expanding our production and storage capacity

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, the utilisation rate of the Dapianmei Production Facility was approximately 96.8%, 80.1%, 85.8% and 86.2%, respectively; whereas the utilisation rate of the Xinlong Production Facility was approximately 85.3%, 76.2%, 77.6% and 78.3%, respectively. For further details, please refer to the paragraph headed "Production facilities and capacity – Utilisation rate" below in this section. Our Directors consider that the relatively high utilisation rates of our production facilities have limited our capacity to compete for new projects. During the Track Record Period, there were occasions when our production capacity of structural steel was close to being fully utilised by our projects on hand and our Group had to refrain from responding to certain tender invitations and/or pursuing new projects during the tender selection process. Our Directors consider that it is not desirable for our Group to repeatedly abstain from tender submissions because this may be perceived negatively by our customers and they could be less inclined to invite us to tender for new projects again in the future.

Besides, under our occupational health and safety procedures and measures, we strive to provide adequate work space for our production staff. For instance, when our workers operate cutting machine and welding machine at our production facilities, we generally require them to maintain a distance of no less than three meters from each other. Since the floor area of our production facilities is substantially occupied by our materials and products, our Directors consider that any material increase in production demands may inevitably result in crowded workplace for our production staff and hence reduce their work efficiency.

Leveraging our in-house capacity to process and fabricate structural steel, our Group has endeavoured to cater to the project schedule including any subsequent changes to project schedule required by our customers. During the Track Record Period, there were occasions where our customers revised the project schedule during project implementation, resulting in delay to the commencement of our construction site works. Given our Group is generally required by our customers to process and fabricate the structural steel required in a project, we typically commence the fabrication process of structural steel well before the commencement of our construction site works. Hence, any unforeseen delay to project schedule and/or our commencement of construction site works may result in the finished products being stored and accumulated at our production facilities in the PRC, thereby undermining our available production capacity and hindering our prospect of undertaking new projects.

In order to (i) secure our market position in the Hong Kong structural steelwork industry and to capture the increase in demand for structural steelwork in Hong Kong as stated in the Industry Report; and (ii) ensure a reasonably spacious workplace for our production staff, our Directors consider that we have a genuine and imminent need to increase our production capacity and expanding our production facilities.

Currently, the total maximum production capacity of the Dapianmei Production Facility and the Xinlong Production Facility amounted to approximately 9,900 tonnes per annum in aggregate. Subject to the establishment of the New Production Facility and upon expiry of the lease term of the Xinlong Production Facility by October 2024, we currently plan to relocate our operations from the Xinlong Production Facility to the New Production Facility. It is expected that the New Production Facility will have a maximum annual production capacity of approximately 6,600 tonnes per annum, which will result in a net increase in our Group's maximum production capacity by approximately 3,300 tonnes per annum. The setup of the New Production Facility is also expected to expand our storage capacity for materials and fabricated structural steel as we currently plan to allocate a substantial portion of our New Production Facility for storage purpose. We will recruit additional production staff and quality control staff using our own internal resources to support the expected increase in production capacity.

(III) Commercial rationale for acquiring instead of leasing production facility

Our Directors considered that the Proposed Acquisition brings more commercial benefits to our Group than leasing taking into consideration the followings:

- with reference to the current market rental of properties located in Dongguan, the PRC for production facility use, it is estimated that the cost of leasing a property with gross floor area of approximately 16,000 sq.m. would be approximately RMB4.8 million to RMB5.4 million for each financial year. By comparison, with reference to the current market sale price of properties with similar nature, the estimated land acquisition and construction cost would be approximately RMB45.0 million (equivalent to approximately HK$48.9 million). Based on the accounting policies adopted by our Group, it is estimated that the additional annual depreciation expenses would be approximately RMB1.5 million (equivalent to approximately HK$1.6 million). As the annual rental cost for a property within our target size and location is expected to be significantly higher than the depreciation expenses to be incurred in relation to the setup of the New Production Facility and the Proposed Acquisition, our Directors consider that it is more cost effective for our Group to acquire instead of leasing the new production property; and

- leasing of properties often subject us to the risks of relocation due to non-renewal or premature termination of lease by the landlord. In setting-up a new production facility, we have to incur renovation and setup costs. In the event our lease is being terminated early and we have to relocate to another leased location, we will have to incur similar expenses all over again.

(IV) Breakeven and investment payback periods

Breakeven period refers to the amount of time it takes for the annual revenue generated from the New Production Facility to cover (i.e. at least equal to) its annual costs and expenses incurred; whereas cash investment payback period refers to the amount of time it takes for the cumulative net cash flows to cover the initial capital expenditure of the New Production Facility.

In determining the breakeven period and cash investment payback period of the New Production Facility, our Directors have taken into account the following assumptions:

(i) the capital expenditure for the establishment of the New Production Facility is estimated to be approximately RMB45.0 million (equivalent to approximately HK$48.9 million) in aggregate, of which approximately RMB25.0 million (equivalent to approximately HK$27.2 million) is for the acquisition of land and approximately RMB20.0 million (equivalent to approximately HK$21.7 million) is for the construction and setup of the New Production Facility;

(ii) the New Production Facility would come into full operation in 2026 as the New Production Facility is expected to be constructed in 2024 and 2025, and a series of installation, testing and adjustment on the machinery is expected to be performed in 2025;

(iii) there is no material change in the pricing basis for the sales and purchase transactions between Wing Kei Hong Kong and Wing Kei Dongguan;

(iv) there is no material change in the gross profit margin of our Group; and

(v) our Group's net cash flows, taking into account the average turnover days of trade receivables and unbilled revenue, and trade payables during the Track Record Period.

Based on the assumptions above and subject to any unforeseen circumstances, our Directors estimated that the breakeven period of the New Production Facility would be in 2026 when the New Production Facility comes into full operation; whereas the cash investment payback period of the New Production Facility would be in 2032 when its cumulative net cash flows is able to cover its initial capital expenditure.

Adhering to prudent financial management to ensure optimal finance costs and capital sufficiency

According to the Industry Report, structural steelwork contractors with proven track record, technical know-how and sufficient capital and financial resources are generally considered favourably by main contractors during the tender selection process. Therefore, structural steelwork contractors with stronger financial standing and cash flow liquidity generally possess competitive advantages to tender for a wider range and larger scale of projects. In view of the aforesaid, our executive Directors believe that our expansion of service capacity and business growth have to be supported by sound financial position and sufficient financial resources. A strong capital base is essential to cope with increased turnover and support capital intensive structural steelwork projects.

According to the Industry Report, structural steelwork contractors generally experience net cash outflows as project up-front costs at the early stage of a project. The up-front costs of our projects generally include costs incurred at the early stage of a project comprising payment made to suppliers for materials, subcontracting fees for our construction site works subcontractors in Hong Kong and structural steel fabrication works subcontractors in the PRC, manufacturing overheads in the PRC and machinery service fees. We generally continue to experience net cash outflows even after the first payment received from our customers due to the time lag between the receipt of progress payment from our customers and payments to third parties. Based on our experience, the amount of cash inflows received from our customers over the duration of a project generally exhibits an increasing trend at the early stages up to the peak amount of works, while the costs incurred by us typically experienced a less-than-proportionate increase over the period. Accordingly, our cash flows typically turn from net cash outflows into net cash inflows gradually as the project progresses.

Based on our operation history during the Track Record Period and depending on the scale of the projects, the average timeframe between (i) the time when we first incur project up-front costs; and (ii) the time when our accumulated net cash outflows in respect of a project starts to decrease from its peak is on average 11 months from the commencement of the project (the "**Up-front Period**"). In respect of our top projects for each year/period during the Track Record Period, we generally received the first progress payment from the relevant customer five months after commencement of the project. Depending on our terms of engagement with different customers, in respect of the top projects undertaken during the Track Record Period, the total amount of up-front costs incurred by our Group during the Up-front Period represented on average 12% of the contract sum of the project. The specific amount of up-front costs incurred may vary from project to project, depending on the scale of the project, the party being responsible for the procurement of materials, the schedule of project implementation and the length of our relationships with the relevant customers. In addition, we may experience cash flow mismatch from time to time as our projects progress, which largely depend on (i) the certification process of our customers; (ii) our customers' internal process for approving our invoices; (iii) the required settlement time to our suppliers; and (iv) the number and scale of our projects in progress. The liquidity needs of our projects would therefore impose a constraint on the number and/or scale of the projects which we could undertake concurrently if we solely rely on our operating cash flow to support our expansion.

We believe that the net proceeds from the Share Offer will strengthen our available financial resources, thereby allowing us to undertake more projects by applying a portion of the net proceeds for satisfying our up-front costs. We currently plan to apply part of our net proceeds from the Share Offer towards fulfilling the relevant up-front costs of Project No. #13 and two tendered projects which our executive Directors consider that we would likely be able to secure. For further details of these projects, please refer to the paragraph headed "Future plans and use of proceeds – Use of proceeds" in this prospectus.

In September 2023, our Group secured Project No. #13 with an estimated contract sum of approximately HK$388.0 million, involving a commercial development in Causeway Bay, from Hip Hing Group, details of which are set out in the paragraph headed "Projects on hand" below in this section. Project No. #13 represents the largest project obtained by us in terms of estimated contract sum during the Track Record Period. In September 2023, our Group had commenced preparation works for Project No. #13. Based on the expected work schedule of Project No. #13, our Directors anticipated that a substantial part of works under Project No. #13 will only be performed from the second quarter of 2024 onwards and we will incur a substantial amount of up-front costs for the payment for the requisite materials and subcontracting services for Project No. #13 from the second quarter of 2024.

Further, our Directors consider that we would likely be able to secure at least two tendered projects, namely Project No. T01 and T02, which are expected to commence in the second quarter of 2024. For further details on our tendered projects for which our executive Directors consider that we would likely be able to secure, please refer to the paragraph headed "Future plans and use of proceeds – Use of proceeds" in this prospectus. In addition to Project No. T01 and T02 of which our executive Directors consider that we would likely be able to secure, as at the Latest Practicable Date, our Group had 49 submitted tenders (without taking into account Project No. T01 and T02), with an aggregate estimated tender amount of approximately HK$1.3 billion, which were still undergoing tender selection process and pending tender result.

Expanding our workforce

We mainly focused on the role of project management and supervision in carrying out our projects. Our project management team, comprising project manager, engineer, quantity surveyor and site foreman, is generally responsible for (i) formulating detailed work programmes; (ii) liaising with our production team on the structural steel products required; (iii) providing feedbacks to our customers on the design of structural steelwork in accordance with their needs and specifications; (iv) coordinating with our customers on the work schedule; (v) engaging, supervising and collaborating with our subcontractors for construction site works; (vi) supervision of work progress, budget and quality of services rendered; (vii) preparation of progress reports; (viii) participation in project meetings and communication with our customers on a continual basis; and (ix) ensuring the works performed fulfil our customers' requirements, and are completed on schedule, within budget and in compliance with all applicable statutory requirements.

As at the Latest Practicable Date, all of our project management staff had been deployed to our projects on hand. Our Directors consider that our current scale of project management staff may not be sufficient to meet the project management needs arising from the additional and more sizeable projects that we intend to undertake in the future. Should we undertake additional projects in the future, our existing project management staff may not be able to devote sufficient time and attention to properly supervise and manage the works undertaken by us and our subcontractors. By expanding our manpower resources, our executive Directors believe that we would have additional capacity to undertake more projects simultaneously while maintaining our project management efficiency and service quality.

Based on the aforesaid, our Directors consider that it is imperative for our Group to expand our project management team in order to enhance our project management capabilities along with the planned expansion in our business scale and operation. We currently plan to hire three additional project managers and one additional engineer after the Listing to cope with the expected growth in our business. For further details of our recruitment plan, please refer to the paragraph headed "Future plans and use of proceeds – Use of proceeds" in this prospectus.

DESCRIPTION OF OUR SERVICES

We provide structural steelwork services as a subcontractor in Hong Kong. We provide tailored solutions to our customers comprising the supply, fabrication and installation of structural steel for construction projects in Hong Kong.

We operate two production facilities located in Dongguan, the PRC, which process and fabricate structural steel required by our steelwork projects. We would assist our customers in preparing the design of structural steel conforming to their needs and specifications and fabricate the structural steel according to the design drawing approved by our customers.

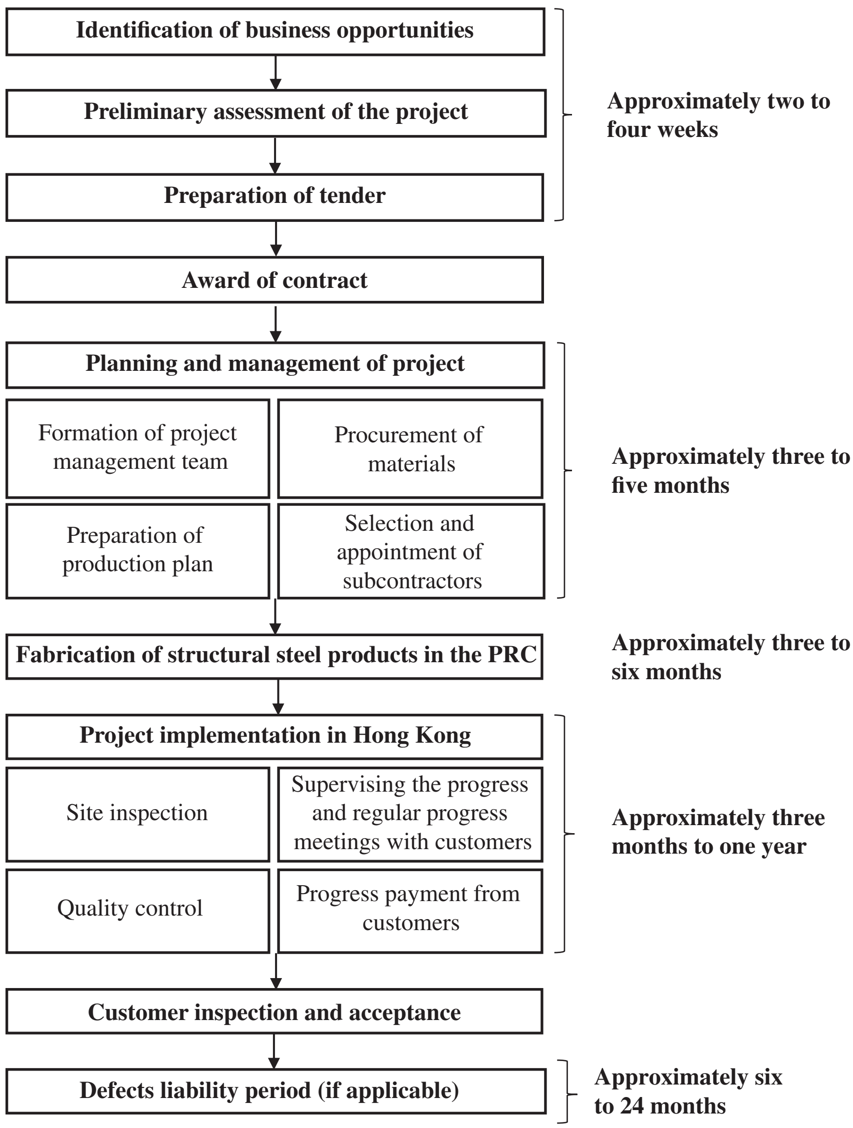
The construction site works covered under our projects typically involve installation, touch-up painting and fire protection works for our structural steel. We mainly focus on the role of project management and supervision in carrying out our projects. We have engaged subcontractors to perform a substantial part of the construction site works under our supervision, and to a much lesser extent, we have maintained and deployed our own labour to carry out some of the construction site works, where necessary. Typically, our major responsibilities in a project include (i) arranging site preparatory and preliminary works; (ii) engaging and supervising our subcontractors; (iii) maintaining regular communication with our customers; (iv) monitoring the implementation of construction site works; (v) conducting site safety supervision and quality control; and (vi) developing detailed work schedule and work allocation plan.

The following image illustrates the process of our structural steel installation works:

BUSINESS OPERATIONS

Operation flow

Set out below is a flowchart summarising the principal steps of our business operations:



Note: The timeframe is calculated on an approximate basis and may vary from project to project depending on the complexity of the project, the requirements of our customers and/or our agreement with our customers on the timeframe for the principal steps.

Identification of business opportunities

We identify potential projects mainly through invitation for tender from customers. Our Group has from time to time received invitations to submit tender from construction contractors in Hong Kong. Sometimes our customers would seek pre-bid quotation from our Group before they submit their tenders for the main contract. If these customers are subsequently awarded with the project, they would generally engage us to perform the structural steelwork involved in such project. Please refer to the paragraph headed "Sales and marketing" below in this section for further details.

Preliminary assessment of the project

The tender documents and project details provided by our customers generally contain project description, scope of services required, expected commencement date, contract period, payment term and timeframe for submitting the tender.

In general, we would review and evaluate the tender documents and/or project details available to us to assess the scope of services, our capability, the expected complexity, our production capacity of structural steel, the available space at our production facilities for the fabrication process and storage of materials, our available financial and human resources and feasibility and profitability of the project to determine whether we should proceed with the preparation of tender.

Preparation of tender

Our quantity surveyors and executive Directors are primarily responsible for the preparation of tender submission. We may conduct site visit to the place at which the project is to be undertaken so as to have a better assessment of the complexity of the works involved.

Our tender submission generally includes priced bill of quantities or schedule of rates. The tender submission will be approved and endorsed by our executive Directors before submission to our customers.

We estimate the costs to be incurred in the project based on our past experience, the recent price trends of materials, manufacturing overheads in the PRC and subcontracting services required for the project. We may also obtain non-binding quotations from our material suppliers and/or subcontractors in making our cost estimation. For further information on our pricing strategy, please refer to the paragraph headed "Pricing strategy" below in this section.

Our customers may arrange interviews with us after receiving our tender submission in order to have a better understanding of our personnel, expertise and experience. We may be required to answer queries in relation to our tender submission. Our customers may also negotiate on the options of our scope of service or propose amendment to our specifications.

Award of contract

Our customers generally confirm our engagement by issuing a letter of award or entering into a formal contract with us. During the Track Record Period, our contracts with customers are generally on re-measurement basis. Our service contract generally specifies an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount of works to be carried out by us under our contract is subject to our customer's instructions or orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual work done.

In addition, our service contracts generally set forth the payment terms, project duration and other standard terms of services. For further details, please refer to the paragraph headed "Our customers – Principal terms of engagement" below in this section.

The following table sets forth the number of projects for which we have submitted tenders, the number of projects awarded, the average tender value in respect of tenders submitted and the success rate during the Track Record Period:

	FY2020	**FY2021**	**FY2022**	**Nine months ended 30 September 2023**
Number of projects for which we have submitted tenders	66	90	79	52
Number of projects awarded	11	8	8	6
Average tender value in respect of tenders submitted *(HK$'000)*	13,545	16,053	28,509	41,281
Success rate (%) *(Note 1)*	16.7	8.9	10.1	11.5 *(Note 2)*

Notes:

1. Success rate for a financial year/period is calculated based on the number of projects awarded (whether awarded in the same financial year/period or subsequently) in respect of the tenders submitted during that financial year/period.

2. Out of the 52 projects tendered during the nine months ended 30 September 2023, the tender results of 44 projects were still pending as at the Latest Practicable Date.

We recorded a relatively higher tender success rate of approximately 16.7% for FY2020 as compared to approximately 8.9% and 10.1% for FY2021 and FY2022, respectively, mainly because we were awarded with a higher number of smaller scale projects in FY2020 as compared to FY2021 and FY2022. Out of the 11 projects awarded in respect of tenders submitted in FY2020, seven projects had an estimated contract sum below HK$10.0 million; whereas out of the eight and eight projects awarded in respect of tenders submitted in FY2021 and FY2022, only four and four projects had an estimated contract sum below HK$10.0 million, respectively.

During the Track Record Period, our Group had from time to time received invitations for tenders when our available resources were occupied by other projects on hand. Nonetheless, on occasion, in order to (i) maintain our business relationship with customers; (ii) maintain our presence in the market; and (iii) be informed of the latest market developments and pricing trends which are useful for tendering projects in the future, it was our strategy to respond to our customers' invitations by submitting tenders to the extent our resources allow. In such circumstances, our executive Directors would take a more prudent approach in costs estimation by factoring a higher profit margin even though it may cause our tender price to become less competitive than those submitted by our competitors. Due to such strategy and subject to the tender strategy of our competitors from time to time, our tender success rate may be affected.

Alternatively, on occasions when our production capacity of structural steel is close to being fully occupied, our Group may also refrain from responding to certain tender invitations and/or pursuing new projects during the tender selection process.

As advised by F&S, the tender success rate of the structural steelwork industry in Hong Kong generally ranges from 5% to 20% which varies depending on various factors, including market competition, economic conditions, track record, pricing, technical and functional capabilities and negotiation with customers on contract terms. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we recorded a tender success rate of approximately 16.7%, 8.9%, 10.1% and 11.5%, respectively, which were generally in line with the industry range. Our Directors consider that our tender success rate for FY2021 and FY2022 lied within the lower range of the industry mainly because our Group had been awarded with larger scale projects with higher estimated contract sum during FY2021 and FY2022 as compared to FY2020 as aforementioned. Taking into consideration the needs to reserve our capacity for fulfilling the workload involved in these larger scale projects, our Group had on occasions adopted a more prudent approach in costs estimation by factoring a higher profit margin, possibly resulting in our tender price becoming less competitive, or we might simply refrain from submitting revised tender quotations to the relevant customer during the tender selection process, both of which might have affected our tender success rate for FY2021 and FY2022.

Planning and management of project

Upon being awarded with a new project, we will commence planning for the implementation and management of the project, which include (i) formation of project management team; (ii) preparation of production plan; (iii) procurement of materials; and (iv) selection and appointment of subcontractors.

Formation of project management team

We usually form a project management team which consists of project manager, engineer, quantity surveyor and site foreman. Our project management team is generally responsible for (i) formulating detailed work programmes; (ii) liaising with our production team on the structural steel products required; (iii) providing feedbacks to our customers on the design of structural steelwork in accordance with their needs and specifications; (iv) coordinating with our customers on the work schedule; (v) engaging, supervising and collaborating with our subcontractors for construction site works; (vi) supervision of work progress, budget and quality of services rendered; (vii) preparation of progress reports; (viii) participation in project meetings and communication with our customers on a continual basis; and (ix) ensuring the works performed fulfil our customers' requirements, and are completed on schedule, within budget and in compliance with all applicable statutory requirements. In general, we determine the manpower allocation to a project management team based on the timeline, scale and complexity of the projects as well as the existing workload of our staff.

Set out below are the major responsibilities of each key member in a project management team:

- our project manager is responsible for supervising our overall workforce on multiple work sites, monitoring the work efficiency and performance of our subcontractors, communicating with our customers, subcontractors and other members of the project management team on the project status, allocation of resources in a project, preparing progress reports and reviewing site records;

- our engineer is responsible for assisting our site foreman in overseeing the engineering and technical aspects of the projects such as planning for the site operations and devising suitable methods and procedures;

- our quantity surveyor is responsible for performing cost estimation, determining, procuring and monitoring the quantity of materials required in the project, managing the project implementation costs and handling the payment applications to our customers; and

- our site foreman is responsible for supervising and monitoring work progress on site, supervising workmanship and quality and preparing site records setting out the works performed by our workers and subcontractors. In general, each site foreman is assigned and stationed at a particular project.

Depending on the complexity of the project, we may also engage external technical engineering consultant to assist with our technical submissions to customers on a case-by-case basis.

Preparation of production plan

The structural steel products used in each project are tailor-made according to the specifications and requirements of our customers. Our project management team will coordinate with our customers on the design of products and works, and obtain the approval for such design from our customers. Once the design of products is confirmed, our project management team will coordinate with our production team to prepare the production plan. The production plan generally includes the specifications of materials, production schedule and delivery time. On occasions, our customers may require us to perform galvanising works on the structural steel which requires specialised technical skills. To achieve optimisation in our production, we outsource all required galvanising works to our subcontractors in the PRC. Further, depending on our production capacity, we may also subcontract other parts of structural steel fabrication works to our subcontractors in the PRC.

Procurement of materials

We are generally responsible for the procurement of materials such as steel required in the projects. We typically purchase materials from our internal list of approved suppliers. After being awarded with a project, we will contact the suppliers from whom we have obtained pre-bid quotations during the tender phase, and may further negotiate on the pricing and contract terms with them. Depending on the scale of our purchase, our executive Directors will approve the purchase orders for the major supplies that will be used in the project. We did not engage in any hedging activities to minimise the risk of price fluctuation of materials.

Our Group would generally arrange for testing of the materials by external laboratory selected by the Hong Kong government or by us. We typically conduct inspection on the materials upon their delivery to our production facilities in the PRC. Our customers would also direct representatives to conduct inspection and endorse on the materials for identification and tracking purpose.

Selection and appointment of subcontractors of construction site works

We mainly focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform a substantial part of the construction site works under our supervision. Our Group maintains an approved list of subcontractors which is updated on a regular basis. We select our subcontractors based on their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation.

Fabrication of structural steel products in the PRC

After obtaining approval of the materials from our customers and/or the project owners, our Group would engage third party logistics service providers to deliver the materials from Hong Kong to our production facilities in the PRC for structural steel fabrication. We carry out in-house fabrication of structural steel with our own labour. Meanwhile, we engage our subcontractors in the PRC to perform galvanising works on the structural steel which requires specialised technical skills. Depending on our production capacity, we may also subcontract other parts of the structural steel fabrication works to our subcontractors in the PRC. For details, please refer to the paragraph headed “Production facilities and capacity – Fabrication process” below in this section. Our Group and our customers will conduct quality inspection throughout the fabrication process to monitor the quality of our products. We typically arrange for testing on the finished structural steel products by external laboratory selected by the Hong Kong government or by us and conduct internal inspection on the finished structural steel products prior to their delivery to the construction sites in Hong Kong. For details, please refer to the paragraph headed “Quality control” below in this section.

Project implementation in Hong Kong

Site inspection and quality control

Upon obtaining approval of the finished structural steel products from our customers, we would engage third party logistics service providers to deliver the finished products to the relevant construction sites in Hong Kong. Our foremen and our customers' representatives at the construction sites would conduct inspection on the finished products upon their arrival.

We mainly focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform a substantial part of the construction site works under our supervision.

Our project management team holds regular meetings with our subcontractors and conducts regular inspection to ensure that we strictly adhere to the project schedule and specifications. In addition, we perform in-house quality inspection and project supervision throughout project implementation in accordance with our in-house quality management system. Our customers also conduct site inspection to monitor the quality of our works. For further information regarding our quality management system, please refer to the paragraph headed "Quality control" below in this section.

Supervising the progress and regular progress meetings with customers

Depending on our customers' requests, we are generally required to submit progress reports to our customers throughout project implementation. Our progress reports are prepared by the project management team which will report on the project status and any issue identified during project implementation. On occasions, our customers may adjust or revise our works schedule in order to accommodate the implementation of other construction works within the project site.

Progress payment from customers

We generally receive progress payments from our customers based on our works done throughout project implementation. For further details on the payment terms, please refer to the paragraph headed "Our customers – Principal terms of engagement" in this section. Occasionally, depending on (i) the scale of the project; and (ii) the costs we had to incur for the procurement of materials, we may negotiate with our customers, on a case-by-case basis, to allow us to submit payment application right after we made the procurement of materials, subject to customers' own discretion. Such arrangement serves to alleviate our liquidity pressure at the preliminary stage of projects.

Customer inspection and acceptance

Upon completion of our works, our customers will conduct inspection and examination on our works done to ensure they comply with their quality standards, requirements and specifications.

Defects liability period

If so requested by our customers, our contracts may include a defects liability period following the terms of the main contracts on back-to-back basis. During the defects liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our negligence or failure to comply with our contractual obligation.

Retention monies

Depending on the contract terms, our customers may hold up a certain percentage of each payment made to us as retention monies. Our customers may withhold up to 10% of each of our progress payment as retention monies and subject to a cap of 5% of the total contract sum. Depending on the contract terms, half of the retention monies are generally released upon completion of our works to the satisfaction of our customers or project owners. The remaining half are generally released upon expiry of the defects liability period of the relevant contracts or a pre-agreed time period.

As at 31 December 2020, 2021, 2022 and 30 September 2023, our gross retention receivables amounted to approximately HK$50.5 million, HK$53.4 million, HK$55.9 million and HK$63.0 million, respectively. Please refer to the paragraph headed "Financial information – Discussion of selected statement of financial position items – Contract assets and contract liabilities" in this prospectus for further discussion and analysis regarding our retention receivables.

PROJECTS UNDERTAKEN DURING THE TRACK RECORD PERIOD

Revenue by project sectors and the types of developments involved

During the Track Record Period, we were mainly engaged in public sector projects in Hong Kong. To a lesser extent, we were also engaged in private sector projects in Hong Kong. Public sector projects refer to projects of which the project owners are Hong Kong government departments, authorities and statutory bodies, while private sector projects refer to projects that are not public sector projects.

Our public sector projects mainly involved infrastructure and public facilities as well as public residential developments. The customers of our public sector projects were generally main contractors engaged by different Hong Kong government departments, authorities and statutory bodies. Our private sector projects mainly involved private commercial, residential and industrial developments. The project owners of our private sector projects were generally property developers, and our customers were main contractors engaged under such projects. Based on enquiries with our major customers, save for certain mega-scale construction projects, our Group was generally engaged by our customers as a subcontractor exclusively for carrying out the structural steelwork involved in the projects that we participated in during the Track Record Period.

Set forth below are descriptions of the developments for which we performed structural steelwork during the Track Record Period:

Infrastructure and public facilities: mainly included infrastructure and public facilities developments such as bridges, postal centre, sports park, hospital, terminus station, and university buildings.

Residential: mainly included public housing development initiated by the Housing Authority and residential developments initiated by some of the leading private property developers in Hong Kong.

Commercial: mainly included commercial developments such as hotels and office buildings.

During the Track Record Period, the majority of our revenue was derived from structural steelwork for infrastructure and public facilities. The following table sets forth a breakdown of our revenue during the Track Record Period by reference to project sectors and the types of development involved:

	FY2020			FY2021			FY2022		
	No. of projects	**Revenue**	**% of total revenue**	**No. of projects**	**Revenue**	**% of total revenue**	**No. of projects**	**Revenue**	**% of total revenue**
		HK$'000	*%*		*HK$'000*	*%*		*HK$'000*	*%*
Public sector									
– Infrastructure and public facilities	17	117,650	36.2	10	142,717	62.4	18	273,912	81.4
– Residential	5	25,476	7.9	4	8,936	3.9	3	10,721	3.2
Sub-total	22	143,126	44.1	14	151,653	66.3	21	284,633	84.6
Private sector									
– Commercial	12	169,410	52.2	13	76,850	33.6	13	51,741	15.4
– Residential	2	560	0.2	3	237	0.1	1	10	negligible
– Industrial	2	11,196	3.5	1	36	negligible	–	–	–
Sub-total	16	181,166	55.9	17	77,123	33.7	14	51,751	15.4
Total	38	324,292	100.0	31	228,776	100.0	35	336,384	100.0

	For the nine months ended 30 September					
	2022			2023		
	No. of projects	**Revenue**	**% of total revenue**	**No. of projects**	**Revenue**	**% of total revenue**
		HK$'000	*%*		*HK$'000*	*%*
		(Unaudited)				
Public sector						
– Infrastructure and public facilities	16	202,523	80.5	19	191,720	81.5
– Residential	3	6,207	2.5	2	3,915	1.7
Sub-total	19	208,730	83.0	21	195,635	83.2
Private sector						
– Commercial	10	42,828	17.0	8	37,053	15.8
– Residential	1	3	negligible	1	2,350	1.0
– Industrial	–	–	–	–	–	–
Sub-total	11	42,831	17.0	9	39,403	16.8
Total	30	251,561	100.0	30	235,038	100.0

Reasons for the decrease in our revenue for FY2021

Our Group's revenue decreased by approximately 29.5% from approximately HK$324.3 million for FY2020 to approximately HK$228.8 million for FY2021, which was mainly attributable to:

(i) Project No. #01, being our top project for FY2020 involving a private sector commercial development located at the Hong Kong International Airport with an estimated contract sum of approximately HK$191.4 million. Project No. #01 contributed revenue of approximately HK$120.7 million to our Group for FY2020, representing approximately 37.2% of our total revenue for the corresponding year. Project No. #01 was completed at the end of FY2020, and no revenue was derived from Project No. #01 for FY2021; and

(ii) the unexpected change to our works schedule of Project No. #02, which involved a public infrastructure development located at Kai Tak with an estimated contract sum of approximately HK$380.2 million. Our Group secured Project No. #02 from Hip Hing Group in late 2019 and started generating revenue from Project No. #02 by October 2019. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group recognised revenue of approximately HK$71.3 million, HK$69.5 million, HK$193.2 million and HK$40.9 million, from Project No. #02, respectively. According to the original project schedule, our contract works were supposed to commence in or around late 2019 and complete by mid-2021. In anticipation of the tight project schedule and scale of works under Project No. #02, our Group had started procuring materials and commenced part of the structural steel fabrication works shortly after we secured this project.

By mid-2020, we were informed that our works schedule of Project No. #02 would be revised primarily due to changes in design and drawings of structural steelwork by the project owner and that the substantial part of our construction site works would be rescheduled to 2021.

Being mindful of the revised project schedule of Project No. #02 and in light of the constraint in our available resources, during the second half of 2020, our executive Directors considered that it was vital to temporarily refrain from tendering for sizeable projects which may substantially overlap with the revised project schedule of Project No. #02. Our Group also decided to reserve a substantial amount of our then available resources, including the capacity at our production facilities and manpower of our project management staff, for Project No. #02, taking into consideration (a) the substantial part of our construction site works under Project No. #02 would be rescheduled to 2021; (b) the sizeable scale and amount of works involved under such project; (c) the expected workloads for other ongoing projects; (d) the uncertainty arising from the COVID-19 outbreak and the associated risks of labour shortage and disruption to the transportation between Hong Kong and the PRC; and (e) the need to preserve our industry reputation and business relationship with Hip Hing Group via the satisfactory completion of Project No. #02, which is a landmark sports infrastructure development in Hong Kong.

Later in mid-2021, our Group was informed that the substantial part of our construction site works under Project No. #02 would be further rescheduled due to the late handover of the relevant work sites to us. While pending instruction from Hip Hing Group for proceeding with our construction site works, we had continued to perform fabrication works in 2021 to ensure we could meet the revised project schedule of Project No. #02. The fabricated items have occupied significant storage space at our production facilities, thereby reducing our production capacity for undertaking other projects in 2021.

Amid the repeated rescheduling of Project No. #02, during the second half of FY2021, we attempted to recoup the expected revenue which would otherwise be generated from Project No. #02 in the absence of such rescheduling. We did this by tendering for new projects that have relatively shorter duration and could readily commence in the near term. Despite our efforts, the revenue generated from the projects we obtained during the second half of 2021 was not sufficient to compensate for the decrease in our revenue due to the lower amount of works performed under Project No. #02. In addition, as mentioned above, during the second half of 2020, we had temporarily refrained from tendering for sizeable projects which may substantially overlap with the revised project schedule of Project No. #02, resulting in lower amount of works performed by us in FY2021. After mid-2021, our Group did not receive any further notice in relation to the rescheduling of Project No. #02 and a substantial part of our construction site works were carried out in 2022 in accordance with the last revised schedule. Pursuant to the contract terms of the service agreement for Project No. #02, in the event our contract works under Project No. #02 was not completed within the original schedule due to reason(s) other than our default, our Group shall be entitled to apply in writing to Hip Hing Group for an extension to project duration and claim for any additional costs reasonably incurred by us arising from the delay. Based on (i) our negotiation with Hip Hing Group; and (ii) the aggregate payment certification certified by Hip Hing Group exceeds the original contract sum of this project, the Directors are of the view that our Group was able to claim for substantial part of the increase in costs incurred by us arising from the rescheduling of Project No. #02 to Hip Hing Group.

Reasons for our relatively lower gross profit margin for FY2021

Our Group recorded a relatively lower gross profit margin of approximately 15.5% for FY2021 as compared to approximately 17.0% and 19.9% for FY2020 and FY2022, respectively, which was mainly due to the unforeseen rescheduling of our construction site works for Project No. #02 in mid-2021 as aforementioned. Due to the unanticipated rescheduling of Project No. #02, a substantial amount of the then available resources of our Group originally reserved for Project No. #02 such as direct labour and structural steel production capacity were rendered idle or not fully utilised during FY2021, resulting in certain direct labour costs, manufacturing overheads and project administrative costs incurred, which amounted to approximately HK$1.9 million during FY2021 (the "**Idle Cost**"). In accordance with the relevant accounting standard, as the Idle Cost did not contribute to our Group's progress in satisfying our performance obligations amid the rescheduling of Project No. #02, our Group did not recognise the corresponding revenue for the Idle Cost by the time they were incurred, and such Idle Cost was not allocated to Project No. #02 or any particular project undertaken by our Group, but were recognised as unallocated costs in our Group's cost of services for FY2021. As a result, the gross profit margin of Project No. #02 was not adversely affected by the Idle Cost. Nonetheless, since the Idle Cost had been recognised as unallocated cost of services of our Group for FY2021 and did not contribute the corresponding revenue to our Group for FY2021, our Group's overall gross profit margin for FY2021 was lower as compared to that of FY2020 and FY2022.

Our strategy on public and private sector projects

During the Track Record Period, we identified business opportunities mainly through invitation for tender from customers. As we undertake structural steelwork in the role of subcontractor, all of our revenue generated was derived from projects awarded by construction contractors during the Track Record Period. Therefore, to a significant extent, our tender exposure depends on the types of projects obtained by our construction contractor customers. Our Group has all along remained open to, and possesses substantial track record in undertaking both public sector and private sector projects. Based on our past experience, as far as structural steelwork is concerned, our executive Directors consider that there is no material difference in the expertise and know-how required for public sector and private sector projects. Our Group generally determines whether we should proceed with the preparation of tender based on, amongst others, the scope of services, our capability, the expected complexity, our production capacity of structural steel, the available space at our production facilities for the fabrication process and storage of materials, our available financial and human resources and feasibility and profitability of the project. As long as our capacity and available resources allow, our Group will endeavor to respond to tender invitations received from customers, with little regard to the sector that the relevant projects belong to. Therefore, the proportion of our revenue derived from private and public sector projects may vary from period to period, largely affected by the projects obtained and undertaken by our construction contractor customers at the relevant times, rather than caused by any change in our business focus or strategy.

Private sector projects contributed approximately 55.9%, 33.7%, 15.4% and 16.8% of our total revenue for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively. Our Group recorded a relatively higher percentage of revenue contribution from private sector projects for FY2020 mainly because we performed a substantial amount of works for Project No. #01 in the same year. Project No. #01 involved a private sector commercial development located at the Hong Kong International Airport with an estimated contract sum of approximately HK$191.4 million. Project No. #01 contributed revenue of approximately HK$120.7 million to our Group for FY2020, representing approximately 37.2% of our total revenue for the corresponding year. Project No. #01 was completed at the end of FY2020 and no revenue was generated therefrom since FY2021.

Number of projects by range of revenue recognised

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, there were 38, 31, 35 and 30 projects which contributed a total of approximately HK$324.3 million, HK$228.8 million, HK$336.4 million and HK$235.0 million to our revenue, respectively. Set out below is a breakdown of our projects based on their respective range of revenue recognised during the Track Record Period:

	FY2020	**FY2021**	**FY2022**	**For the nine months ended 30 September 2023**
	No. of projects	*No. of projects*	*No. of projects*	*No. of projects*
Revenue recognised				
HK$50.0 million or above	2	1	1	–
HK$10.0 million to below HK$50.0 million	5	4	6	7
HK$1.0 million to below HK$10.0 million	12	13	11	13
Below HK$1.0 million	19	13	17	10
Total	38	31	35	30

Top projects undertaken during the Track Record Period

The following table sets out the details of our top five projects for each of FY2020, FY2021, FY2022 and the nine months ended 30 September 2023 in terms of revenue contribution to our Group:

FY2020

Rank	Project No.	Customer (Note 1)	Contract sum (Note 2)	Project sector	Type of developments	Location of the project	Type of infrastructure/ building involved	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period) FY2020		FY2021		FY2022		For the nine months ended 30 September 2023		Estimated revenue recognised/ to be recognised after the Track Record Period (Note 4)
			HK$'000						*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*
1	#01	Customer B	191,412	Private	Commercial	Hong Kong International Airport	Shopping centre	Commencement: June 2019 Completion: December 2020	120,694	37.2	–	–	–	–	–	–	–
2	#02	Hip Hing Group	380,174	Public	Infrastructure and public facilities	Kai Tak	Sports stadium	Commencement: October 2019 Completion: December 2023	71,343	22.0	69,506	30.4	193,249	57.4	40,854	17.4	3,235
3	#03	Hip Hing Group	26,484	Public	Residential	Fanling	Footbridge	Commencement: August 2019 Completion: May 2021	19,576	6.0	3,291	1.4	–	–	–	–	–
4	#04	Customer C	65,532	Public	Infrastructure and public facilities	Kowloon Bay	Government building	Commencement: November 2019 Completion: September 2022	17,326	5.3	44,533	19.5	3,646	1.1	–	–	–

Rank	Project No.	Customer (Note 1)	Contract sum (Note 2)	Project sector	Type of developments	Location of the project	Type of infrastructure/ building involved	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period) FY2020		FY2021		FY2022		For the nine months ended 30 September 2023		Estimated revenue recognised/ to be recognised after the Track Record Period (Note 4)
			HK$'000						HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000
5	#05	Customer Group D	18,448	Private	Commercial	Wong Chuk Hang	Office building	Commencement: September 2019 Completion: September 2021	13,702	4.2	192	0.1	–	–	–	–	–

Notes:

1. Please refer to the paragraph headed "Our customers – Top customers" in this section.

2. The contract sum shown in the above table represents the adjusted contract sum taken into account the actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.

3. The expected completion date for our works in respect of a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.

4. The estimated revenue to be recognised after the Track Record Period is calculated based on the adjusted contract sum less revenue recognised.

FY2021

Rank	Project No.	Customer (Note 1)	Contract sum (Note 2)	Project sector	Type of developments	Location of the project	Type of infrastructure/ building involved	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period) FY2020		FY2021		FY2022		For the nine months ended 30 September 2023		Estimated revenue recognised/ to be recognised after the Track Record Period (Note 4)
			HK$'000						*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
1	#02	Hip Hing Group	380,174	Public	Infrastructure and public facilities	Kai Tak	Sports stadium	Commencement: October 2019 Completion: December 2023	71,343	22.0	69,506	30.4	193,249	57.4	40,854	17.4	3,235
2	#04	Customer C	65,532	Public	Infrastructure and public facilities	Kowloon Bay	Government building	Commencement: November 2019 Completion: September 2022	17,326	5.3	44,533	19.5	3,646	1.1	–	–	–
3	#06	Hip Hing Group	32,158	Private	Commercial	Kai Tak	Office building and shopping centre	Commencement: September 2020 Completion: May 2022	640	0.2	29,296	12.8	2,222	0.7	–	–	–
4	#07	Hip Hing Group	58,841	Private	Commercial	Quarry Bay	Footbridge	Commencement: July 2020 Completion: December 2023	10,119	3.1	20,382	8.9	18,804	5.6	5,604	2.4	3,932
5	#08	Hip Hing Group	20,532	Private	Commercial	Kai Tak	Footbridge	Commencement: March 2020 Completion: December 2022	9,045	2.8	10,251	4.5	1,236	0.4	–	–	–

Notes:

1. Please refer to the paragraph headed "Our customers – Top customers" in this section.

2. The contract sum shown in the above table represents the adjusted contract sum taken into account the actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.

3. The expected completion date for our works in respect of a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.

4. The estimated revenue to be recognised after the Track Record Period is calculated based on the adjusted contract sum less revenue recognised.

FY2022

									Revenue (percentage of total revenue recognised for the year/period)								
Rank	Project No.	Customer *(Note 1)*	Contract sum *(Note 2)*	Project sector	Type of developments	Location of the project	Type of infrastructure/ building involved	Date of commencement and completion of our works *(Note 3)*	FY2020		FY2021		FY2022		For the nine months ended 30 September 2023		Estimated revenue recognised/ to be recognised after the Track Record Period *(Note 4)*
			HK$'000						*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
1	#02	Hip Hing Group	380,174	Public	Infrastructure and public facilities	Kai Tak	Sports stadium	Commencement: October 2019 Completion: December 2023	71,343	22.0	69,506	30.4	193,249	57.4	40,854	17.4	3,235
2	#09	Customer Group I	95,822	Public	Infrastructure and public facilities	Siu Ho Wan	Bridge	Commencement: July 2022 Completion: May 2024	–	–	–	–	30,934	9.2	32,092	13.7	32,796

Rank	Project No.	Customer (Note 1)	Contract sum (Note 2)	Project sector	Type of developments	Location of the project	Type of infrastructure/ building involved	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period) FY2020		FY2021		FY2022		For the nine months ended 30 September 2023		Estimated revenue recognised/ to be recognised after the Track Record Period (Note 4)
			HK$'000						*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*
3	#10	Customer F	30,072	Private	Commercial	Kai Tak	Plaza and passageway	Commencement: October 2021 Completion: December 2022	–	–	8,152	3.6	21,920	6.5	–	–	–
4	#07	Hip Hing Group	58,841	Private	Commercial	Quarry Bay	Footbridge	Commencement: July 2020 Completion: December 2023	10,119	3.1	20,382	8.9	18,804	5.6	5,604	2.4	3,932
5	#11	Zenith (PMS) Limited	69,100	Public	Infrastructure and public facilities	Kai Tak	Sports stadium	Commencement: July 2021 Completion: March 2024	–	–	428	0.2	11,228	3.3	34,323	14.6	23,121

Notes:

1. Please refer to the paragraph headed "Our customers – Top customers" in this section.

2. The contract sum shown in the above table represents the adjusted contract sum taken into account the actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.

3. The expected completion date for our works in respect of a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.

4. The estimated revenue to be recognised after the Track Record Period is calculated based on the adjusted contract sum less revenue recognised.

Nine months ended 30 September 2023

Rank	Project No.	Customer (Note 1)	Contract sum (Note 2)	Project sector	Type of developments	Location of the project	Type of infrastructure/ building involved	Date of commencement and completion of our works (Note 3)	Revenue (percentage of total revenue recognised for the year/period)								Estimated revenue recognised/ to be recognised after the Track Record Period (Note 4)
									FY2020		FY2021		FY2022		For the nine months ended 30 September 2023		
			HK$'000						*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
1	#02	Hip Hing Group	380,174	Public	Infrastructure and public facilities	Kai Tak	Sports stadium	Commencement: October 2019 Completion: December 2023	71,343	22.0	69,506	30.4	193,249	57.4	40,854	17.4	3,235
2	#12	Hip Hing Group	84,060	Public	Infrastructure and public facilities	Tamar	Government building	Commencement: April 2023 Completion: September 2024	–	–	–	–	–	–	37,516	16.0	46,544
3	#11	Zenith (PMS) Limited	69,100	Public	Infrastructure and public facilities	Kai Tak	Sports stadium	Commencement: July 2021 Completion: March 2024	–	–	428	0.2	11,228	3.3	34,323	14.6	23,121
4	#09	Customer Group I	95,822	Public	Infrastructure and public facilities	Siu Ho Wan	Bridge	Commencement: July 2022 Completion: May 2024	–	–	–	–	30,934	9.2	32,092	13.7	32,796
5	#13	Hip Hing Group	388,000	Private	Commercial	Causeway Bay	Office building	Commencement: September 2023 Completion: December 2025	–	–	–	–	–	–	20,766	8.8	367,234

Notes:

1. Please refer to the paragraph headed "Our customers – Top customers" in this section.

2. The contract sum shown in the above table represents the adjusted contract sum taken into account the actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.

3. The expected completion date for our works in respect of a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.

4. The estimated revenue to be recognised after the Track Record Period is calculated based on the adjusted contract sum less revenue recognised.

Backlog

The following table sets out movement in the number of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2020	FY2021	FY2022	For the nine months ended 30 September 2023	From 1 October 2023 up to the Latest Practicable Date
Opening number of projects *(Note 1)*	43	33	39	28	21
Add: Number of new projects awarded to us *(Note 2)*	8	7	10	10	2
Less: Number of projects completed *(Note 3)*	(18)	(1)	(21)	(17)	(1)
Ending number of projects *(Note 4)*	33	39	28	21	22

Notes:

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period indicated.

2. Number of new projects means the number of new projects awarded to us during the relevant year/period indicated.

3. Number of projects completed means the number of projects which are practically regarded as completed.

4. Ending number of projects is equal to the opening number of projects plus number of new projects minus number of projects completed during the relevant year/period indicated.

The following table sets out the movement in the value of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

	FY2020	FY2021	FY2022	For the nine months ended 30 September 2023	From 1 October 2023 up to the Latest Practicable Date
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Opening value of backlog as at the beginning of the relevant year/period	749,039	505,333	425,866	253,464	668,926
Add: Total value of original estimated contract sum of projects awarded and actual work orders received on re-measurement basis *(Note 1)*	66,081	118,450	108,049	621,552	41,259
Total value of variation orders	14,505	30,859	55,933	28,948	19,814
Less: Total revenue recognised during the relevant year/period	(324,292)	(228,776)	(336,384)	(235,038)	(155,514)
Ending value of backlog to be carried forward to next year/period *(Note 2)*	505,333	425,866	253,464	668,926	574,485

Notes:

1. Total value of original estimated contract sum of projects awarded means the original estimated contract sum of new projects awarded, or where applicable, the amount of actual work orders received by our Group on re-measurement basis.

2. Ending value of backlog means the portion of the total estimated revenue that has not been recognised with respect to our projects which had not been completed as at the end of the relevant year/period indicated.

As at 31 December 2020 and 2021, our Group recorded a relatively higher backlog value of approximately HK$505.3 million and HK$425.9 million, respectively, as compared to the backlog value of approximately HK$253.5 million as at 31 December 2022. Our Directors consider that such fluctuation was mainly attributable to:

(i) the rescheduling in our works schedule under Project No. #02. According to the original project schedule of Project No. #02, our contract works were supposed to complete by mid-2021, with the majority of our construction site works being scheduled to be performed between the period from late 2020 to early 2021.

By mid-2020, we were informed that our works schedule under Project No. #02 would be revised primarily due to changes in design and drawings of structural steelwork by the project owner and that the substantial part of our construction site works would be rescheduled to 2021. Subsequently, in mid-2021, our Group was informed that our construction site works would be further rescheduled due to the late handover of the relevant work sites to us.

Owing to the revision to the project schedule of Project No. #02, the majority of construction site works under Project No. #02 had not yet been performed during FY2020 and FY2021, resulting in a high amount of backlog value under Project No. #02 being carried forward to subsequent years, and thereby contributing to the relatively higher backlog value of our Group as at 31 December 2020 and 2021. For further details in relation to the revision to the project schedule of Project No. #02, please refer to the paragraph headed "Projects undertaken during the Track Record Period" in this section above; and

(ii) the backlog value of our projects subsequently decreased to approximately HK$253.5 million as at 31 December 2022, which was mainly because our Group performed a substantial amount of construction site works under Project No. #02 in FY2022 which generated revenue of approximately HK$193.2 million in the corresponding financial year, representing approximately 53.6% of the total contract sum of Project No. #02.

As at the Latest Practicable Date, our Group had a total of 22 projects on hand with an aggregate of approximately HK$574.5 million yet to be recognised as revenue.

PROJECTS ON HAND

As at the Latest Practicable Date, our Group had 22 projects on hand (representing projects that have commenced but not completed as well as projects that have been awarded to us but not yet commenced). The following table sets out the details of our projects on hand as at the Latest Practicable Date with estimated revenue of over HK$5 million to be recognised after the Track Record Period:

								Revenue recognised during the Track Record Period				Estimated revenue recognised/ to be recognised during		
Project No.	Location of the project	Customer	Project sector	Type of development	Type of infrastructure/ building involved	Contract sum (Note 1)	Date of commencement and completion of our works (Note 2)	FY2020	FY2021	FY2022	Nine months ended 30 September 2023	Three months ended 31 December 2023	FY2024	FY2025
						HK$'000		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
#13	Causeway Bay	Hip Hing Group	Private	Commercial	Office building	388,000	Commencement: September 2023 Completion: December 2025	–	–	–	20,766	46,097	126,250	194,887
O01	Kai Tak	Customer Group E	Public	Infrastructure and public facilities	Hospital	62,754	Commencement: August 2023 Completion: June 2025	–	–	–	12,854	9,830	35,000	5,070
#12	Tamar	Hip Hing Group	Public	Infrastructure and public facilities	Government building	84,060	Commencement: April 2023 Completion: September 2024	–	–	–	37,516	22,426	24,118	–
O02	Central	Customer Group E	Private	Commercial	Footbridge	54,998	Commencement: September 2023 Completion: June 2025	–	–	–	8,764	5,591	29,630	11,013
O03	Tung Chung	A construction contractor	Public	Residential	Public housing estate	43,809	Commencement: November 2023 Completion: June 2025	–	–	–	–	10,234	24,250	9,325
#09	Siu Ho Wan	Customer Group I	Public	Infrastructure and public facilities	Bridge	95,822	Commencement: July 2022 Completion: May 2024	–	–	30,934	32,092	10,742	22,054	–
O04	Yau Ma Tei	Customer Group I	Public	Infrastructure and public facilities	Landscaped deck	29,702	Commencement: April 2022 Completion: December 2024	–	–	2,954	2,552	2,633	21,563	–
O05	Diamond Hill	Sun Fook Kong Construction Limited	Public	Infrastructure and public facilities	Bridge	38,246	Commencement: December 2022 Completion: November 2024	–	–	109	16,570	3,632	17,935	–
O06	Tamar	Hip Hing Group	Public	Infrastructure and public facilities	Government building	7,080	Commencement: September 2023 Completion: August 2024	–	–	–	16	1,615	5,449	–
O07	Kai Tak	Hip Hing Group	Public	Infrastructure and public facilities	Sports stadium	11,001	Commencement: November 2022 Completion: August 2024	–	–	820	3,262	-	6,919	–
O08	Tung Chung	A joint venture	Public	Infrastructure and public facilities	Train station	21,735	Commencement: May 2024 Completion: December 2025	–	–	–	–	–	10,868	10,867
O09	Stanley	A construction contractor	Public	Infrastructure and public facilities	Government building	19,524	Commencement: May 2024 Completion: December 2025	–	–	–	–	–	9,762	9,762
Other projects (Note 3)								81,463	90,932	236,965	94,212	22,628	19,848	–
							Total	81,463	90,932	271,782	228,604	135,428	353,646	240,924

Notes:

1. The contract sum shown in the above table represents the adjusted contract sum, taken into account actual work orders on re-measurement basis and variation orders received by our Group as at the Latest Practicable Date.

2. The expected completion date for our works in respect of a particular project is provided based on our management's best estimation. In making the estimation, our management takes into account factors including the expected completion date specified in the relevant contract (if any), the extension period granted by our customers (if any) and the actual work schedule.

3. Other projects represent our remaining 10 on-going projects as at the Latest Practicable Date.

OUR CUSTOMERS

Characteristics of our customers

During the Track Record Period, our customers mainly included construction contractors in Hong Kong, being the main contractors engaged by project owners. The number of customers with revenue contribution to our Group was 17, 17, 17 and nine for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively. During the Track Record Period, all of our customers were located in Hong Kong and our revenue was denominated in Hong Kong dollars.

Principal terms of engagement

We undertake structural steelwork on a project-by-project basis. Our executive Directors consider such arrangement is in line with the structural steelwork industry practice in Hong Kong. Our customers generally confirm our engagement by issuing a letter of award or entering into a formal contract with us. The principal terms of our engagement with customers are summarised as follows:

Scope of works

The contracts normally set out the scope of services to be carried out by our Group and other project specifications or requirements. Our customers generally require us to complete our works within a specified period and in accordance with their specified work schedule.

Duration

The contracts usually specify the commencement date and duration of the project implementation, typically ranging from six months to two years, subject to extension granted by the customers where necessary.

Contract sum

During the Track Record Period, our contracts with customers are generally on re-measurement basis. The contracts usually specify an estimated contract sum based on the agreed unit rates and the estimated quantities of work items. The actual amount of works to be carried out by us under our contract is subject to our customer's instructions or orders placed during the contract period and the total actual value of work done may be different from the original estimated contract sum stated in the contract. Our customers will measure the actual quantities of works executed on site and our Group will be paid based on the actual work done.

Payment terms and arrangement

Our Group generally submits a progress payment application to our customer on a monthly basis with reference to the amount of works completed. Upon receiving our payment application for progress payments, our customer will examine and certify our works done by issuing a payment certificate to us. Except for project at its preliminary stage or project finalising the final account, it generally takes 30 to 60 days for our customers to certify our works done. Upon receiving the payment certificate, we will then issue an invoice to our customer. The credit term granted by us to our customers generally ranges from 30 to 60 days from the issue of invoices and our customers generally approve and settle our invoices within credit period. Occasionally, depending on (i) the scale of the project; and (ii) the costs we had to incur for the procurement of materials, we may negotiate with our customers, on a case-by-case basis, to allow us to submit payment application right after we made the procurement of materials. Such arrangement serves to alleviate our liquidity pressure at the preliminary stage of projects.

Depending on the terms of engagement, our customers may directly settle the wages of the site workers deployed by our subcontractors and subsequently deduct such amounts in the relevant progress payments to us. According to the Industry Report, it is common for main contractors to directly settle the wages of the site workers deployed by subcontractors at subordinate levels. The amount paid by the main contractors under such arrangement will be subsequently deducted from the progress payment payable to the subcontractor directly engaged by them. The purpose of such arrangement is to offer better protection and ensure timely settlement of wages to the employees of the subcontractors at all levels.

Insurance

Our customers, being the main contractors of the projects, would normally take out contractors' all risk insurance and work injury compensation insurance covering their own liabilities as well as our liabilities.

Procurement of materials

We are generally responsible for the procurement of materials such as steel required in the projects. We typically purchase materials from our internal list of approved suppliers. On occasions, our customers may require us to procure materials with certain specifications or quality standards.

Defects liability period

If so requested by our customers, our contracts may include a defects liability period following the terms of the main contracts on back-to-back basis. During the defects liability period, we are typically required to rectify any defect without delay at our own cost if the defect is due to our non-conformance of works performed, or due to our negligence or failure to comply with our contractual obligation.

Retention monies

Depending on the contract terms, our customers may hold up a certain percentage of each payment made to us as retention monies. Our customers may withhold up to 10% of each of our progress payment as retention monies and subject to a cap of 5% of the total contract sum. Depending on the contract terms, half of the retention monies are generally released upon completion of our works to the satisfaction of our customers or project owners. The remaining half are generally released upon expiry of the defects liability period of the relevant contracts or a pre-agreed time period.

As at 31 December 2020, 2021, 2022 and 30 September 2023, our gross retention receivables amounted to approximately HK$50.5 million, HK$53.4 million, HK$55.9 million and HK$63.0 million, respectively. Please refer to the paragraph headed "Financial information – Discussion of selected statement of financial position items – Contract assets and contract liabilities" in this prospectus for a further discussion and analysis regarding our retention receivables.

Variation orders

A variation order is usually placed by way of a purchase order by our customers describing the detailed works to be performed under such variation order. A variation order may vary the original scope of work. Our customers may request additional or alteration of works beyond the scope of the contract during project implementation. Where the works under the variation order are the same or similar to the works prescribed in the contract, the rate of the works under the variation order usually accords with that of the contract. If there are no equivalent or similar items under the contract for reference, we will further agree on the rates with our customers. During the Track Record Period, our customers generally requested additional or alteration of works by issuing additional work orders stating the scope of works to our Group. Therefore, the scope of works for variation orders performed by our Group are properly agreed and accepted by the relevant customers prior to performing such variation orders.

Performance guarantee

Depending on the contract terms, our customers may require us to provide performance guarantee in the amount of 10% of the original estimated contract sum. Such arrangement serves to secure our due and timely performance of work and compliance with the contract. If we fail to perform according to the requirements in the contract, our customer would be entitled to the guaranteed compensation for any monetary loss up to the amount of the performance guarantee. Our performance guarantee is generally discharged after the expiry of the defects liability period under the main contract. During the Track Record Period, we had not taken out any performance guarantee in favour of our customers.

Liquidated damages

Liquidated damages clause may be included in the contracts to protect our customers against late completion of work. We may be liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in or in accordance with the contract. Liquidated damages are generally calculated on the basis of a fixed sum per day. During the Track Record Period and up to the Latest Practicable Date, no liquidated damages had been claimed by our customers against us.

Termination

Our customers may terminate our contracts if, among other things, we fail to execute the agreed scope of works, or if we cause undue delay to the overall progress of the project. During the Track Record Period and up to the Latest Practicable Date, none of our contracts were terminated pursuant to the termination clause.

Top customers

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, the percentage of our total revenue attributable to our top customer for each year/period during the Track Record Period amounted to approximately 39.0%, 66.3%, 70.7% and 50.3% respectively, while the percentage of our total revenue attributable to our top five customers for each year/period during the Track Record Period combined amounted to approximately 91.5%, 94.6%, 93.8% and 97.8%, respectively. The following tables set forth the information of our top five customers for each year/period during the Track Record Period:

FY2020

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK$'000	*%*
1	Hip Hing Group *(Note 1)*	Since 2010	49 days; by bank transfer	126,556	39.0
2	Customer B *(Note 2)*	Since 2018	30 days; by cheque	120,694	37.2
3	Customer C *(Note 3)*	Since 2013	30 days; by cheque	22,611	7.0
4	Customer Group D *(Note 4)*	Since 2019	45 days; by cheque	16,942	5.2
5	Customer Group E *(Note 5)*	Since 2014	30 days; by cheque	9,766	3.1
		Top five customers combined		296,569	91.5
		All other customers		27,723	8.5
		Total revenue		324,292	100.0

FY2021

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK$'000	*%*
1	Hip Hing Group *(Note 1)*	Since 2010	49 days; by bank transfer	151,593	66.3
2	Customer C *(Note 3)*	Since 2013	30 days; by cheque	45,640	19.9
3	Customer F *(Note 6)*	Since 2021	30 days; by cheque	8,152	3.6
4	Customer G *(Note 7)*	Since 2021	30 days; by cheque	5,528	2.4
5	Customer H *(Note 8)*	Since 2013	60 days; by cheque	5,443	2.4
		Top five customers combined		216,356	94.6
		All other customers		12,420	5.4
		Total revenue		228,776	100.0

FY2022

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK$'000	*%*
1	Hip Hing Group *(Note 1)*	Since 2010	49 days; by bank transfer	237,715	70.7
2	Customer Group I *(Note 9)*	Since 2016	35 days; by cheque	33,888	10.1
3	Customer F *(Note 6)*	Since 2021	30 days; by cheque	21,920	6.5
4	Zenith (PMS) Limited *(Note 10)*	Since 2021	30 days; by cheque	11,228	3.3
5	Sun Fook Kong Construction Limited *(Note 11)*	Since 2018	45 days; by cheque	10,807	3.2
		Top five customers combined		315,558	93.8
		All other customers		20,826	6.2
		Total revenue		336,384	100.0

Nine months ended 30 September 2023

Rank	Customer	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
				HK$'000	*%*
1	Hip Hing Group *(Note 1)*	Since 2010	49 days; by bank transfer	118,347	50.3
2	Customer Group I *(Note 9)*	Since 2016	35 days; by cheque	35,948	15.3
3	Zenith (PMS) Limited *(Note 10)*	Since 2021	30 days; by cheque	34,323	14.6
4	Customer Group E *(Note 5)*	Since 2014	30 days; by cheque	21,618	9.2
5	Sun Fook Kong Construction Limited *(Note 11)*	Since 2018	45 days; by cheque	19,632	8.4
		Top five customers combined		229,868	97.8
		All other customers		5,170	2.2
		Total revenue		235,038	100.0

Notes:

1. Hip Hing Group consists of subsidiaries of NWS Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 659) which is principally engaged in road and construction businesses in Hong Kong and the PRC. Based on the latest annual report of NWS Holdings Limited, its revenue amounted to over HK$45.2 billion for the year ended 30 June 2023. NWS Holdings Limited is in turn owned as to 61% by New World Development Company Limited, a leading property developer listed on the Main Board of the Stock Exchange (stock code: 0017) which is principally engaged in property development and investment in Hong Kong with annual revenue amounting to over HK$95.2 billion for the year ended 30 June 2023, according to its latest annual report.

2. Customer B is a construction contractor company in Hong Kong. According to publicly available information, Customer B is a private limited liability company incorporated in Hong Kong in 1993.

3. Customer C is a construction contractor company in Hong Kong. According to publicly available information, Customer C is a private limited liability company incorporated in Hong Kong in 2003.

4. Customer Group D consists of subsidiaries of a company listed on the Main Board of the Stock Exchange (the **"Customer Group D Holdco"**) which is principally engaged in, amongst others, construction and engineering, property investment and property development and operations worldwide. Based on the latest annual report of Customer Group D Holdco, its revenue amounted to over HK$7.1 billion for the year ended 31 March 2023.

5. Customer Group E consists of subsidiaries of a company listed on the Main Board of the Stock Exchange (the **"Customer Group E Holdco"**) which is principally engaged in construction business in Hong Kong and Macau and infrastructure investment in the PRC. Based on the latest annual report of Customer Group E Holdco, its revenue amounted to over HK$102.0 billion for the year ended 31 December 2022.

6. Customer F is a construction contractor company in Hong Kong. According to publicly available information, Customer F is a private limited liability company incorporated in Hong Kong in 2018.

7. Customer G is a construction contractor company in Hong Kong. According to publicly available information, Customer G is a private limited liability company incorporated in Hong Kong in 2014.

8. Customer H is a construction contractor company in Hong Kong, being a subsidiary of a company listed on the Frankfurt Stock Exchange (the **"Customer H Holdco"**) which is an engineering-led global infrastructure group specialising in activities in development, financing, construction and operations. Based on the latest annual report of Customer H Holdco, its revenue amounted to over EUR26.2 billion for the year ended 31 December 2022.

9. Customer Group I consists of subsidiaries of a company listed on the Main Board of the Stock Exchange (the **"Customer Group I Holdco"**) which is principally engaged in construction works in Hong Kong. Based on the latest annual report of Customer Group I Holdco, its revenue amounted to over HK$12.4 billion for the year ended 31 December 2022.

10. Zenith (PMS) Limited is a façade engineering contractor company in Hong Kong. According to publicly available information, Zenith (PMS) Limited is a private limited liability company incorporated in Hong Kong in 2011.

11. Sun Fook Kong Construction Limited is a construction contractor company in Hong Kong, being a subsidiary of SFK Construction Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1447) which is principally engaged in construction and maintenance projects in Hong Kong and construction projects in Macau. Based on the latest annual report of SFK Construction Holdings Limited, its revenue amounted to over HK$3.7 billion for the year ended 31 December 2022.

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the top five customers of our Group for each year/period during the Track Record Period.

Customer concentration

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, the percentage of our total revenue attributable to our top customer for each year/period during the Track Record Period amounted to approximately 39.0%, 66.3%, 70.7% and 50.3%, respectively. The percentage of our total revenue attributable to our top five customers for each year/period during the Track Record Period combined amounted to approximately 91.5%, 94.6%, 93.8% and 97.8%, respectively, for the corresponding year/period. In particular, a significant portion of our revenue during the Track Record Period was derived from Hip Hing Group. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, Hip Hing Group contributed revenue of approximately HK$126.6 million, HK$151.6 million, HK$237.7 million and HK$118.3 million to our Group, respectively, which accounted for approximately 39.0%, 66.3%, 70.7% and 50.3% of our total revenue for the relevant years/period, respectively. Our Directors consider that our Group's business model is sustainable despite such customer concentration due to the following factors:

Industry landscape

- according to the Industry Report, the construction works in the public sector in Hong Kong is dominated by a limited number of main contractors. Our major customers, including Hip Hing Group, Customer Group D, Customer Group E, Customer Group I and Sun Fook Kong Construction Limited, had accounted for approximately 25.4% of the public sector construction contracts awarded by the Hong Kong government, in terms of contract sum, during the years from 2020 to 2022. Given the landscape of the public sector construction works industry in Hong Kong, it is common for a structural steelwork contractor, especially which is specialised in undertaking public sector projects, to rely on such main contractors and such customer concentration is not uncommon in the structural steelwork industry.

- according to the Industry Report, customer concentration is an industry norm in the structural steelwork industry in Hong Kong. Customers generally prefer to engage structural steelwork contractors which can provide tailored solutions comprising the supply, fabrication and installation of structural steel with industry reputation, technical expertise, proven track record and sound financial capability. As part of the tender conditions and to ensure quality assurance, main contractors would generally select structural steelwork contractors registered on the List of Approved Specialist Contractors for Public Works to carry out the structural steelwork in a construction project. As at the Latest Practicable Date, there were in total 50 structural steelwork contractors registered on the List of Approved Specialist Contractors for Public Works and our customers would generally select their structural steelwork subcontractor among the list. The demands for structural steelwork in Hong Kong are largely driven by construction works arising from infrastructure and property developments initiated by the Government and private property developers. The availability of these developments are generally limited by the Government's policies and planning as well as the prevailing economic conditions. Amid the stable growth in the market size of structural steelwork and increasing adoption of structural steel for construction in Hong Kong, a substantial amount of contract values of structural steelwork remain to be concentrated with, and contributed by those sizeable infrastructure and property developments being implemented at the relevant times. According to the Industry Report, a sizeable structural steelwork project would normally have a contract sum of HK$100 million or above. To ensure such large-scale structural steelwork projects could be completed on time and within budget, main contractors would generally prefer to engage the established market players in the structural steelwork industry who possess the requisite expertise, experience and resources to handle such projects reliably. According to the Industry Report, the top five structural steelwork contractors in Hong Kong had an estimated revenue ranging from approximately HK$200 million to HK$475.5 million for the year of 2022. As such, where a structural steelwork contractor obtains any sizeable projects with contract sum of HK$100 million or above, such projects would likely contribute a significant portion of its revenue in the forthcoming years. Given the fragmented nature of the structural steelwork industry in Hong Kong as well as the business scale of the existing top market players, those structural steelwork contractors who are able to participate in one or more of the sizeable developments would inevitably end up being heavily reliant on the relevant main contractors and hence this may result in customer concentration for such structural steelwork contractor in the relevant periods.

Established relationship with major customers

- as at the Latest Practicable Date, our Group has established business relationship with our major customers including those referred to in the paragraph headed "Our customers – Top customers" above in this section ranging from two years to 13 years. Therefore, we will endeavour to accommodate their demand for our services to the extent our resources allow instead of turning down their requests, resulting in them being our top customers.

- we undertake projects of considerably different scales. If we undertake a project with large contract sum, it may contribute a substantial amount to our revenue in a particular period, resulting in the relevant customer becoming one of our top customers in terms of revenue contribution to us.

- a number of our major customers, including Hip Hing Group, Customer Group D, Customer Group E, Customer H, Customer Group I and Sun Fook Kong Construction Limited, are subsidiaries of companies listed on the Stock Exchange. Our Directors consider that group members of listed companies generally have better performance in terms of credit ratings and financial resources, as compared to private-owned entities.

Mutual and complementary reliance with major customers

- our Group has established business relationship with Hip Hing Group since 2010. Hip Hing Group consists of subsidiaries of NWS Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 659) which is principally engaged in road and construction businesses in Hong Kong and the PRC. Based on the latest annual report of NWS Holdings Limited, its revenue amounted to over HK$45.2 billion for the year ended 30 June 2023. NWS Holdings Limited is in turn owned as to 61% by New World Development Company Limited, a leading property developer listed on the Main Board of the Stock Exchange (stock code: 0017) which is principally engaged in property development and investment in Hong Kong with annual revenue amounting to over HK$95.2 billion for the year ended 30 June 2023 according to its latest annual report. Taking into consideration the sizeable scale and strong financial standing of Hip Hing Group, our Directors believe that Hip Hing Group would have regular and sizeable demand for our structural steelwork services.

  During our long-term business relationship with Hip Hing Group, we have endeavored to accommodate their demand for our services to the extent our resources allow, resulting in them being our top customer. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, Hip Hing Group contributed revenue of approximately HK$126.6 million, HK$151.6 million, HK$237.7 million and HK$118.3 million to our Group, respectively, which accounted for approximately 39.0%, 66.3%, 70.7% and 50.3% of our total revenue for the relevant years/period.

Hip Hing Group has indicated that an approved list of subcontractors for structural steel works is maintained by them and our Group is included on the list. Hip Hing Group confirmed that it generally evaluates its subcontractors based on various factors including but not limited to pricing, safety record and quality of services. Our Group is subject to evaluation by Hip Hing Group annually and on project basis. Our Directors consider that our admission as an approved structural steelwork subcontractor of Hip Hing Group and the fact that Hip Hing Group continues to invite us for tender and engage us as a structural steelwork subcontractor in its projects is a recognition of our ability in providing quality services which conform with the quality standards, requirements and specifications of Hip Hing Group.

Besides, Hip Hing Group indicated that our Group is one of its major subcontractors for structural steel works in terms of the percentage of subcontracting fees incurred. We believe that Hip Hing Group regards us as its preferred business partner and the long-standing relationships with us is attributable to its confidence in our ability to consistently deliver quality services and fulfil their technical specifications over the years of business cooperation. As confirmed by Hip Hing Group, (i) there has not been any material disputes, claims or litigations between our Group and Hip Hing Group; (ii) there has not been any instance where our Group was unable to meet the quality requirements stipulated by Hip Hing Group; (iii) Hip Hing Group is generally satisfied with our Group's services; and (iv) Hip Hing Group is willing to continue engaging our Group as its structural steelwork subcontractor when suitable opportunity arises. Based on the aforementioned, our Directors consider that the likelihood of our business relationship with Hip Hing Group being materially or adversely changed or terminated is relatively low. Further, our Directors consider that our long-term track record with Hip Hing Group were accumulated from years of co-operations in various scale and types of projects, which could not be easily replicated by our competitors. As such, our Directors believe that we are well-positioned to continue pursuing sizeable projects from Hip Hing Group. In respect of our 22 projects on hand as at the Latest Practicable Date, a total of nine projects with total estimated contract sum of approximately HK$943.3 million in aggregate were attributable to Hip Hing Group.

- our executive Directors believe that it is mutually beneficial and complementary for both our major customers and us to maintain a close and stable business relationship with each other because our major customers could benefit from our proven track record as a quality subcontractor in the provision of structural steelwork to ensure their projects are executed on time, within budget and in accordance with their quality standards. Our provision of quality structural steelwork also enabled our major customers to fulfil their responsibilities under the contractual relationships with their customers. The extensive experience of our project management and supervision staff have also enabled us to assist our customers in project management and site supervision, and build reliable relationship and trust among our customers, their respective customers and us.

Tender exposure via different main contractors

- other than our existing customers, our Group also received tender invitations from other potential customers during the Track Record Period. There were occasions where we received tender invitation in respect of the same structural steelwork project from more than one of our customers/potential customers. This usually occurs when a project owner invites different main contractors to submit tender for a construction project, and more than one of these main contractors may have invited us to submit quotations for undertaking the structural steelwork involved in such projects so as to facilitate their budgeting and/or tender submission to the project owner. In case the main contractors to which we had submitted quotations successfully obtained the construction projects, they would tend to award the structural steelwork to us. In such circumstances, even if any one of our customers fails to obtain the construction project from the project owner, we may still have the chance to obtain the structural steelwork involved via our tenders to other main contractors.

- leveraging our track record, skills and experience in undertaking projects in both public and private sectors involving different types of construction development including infrastructure and public facilities, residential, commercial and industrial developments, our executive Directors consider that we are well-positioned to capture business opportunities arising from any future construction developments in Hong Kong. In particular, our Directors believe that our track record in delivering quality structural steelwork services for sizeable construction contractors, especially group companies of leading property developers in Hong Kong, such as Hip Hing Group and Customer Group E, has resulted in positive effects to our industry reputation and increased our market exposure in the Hong Kong structural steelwork industry which would be considered favourably by our potential customers. Our Directors consider that our ability in delivering structural steelwork services which fulfil the stringent quality and technical requirements of various sizeable construction contractors, is a recognition of our service quality, technical know-how, industry knowledge and experience which are transferrable by us to serving new potential customers. During the Track Record Period, our Group had secured new customers, including Customer F, Customer G and Zenith (PMS) Limited, each of which had commenced business relationship with us since 2021.

Top customers who were also our suppliers

When we undertake projects for our customers, there may be occasions where our customers procure materials and other services on our behalf and subsequently deduct such amounts in the relevant progress payments to us. Such arrangement is generally known as "contra-charge arrangement" and the amounts involved are referred to as "contra-charge". The procurement made by our customers on our behalf mainly included materials such as steel and services such as machinery services and subcontracting services. While the formal contracts with our customers generally do not impose specific condition or requirement on us to procure specific types of materials and/or services from them for the use in their projects, our customers may in practice supply certain materials and other services to us for the use in their projects at our costs.

According to the Industry Report, on some occasions, the main contractors may provide certain materials and/or services (such as machinery services and subcontracting services) to its subcontractors. The main contractor would subsequently deduct such amounts in the relevant payment certificates issued to the subcontractors. Based on the Industry Report, main contractors adopted the aforesaid arrangements mainly for the purpose of (i) improving cost effectiveness as main contractors could generally negotiate a more favourable pricing for placing bulk purchase order with suppliers; and (ii) facilitating procurement efficiency by centralising the procurement of materials used for performing different types of construction works under the same construction project. Meanwhile, on some occasions, in the structural steelwork industry, having regard to the schedule of projects and the availability of machinery, the main contractors may provide cranes to its subcontractors for lifting and transporting the structural steel products for ensuring timely completion of the projects.

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we incurred approximately HK\$66.7 million, HK\$6.1 million, HK\$2.8 million and HK\$22.1 million, respectively, for the procurement of materials and other services from our customers.

The following table sets forth the details of our transactions with top customers who supplied materials and services to us for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023:

	Types of goods/services procured by our Group	FY2020		FY2021		FY2022		For the nine months ended 30 September 2023	
		HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Hip Hing Group									
Revenue derived and approximate % of our total revenue		126,556	39.0	151,593	66.3	237,715	70.7	118,347	50.3
Procurement amounts and approximate % of our total purchases	Steel, machinery services and subcontracting services	355	0.1	546	0.4	1,179	0.5	10,146	6.2
Gross profit/gross profit margin		20,289	16.0	25,660	16.9	47,983	20.2	22,705	19.2
Customer B									
Revenue derived and approximate % of our total revenue		120,694	37.2	–	–	–	–	–	–
Procurement amounts and approximate % of our total purchases	Steel and machinery services	64,961	26.8	–	–	–	–	–	–
Gross profit/gross profit margin		22,588	18.7	–	–	–	–	–	–
Customer C									
Revenue derived and approximate % of our total revenue		22,611	7.0	45,640	19.9	3,655	1.1	–	–

	Types of goods/services procured by our Group	FY2020		FY2021		FY2022		For the nine months ended 30 September 2023	
		HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Procurement amounts and approximate % of our total purchases	Machinery services and subcontracting services	242	0.1	–	–	14	negligible	–	–
Gross profit/gross profit margin		3,117	13.8	6,516	14.3	524	14.3	–	–
Customer Group D									
Revenue derived and approximate % of our total revenue		16,942	5.2	192	0.1	–	–	–	–
Procurement amounts and approximate % of our total purchases	Steel, machinery services and subcontracting services	574	0.2	41	negligible	–	–	–	–
Gross profit/gross profit margin		3,285	19.4	35	18.2	–	–	–	–
Customer Group E									
Revenue derived and approximate % of our total revenue		9,766	3.1	213	0.1	–	–	21,618	9.2
Procurement amounts and approximate % of our total purchases	Machinery services and subcontracting services	268	0.1	30	negligible	–	–	–	–
Gross profit/gross profit margin		2,064	21.1	34	16.0	–	–	4,036	18.7
Customer F									
Revenue derived and approximate % of our total revenue		–	–	8,152	3.6	21,920	6.5	–	–
Procurement amounts and approximate % of our total purchases	Machinery services	–	–	1,302	0.9	1,116	0.5	–	–
Gross profit/gross profit margin		–	–	1,356	16.6	3,646	16.6	–	–
Customer H									
Revenue derived and approximate % of our total revenue		7,672	2.4	5,443	2.4	9	negligible	–	–
Procurement amounts and approximate % of our total purchases	Machinery services and subcontracting services	93	negligible	4,212	2.8	–	–	–	–
Gross profit/gross profit margin		1,431	18.7	957	17.6	negligible	negligible	–	–
Sun Fook Kong Construction Limited									
Revenue derived and approximate % of our total revenue		–	–	616	0.3	10,807	3.2	19,632	8.4
Procurement amounts and approximate % of our total purchases	Steel	–	–	–	–	–	–	11,950	7.3
Gross profit/gross profit margin		–	–	152	24.7	2,648	24.5	3,070	15.6

Contra-charge arrangement with Customer B under Project No. #01

We incurred a relatively higher amount of contra-charge of approximately HK$66.7 million for FY2020 as compared to approximately HK$6.1 million, HK$2.8 million and HK$22.1 million for FY2021, FY2022 and the nine months ended 30 September 2023, respectively, mainly due to our contra-charge arrangement with Customer B under Project No. #01. Out of the contract-charge amount of approximately HK$66.7 million incurred by us in FY2020, approximately HK$65.0 million was attributable to the contra-charge arrangement with Customer B.

Project No. #01 was awarded to us by Customer B in January 2019 which involved a private sector commercial development located at the Hong Kong International Airport with an estimated contract sum of approximately HK$191.4 million. Project No. #01 commenced in June 2019 and was completed in December 2020.

Based on the design and specification of steel provided by the project owner, our Group estimated the quantity of materials required under Project No. #01 and provided recommendations on the design drawings of structural steel. Customer B then procured the steel required for the use in Project No. #01 and subsequently deducted the amount they incurred therefrom in the relevant progress payment to us. Our contra-charge arrangement with Customer B under Project No. #01 was for the purposes of (i) facilitating procurement efficiency by centralising the procurement of steel used for performing different types of construction works by the subcontractors under the commercial development, including structural steelwork performed by our Group; and (ii) improving cost effectiveness as Customer B could negotiate a more favourable pricing for placing bulk purchase order with the supplier of steel, namely Sum Kee Metal Company Limited.

Sum Kee Metal Company Limited has been an approved supplier of our Group since 2009. In respect of Project No. #01, prior to Customer B's procurement of steel from Sum Kee Metal Company Limited for us, Sum Kee Metal Company Limited was required to satisfy our evaluation based on its pricing, quality of materials, timeliness of delivery and ability to comply with our requirements and specifications. Based on our requirements, Customer B then proceeded with the procurement from Sum Kee Metal Company Limited. The engagement of Sum Kee Metal Company Limited by Customer B for the supply of steel under Project No. #01 has given assurance to us in respect of the quality of steel materials supplied for Project No. #01 which adhered to our commitment to the provision of quality structural steelwork and maintaining our industry reputation. The pricing offered by Sum Kee Metal Company Limited to Customer B for the supply of steel was generally in line with that offered to our Group in other projects, hence the contra–charge arrangement with Customer B under Project No. #01 did not result in any material increase in procurement costs of steel or any material adverse effect to the profitability of Project No. #01 to our Group.

Contra-charge arrangement with Hip Hing Group

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group incurred contra-charge of approximately HK$0.4 million, HK$0.5 million, HK$1.2 million and HK$10.1 million to Hip Hing Group, respectively. Our Group incurred a relatively higher amount of contra-charge to Hip Hing Group during the nine months ended 30 September 2023, which was mainly attributable to the procurement of subcontracting services for the erection of scaffold and working platforms by Hip Hing Group on our behalf under Project No. #02 and #07.

We and our subcontractors are sometimes required to perform installation works at height on scaffold and working platforms at construction sites in Hong Kong. Depending on the contract terms and negotiation between our Group and our customers, subcontracting services for the erection of scaffold and working platforms may be (i) procured by us at our cost; (ii) provided by our customers at their costs; or (iii) procured by our customers for our use and such costs will be subsequently deducted in the relevant payment certificates issued to us.

According to the respective project schedule, we were required to perform certain installation works at height at the later stage of Project No. #02 and #07, respectively. In light of our needs to perform installation works at height, our Group had requested Hip Hing Group to procure subcontracting services for the erection of scaffold and working platforms on our behalf taking into consideration (i) Hip Hing Group had previously selected and engaged subcontractors for erecting scaffold and working platforms used for performing other types of construction works at the construction sites of Project No. #02 and #07; (ii) centralisation of the procurement of subcontracting services for the erection of scaffold and working platforms could facilitate procurement efficiency and standardisation as well as improve cost effectiveness as Hip Hing Group could negotiate a more favourable pricing for placing bulk purchase order for the subcontracting services; and (iii) both our Group and Hip Hing Group impose similar stringent safety and quality standards on the selection of subcontractors for the erection of scaffold and working platforms. In respect of Project No. #02 and #07, prior to the engagement of subcontractors for the erection of scaffold and working platforms by Hip Hing Group on our behalf, such subcontractors were required to satisfy our evaluation based on its pricing, work quality, timeliness of delivery and ability to comply with our requirements and specifications.

Contra-charge arrangement with Sun Fook Kong Construction Limited

During the nine months ended 30 September 2023, our Group incurred contra-charge of approximately HK$12.0 million to Sun Fook Kong Construction Limited, ("**Sun Fook Kong**") which was mainly attributable to the procurement of steel materials by Sun Fook Kong on our behalf under Project No. O05. Project No. O05 was awarded to us by Sun Fook Kong, which involved a public sector infrastructural development located in Diamond Hill with an estimated contract sum of approximately HK$38.2 million. Project No. O05 commenced in December 2022 and is expected to complete by November 2024.

Based on the design and specification of steel provided by Sun Fook Kong, our Group estimated the quantity of materials required under Project No. O05 and provided recommendations on the design drawings of structural steel. Sun Fook Kong then procured the steel required for the use in Project No. O05 and subsequently deducted the amount they incurred therefrom in the relevant progress payment to us. Our contra-charge arrangement with Sun Fook Kong under Project No. O05 was for the purposes of facilitating procurement efficiency and standardisation and improving cost effectiveness as Sun Fook Kong could negotiate a more favourable pricing for placing bulk purchase order with the supplier of steel, namely Supplier Group G.

Supplier Group G has been an approved supplier of our Group since 2009. In respect of Project No. O05, prior to the procurement of steel by Sun Fook Kong from Supplier Group G for us, Supplier Group G was required to satisfy our evaluation based on its pricing, quality of materials, timeliness of delivery and ability to comply with our requirements and specifications. Based on our requirements, Sun Fook Kong then proceeded with the procurement from Supplier Group G. The engagement of Supplier Group G by Sun Fook Kong for the supply of steel under Project No. O05 has given assurance to us in respect of the quality of steel materials supplied for Project No. O05 which adhered to our commitment to the provision of quality structural steelwork and maintaining our industry reputation. The pricing offered by Supplier Group G to Sun Fook Kong for the supply of steel was generally in line with that offered to our Group in other projects, hence the contra-charge arrangement with Sun Fook Kong under Project No. O05 did not result in any material increase in procurement costs of steel or any material adverse effect to the profitability of Project No. O05 to our Group.

PRICING STRATEGY

Our pricing is generally determined based on certain mark-up over our estimated costs. We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs would not exceed our estimation during the performance of our projects. Please refer to the paragraph headed "Risk factors – Any material inaccurate cost estimation or cost overruns may adversely affect our financial results" in this prospectus for further details of the associated risks in this regard.

In order to minimise the risk of inaccurate estimate and cost overrun, the pricing of our services is overseen by our management team, whose background and experience are disclosed in the section headed "Directors and senior management" in this prospectus, based on our pricing strategy described in the following paragraphs.

Pricing of our services is determined on a case-by-case basis having regard to various factors, which generally include (i) the scope of services; (ii) the complexity of the project; (iii) the estimated number and types of machinery required; (iv) the price trend of the types of materials, manufacturing overheads in the PRC, subcontracting services and machinery services required; (v) our available production capacity of structural steel; (vi) the completion time requested by customers; and (vii) the availability of our labour and financial resources.

We prepare our tender price based on a certain percentage of mark-up over our estimated cost. The percentage of mark-up may vary from project to project due to factors such as (i) the size, duration and sector of the project; (ii) years of business relationship with the customer; (iii) credit history and financial track record of the customer; (iv) the prospect of obtaining future contracts from the customer; (v) any possible positive effect of our Group's reputation in the structural steelwork industry; (vi) the likelihood of any material deviation of the actual cost from our estimation having regard to the price trend of key cost components; and (vii) the prevailing market conditions.

SALES AND MARKETING

During the Track Record Period, we secured new business through invitations for tender by customers. Our Directors consider that due to our proven track record and our relationship with existing customers, we are able to leverage our existing customer base and our reputation in the structural steelwork industry in Hong Kong such that we do not rely heavily on marketing activities other than promoting our Group through our corporate website as well as liaising with existing and potential customers from time to time for relationship building and management.

Seasonality

Our Directors believe that the structural steelwork industry in Hong Kong does not exhibit any significant seasonality as structural steelwork projects take place throughout the year in Hong Kong based on the experience of our Directors.

PRODUCTION FACILITIES AND CAPACITY

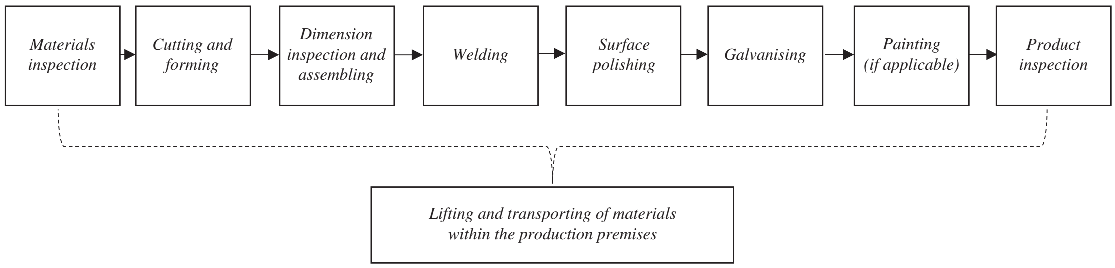
Wing Kei Dongguan, being our PRC operating subsidiary, operates two production facilities located in Dongguan, the PRC, which process and fabricate structural steel required by our structural steelwork projects. Our Dapianmei Production Facility commenced operations back in 2000, and our Xinlong Production Facility subsequently came into operation in 2020 in light of the increasing needs of our structural steelwork projects. All of our structural steel production capacity is currently used to cater to our own project needs. We did not engage in any hedging activities to minimise the foreign exchange risk of our PRC operation.

Fabrication process

We are able to fabricate custom-made structural steel products based on our customers' requirements and specifications. The fabrication requirements and time required vary according to product shapes, specifications and size.

Structural steel fabrication is a space-intensive activity which involves significant areas for the storage, maneuver and processing of bulky metal items. The size, shape, density and specifications of steel required vary from project to project.

The following chart illustrates the major fabrication process of our structural steel products:



Except for materials inspection which is conducted by our Group and the representatives designated by our customers in both Hong Kong and the PRC, the fabrication process of our structural steel products is performed in the PRC. We carry out in-house fabrication of structural steel with our own labour. Meanwhile, we engage our subcontractors in the PRC to perform galvanising works on the structural steel which requires specialised technical skills. Depending on our production capacity, we may also subcontract other parts of the structural steel fabrication works to our subcontractors in the PRC.

Materials inspection

After obtaining approval of the materials from our customers and/or the project owners, our Group would engage third party logistics service providers to deliver the materials to our production facilities in the PRC for structural steel fabrication. Our production staff and representatives designated by our customers would conduct inspection on the materials upon their arrival at our production facilities in the PRC.

As a general practice, each batch of steel to be used in a project is bundled together and then physically endorsed with the signature of our customers' representatives for identification purpose. To avoid intermingling of the steel bundle earmarked for different projects, we generally place and store the steel bundle for each project under designated and separate area in our production facilities.

Despite the limitation of available storage space in our production facilities, we usually refrain from piling up steel bundles or articles of different specifications on each other as this may easily result in confusion over the segregation of materials for different projects, and excessive piling of materials may also hinder the operations of our gantry cranes as the materials may collide with the hanging objects as the lifting trolley moves along the rail tracks.

Cutting and forming

We will cut the steel materials into parts of predetermined sizes, shapes and lengths. The steel parts will then undergo the forming process, through which the parts will be trimmed, levelled, milled and/or bent into three-dimensional shapes which fit our customers' needs and specifications.

To ensure safe operation of cutting machine, we generally require our workers to maintain a distance of no less than three meters from each other as they carry out cutting.

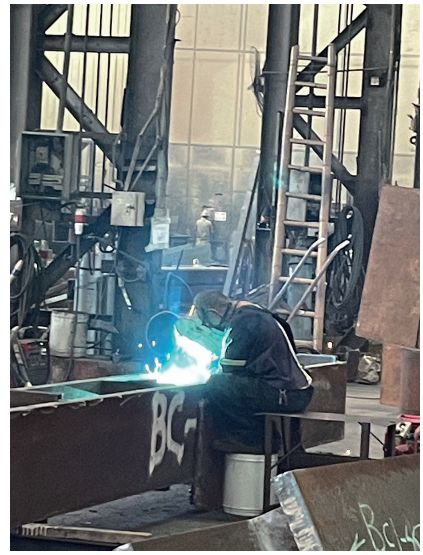
Dimension inspection and assembling

Upon inspection of the sizes, shapes, angles, weld joints, root gaps, groove angles and other relevant dimensions of the steel parts and other components, we will assemble the steel parts and components according to our customers' specifications.

Welding

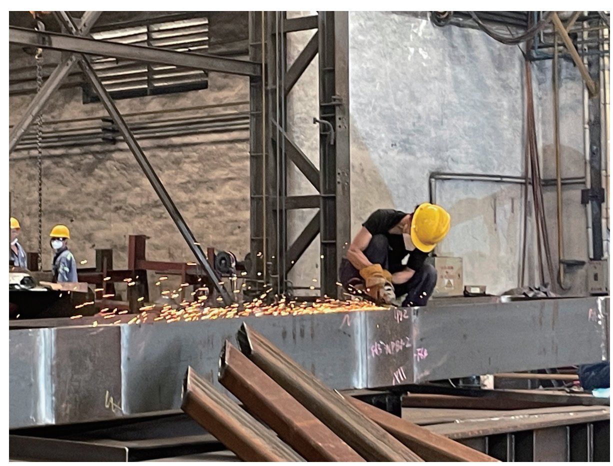
Welding is a process of joining the steel parts and other components by heating. Through the welding process, the steel parts and other components are joined together to form the semi-finished products in accordance with our customers' specifications. We will carry out inspection on the semi-finished products to confirm whether the welding process has been properly conducted. We will also appoint third party testing service providers to conduct weld testing in order to ensure the strength and quality of welds. Our customers may also direct their own representatives to inspect the semi-finished products so as to ensure that such products meet the required quality standards.

To ensure safe operation of welding machine, we generally require our workers to maintain a distance of no less than three meters from each other as they carry out welding.



Surface polishing

Our Group will then conduct surface polishing to remove the imperfections such as creases and scratches on the surface of the semi-finished products.



Galvanising

During the Track Record Period, we engaged our subcontractors in the PRC to conduct the galvanising process. For details, please refer to the paragraph headed "Our suppliers – Subcontractors of structural steel fabrication works" below in this section. During the galvanising process, the semi-finished products will be immersed in a bath of molten zinc so that a layer of zinc will form on the surface of the semi-finished products upon cooling which can protect the steel underneath from corrosion.

Painting (if applicable)

Depending on the requirements of the customers, a layer of painting may be applied to the semi-finished products to better protect the products from corrosion.

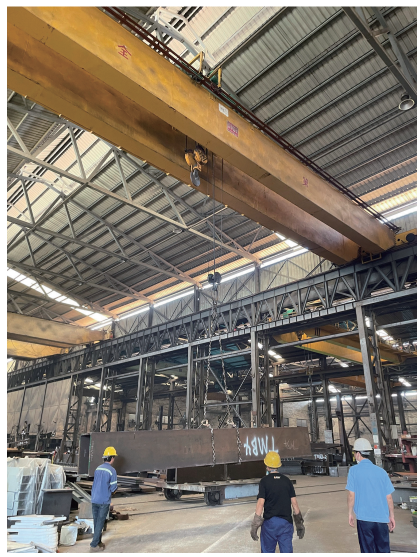
Product inspection

Upon completion of the fabrication process, our production staff will carry out quality inspection on the final products. Our Group's customers may also direct their own representatives to conduct inspection on the finished products. We strictly forbid piling of finished products on top of each other as this may create scratches and abrasions due to the size and weight of the objects.

Upon approval of the products by our Group and our customers, the final products will be packaged and wrapped by protective materials to prevent development of cracks, scratches and/or imperfection on the products. They will then be delivered to our project sites in Hong Kong.

Lifting and transporting of materials within the production premises

Due to the weight and size of the materials involved (e.g. steels plates etc.), it is inherently difficult to lift and transport the materials to different sections of the production premises with general lifting equipment. In view of this, gantry cranes were installed in each of our two production facilities for lifting and transporting bulky items within the production premises throughout the fabrication process. As we operate gantry cranes for lifting and transporting bulky items, we would have to allow adequate room for moving around the loads in a safe and unobstructed manner.

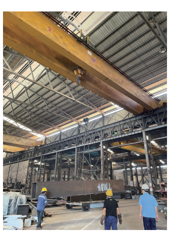


Production facilities

Our Dapianmei Production Facility has a gross floor area of approximately 7,000 sq.m. and our Xinlong Production Facility has a gross floor area of approximately 8,700 sq.m.. Both of our production facilities are located in Dongguan, the PRC.

Our Dapianmei Production Facility is mainly used for undertaking structural steel fabrication works; whereas our Xinlong Production Facility is used for undertaking structural steel fabrication works as well as storing a substantial portion of our materials and fabricated structural steel products.

Our principal machinery includes cranes, cutting machines, drilling machines, grinding machines and welding machines. Our machinery is well-equipped to be used for fabricating steel plates into different sizes and shapes. As at the Latest Practicable Date, the principal machinery that was owned and used by our Group at our production facilities is set out as follows:

Type of machinery	**Principal functions**	**Number of units**
 Crane	Cranes are mainly used for lifting and transporting bulky items.	8
 Cutting machine	Cutting machines are mainly used for cutting the steel plates into predetermined sizes.	10
 Drilling machine	Drilling machines are mainly used for cutting holes on the steel plates.	7

Type of machinery	Principal functions	Number of units
 Grinding machine	Grinding machines are mainly used for removing imperfections on the surface of the semi-finished products.	9
 Welding machine	Welding machines are mainly used for joining the steel parts and other components by heating.	18

Utilisation rate

The table below sets forth the maximum production capacity, actual production volume and utilisation rate of our production facilities during the Track Record Period:

Dapianmei Production Facility *(Note 1)*

	FY2020	FY2021	FY2022	For the nine months ended 30 September 2023
Maximum production capacity *(tonnes)* *(Notes 2 and 3)*	4,400 *(Note 4)*	6,600	6,600	4,950
Actual production volume *(tonnes)*	4,259	5,287	5,663	4,265.6
Utilisation rate *(%)* *(Note 6)*	96.8	80.1	85.8	86.2

Xinlong Production Facility *(Note 1)*

	FY2020	FY2021	FY2022	For the nine months ended 30 September 2023
Maximum production capacity *(tonnes)* *(Notes 2 and 3)*	825 *(Note 5)*	3,300	3,300	2,475
Actual production volume *(tonnes)*	704	2,514	2,560	1,938.2
Utilisation rate *(%)* *(Note 6)*	85.3	76.2	77.6	78.3

Notes:

1. Our Dapianmei Production Facility is mainly used for undertaking structural steel fabrication works; whereas our Xinlong Production Facility is used for undertaking structural steel fabrication works as well as storing a substantial portion of our materials and fabricated structural steel products. As the available workspace at our Xinlong Production Facility is shared between the production and storage functions, the actual production volume of the facility has been affected by the volume and size of materials and finished products placed therein from time to time.

2. Maximum production capacity is determined and calculated by multiplying the daily capacity of the machine with the applicable number of days of operation and the number of machine during the year/period.

3. We assume the daily operating hours for our machinery to be eight hours, operating 300 days per year (except for FY2020), taking into account staff holidays and public holidays.

4. We assume that our Dapianmei Production Facility operated for eight months for FY2020, taking into account the suspension of operations of our Dapianmei Production Facility for approximately four months between January 2020 to April 2020 due to the outbreak of COVID-19, staff holidays and public holidays.

5. We had carried out a series of installation, testing and adjustment on our machinery before our Xinlong Production Facility came into full operation. Having been affected by the outbreak of COVID-19, the commencement of operations of our Xinlong Production Facility was delayed to October 2020. We assume that our Xinlong Production Facility operated for three months for FY2020.

6. Utilisation rate is calculated by dividing actual production volume by maximum production capacity for the relevant year/period.

Our Directors consider that the utilisation rates of our production facilities are affected by a number of factors including the volume of products required, technical requirements and specifications, status of repair and maintenance of our machinery and production schedule.

The utilisation rates of our production facilities experienced certain fluctuations during the Track Record Period, details of which are set forth as follows:

Relatively higher utilisation rates for FY2020

For FY2020, the Dapianmei Production Facility and the Xinlong Production Facility recorded utilisation rate of approximately 96.8% and 85.3%, respectively, which were relatively higher as compared to that for FY2021, FY2022 and the nine months ended 30 September 2023, respectively. The relatively higher utilisation rates of our production facilities for FY2020 was mainly attributable to:

(i) the suspension of our Dapianmei Production Facility for approximately four months between January to April 2020 in response to the lockdown measures imposed by the PRC Government during the first quarter of 2020 as a result of the emergence of the COVID-19 pandemic in the PRC in early 2020. Accordingly, the production capacity of the Dapianmei Production Facility during the lockdown period was not taken into account in the calculation of its maximum production capacity for FY2020. After the resumption of works at our Dapianmei Production Facility, our Group had used our best endeavour to increase our production volume through optimising our machinery usage and manpower deployment in order to keep pace with the original production schedule during the remaining period of FY2020, contributing to the relatively higher utilisation rate of our Dapianmei Production Facility in FY2020; and

(ii) our Xinlong Production Facility has commenced operations since October 2020. As aforementioned, our Xinlong Production Facility is used for undertaking structural steel fabrication works as well as storing a substantial portion of our materials and fabricated structural steel products. As the available workspace at our Xinlong Production Facility is shared between the production and storage functions, the actual production volume of our Xinlong Production Facility is affected by the volume and size of materials and finished products placed therein from time to time. Given the Xinlong Production Facility had only come into operations in October 2020, the space taken up for storage was relatively insignificant in FY2020. As we were then attempting to keep pace with the original production schedule amid the impact of lockdown earlier in 2020, we had allocated a relatively large portion of workspace at the Xinlong Production Facility for conducting fabrication works upon its commencement of operations, and hence contributing to the relatively higher utilisation rate of the Xinlong Production Facility in FY2020.

Decrease in utilisation rates for FY2021

The utilisation rate of the Dapianmei Production Facility decreased from approximately 96.8% in FY2020 to 80.1% in FY2021; whilst the utilisation rate of the Xinlong Production Facility decreased from approximately 85.3% in FY2020 to 76.2% in FY2021. The decrease in utilisation rates of our production facilities from FY2020 to FY2021 was mainly attributable to the unexpected rescheduling of Project No. #02 for which we had originally reserved a substantial portion of our then production capacity to support the structural steel fabrication works required under Project No. #02 in FY2021.

After we had been informed about the unexpected rescheduling of Project No. #02, during the remaining period of FY2021, we mainly focused on submitting tender for projects that have relatively shorter duration and could readily commence in the near term. Owing to the smaller scale of projects we obtained and commenced during the remaining period of FY2021, the amount of structural steel fabrication works required under such projects were not comparable to the structural steel fabrication works required under sizeable projects like Project No. #02, thereby resulting in the relatively lower utilisation rate of our production facilities in FY2021. For further details in relation to the rescheduling of Project No. #02, please refer to the paragraph headed "Projects undertaken during the Track Record Period" in this section above.

Slight increase in utilisation rates for FY2022

The utilisation rate of the Dapianmei Production Facility increased slightly from approximately 80.1% in FY2021 to 85.8% in FY2022; whilst the utilisation rate of the Xinlong Production Facility increased from approximately 76.2% in FY2021 to 77.6% in FY2022. The slight increase in utilisation rates of our production facilities from FY2021 to

FY2022 was mainly attributable to the increase in needs of fabricated structural steel products due to the increase in number of structural steelwork projects awarded to us from seven for FY2021 to 10 for FY2022. The increase in utilisation rates of our production facilities was limited by (i) the temporary loss of manpower for our structural steel fabrication and disruption to the operation of our production facilities between November to December 2022 due to the increase in number of COVID-19 infections among our PRC staff subsequent to the withdrawal of the "zero-COVID-19" policy in the PRC by late 2022; and (ii) in relation to our top project for FY2022, namely Project No. #02, the majority of structural steel fabrication works had already been completed at our production facilities in the PRC prior to FY2022, and a significant amount of works carried out during FY2022 for such project was in relation to the installation of fabricated structural steel at construction sites in Hong Kong.

Relatively stable utilisation rates for the nine months ended 30 September 2023

For the nine months ended 30 September 2023, the utilisation rates of the Dapianmei Production Facility and the Xinlong Production Facility remained relatively stable as compared to FY2022 at approximately 86.2% and 78.3%, respectively. According to the project schedule of Project No. #12, being one of our top five projects for the nine months ended 30 September 2023, a substantial amount of works performed by us was in relation to the procurement of materials, while the fabrication works will be performed at later stage.

In September 2023, our Group secured Project No. #13 with an estimated contract sum of approximately HK$388.0 million, involving a commercial development in Causeway Bay, from Hip Hing Group. Project No. #13 represents the largest project obtained by us in terms of estimated contract sum during the Track Record Period. In light of the sizeable scale of Project No. #13, our Group had commenced procuring materials in preparation of the fabrication works required under Project No. #13 shortly after we secured the project. According to the project schedule of Project No. #13, it is expected that we will commence the fabrication works thereunder since November 2023. Having considered the fabrication works for Project No. #12 and #13, it is expected that the utilisation rates of our production facilities will be relatively higher during the fourth quarter of 2023.

Repair and maintenance

We have implemented a maintenance system for our machinery, which includes regular inspection and regular repair and maintenance of machinery. This allows us to undertake our fabrication process at optimal levels. We carry out routine cleaning and maintenance of our machinery to enhance its useful life. We also conduct major annual maintenance work and engage external mechanicians to carry out repair and maintenance on our machinery on an as-needed basis. Our maintenance system aims to maintain operational efficiency and high-quality control standards. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we incurred repair and maintenance expenses of approximately RMB104,000, RMB205,000, RMB241,000 and RMB71,000, respectively. We did not experience any material or prolonged interruptions to our fabrication process due to machinery failure or breakdown during the Track Record Period and up to the Latest Practicable Date.

Transfer Pricing Arrangement

During the Track Record Period, the principal functions of our Group, including sales and marketing, procurement of steel materials, installation of structural steel products and project management, were mainly carried out by Wing Kei Hong Kong; while the fabrication process of the structural steel products required in our projects was carried out by Wing Kei Dongguan, under our two production facilities located in Dongguan, the PRC. Under our business model, the principal functions and risks of our Group are undertaken by Wing Kei Hong Kong; whereas Wing Kei Dongguan only undertakes limited functions and risks in relation to its manufacturing role.

Wing Kei Hong Kong has entered into a processing arrangement with Wing Kei Dongguan, pursuant to which Wing Kei Hong Kong shall provide steel materials procured from third party suppliers to Wing Kei Dongguan for the fabrication of structural steel. During the Track Record Period, Wing Kei Hong Kong procured fabricated structural steel products solely from Wing Kei Dongguan. All the fabricated structural steel products processed by Wing Kei Dongguan are then transferred to Wing Kei Hong Kong on a cost plus basis, for onward use in our Group's structural steel projects in Hong Kong. There has been no material changes to the pricing basis for the sales and purchase transactions between Wing Kei Hong Kong and Wing Kei Dongguan throughout the Track Record Period and up to the Latest Practicable Date.

As illustrated above, the supply of structural steel fabrication services by Wing Kei Dongguan to Wing Kei Hong Kong was regarded as intra-group transactions (the "**Transfer Pricing Arrangements**"). Wing Kei Dongguan recorded net loss in FY2020 and FY2022 and such net loss position in FY2020 and FY2022 were mainly due to the impact of COVID-19 pandemic. Due to the emergence of the COVID-19 pandemic in the PRC in early 2020, the PRC Government imposed lockdown measures in Dongguan, the PRC in the first quarter of 2020. During the lockdown period in Dongguan, transport was restricted, major roads and highways were closed and factories were ordered to suspend operations. In response to the requirements of the local government authorities, our Group's production facilities had been suspended from operations during the lockdown period, resulting in a temporary loss of structural steel production capacity and a significant decrease in revenue generated by Wing Kei Dongguan during FY2020. Meanwhile, Wing Kei Dongguan had to continue bearing certain fixed costs such as direct labour costs and manufacturing overheads during the lockdown period. As a result, Wing Kei Dongguan recorded a net loss in FY2020. Further, subsequent to the withdrawal of the "zero-COVID-19" policy by late 2022, a number of our staff and department heads based in the PRC experienced infection which resulted in temporary loss of manpower for our structural steel fabrication and temporary disruption to the operation of Wing Kei Dongguan between November to December 2022. Meanwhile, Wing Kei Dongguan had to continue bearing certain fixed costs such as direct labour costs and manufacturing overheads during the relevant period. As a result of the aforesaid, Wing Kei Dongguan recorded a net loss in FY2022. Our Group's business operations in the PRC had resumed to normal by early 2023.

In comparison, Wing Kei Hong Kong, being the sole customer of Wing Kei Dongguan, remained profitable in FY2020 and FY2022 mainly due to the following factors:

(i) Difference in functions and operating activities between Wing Kei Dongguan and Wing Kei Hong Kong

Wing Kei Dongguan primarily operates our Group's production facilities in the PRC and generates its revenue solely from the fabrication of structural steel products for Wing Kei Hong Kong. Hence, any material disruption to the operation of our Group's production facilities in the PRC would result in significant impact on the business operations and financial performance of Wing Kei Dongguan.

By comparison, Wing Kei Hong Kong generates revenue from contract works in Hong Kong and undertakes a wider spectrum of functions for our Group's operations, including sales and marketing, procurement of steel materials and/or services, installation of fabricated structural steel products and project management at project sites in Hong Kong.

(ii) Wing Kei Hong Kong did not experience material works suspension due to the outbreak of COVID-19 pandemic

During the Track Record Period and up to the Latest Practicable Date, Wing Kei Hong Kong did not experience material works suspension at its workplace or project sites in Hong Kong due to the outbreak of COVID-19 pandemic. While Wing Kei Hong Kong experienced temporary disruption to the transportation of materials from Hong Kong to the PRC and finished products from the PRC to Hong Kong during 2022 since cross-border transportation was significantly disrupted due to the fifth wave outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant, Wing Kei Hong Kong was generally able to pass on part of the increase in logistics costs incurred to its customers. Save as the aforesaid, Wing Kei Hong Kong did not experience material adverse impact on its business operations and financial performance attributable to the outbreak of COVID-19. For further details, please refer to the paragraph headed "Impact of the outbreak of COVID-19 on our operation – Our operations in Hong Kong" in this section.

Further, the temporary disruption to the operation and decrease in output of fabricated structural steel products of our Group's production facilities in the PRC during the first quarter of 2020 due to the lockdown measures imposed by the PRC Government and by late 2022 due to the increase in number of infection of our PRC staff subsequent to the withdrawal of the "zero-COVID-19" policy (collectively, the "**Temporary Disruptions**"), did not result in any material adverse impact on the business operations and financial performance of Wing Kei Hong Kong. This was because Wing Kei Hong Kong was able to continue with its installation works by using the fabricated structural steel products delivered by Wing Kei Dongguan prior to the respective disruption in operation of our Group's production facilities in the PRC. In particular, Wing Kei Hong Kong was informed by Hip Hing Group in 2020 that the works schedule of Project No. #02 would be revised to the effect that a substantial part of its construction site works would be performed in 2021. In preparation of the construction site works expected to be performed in 2021 under Project No. #02, Wing Kei Hong Kong had continued to procure steel materials in late 2020 and recognised revenue correspondingly in accordance with the relevant accounting standards.

(iii) Cost inefficiency of Wing Kei Dongguan attributable to the outbreak of COVID-19

During the two periods of Temporary Disruptions in 2020 and 2022 respectively, Wing Kei Dongguan recorded no or relatively low output of fabricated structural steel, thereby resulting in a significant decrease in revenue generated by Wing Kei Dongguan during the relevant periods in FY2020 and FY2022, respectively. During such periods, Wing Kei Dongguan had to continue bearing certain fixed costs such as direct labour costs and manufacturing overheads during the Temporary Disruptions, thereby adversely affected the profitability of and contributed to the net loss incurred by Wing Kei Dongguan in FY2020 and FY2022, respectively.

Transfer pricing study by independent tax adviser

We have engaged an independent tax adviser to conduct transfer pricing study concerning the Transfer Pricing Arrangements during the Track Record Period taking into account the applicable laws and regulations in respect of transfer pricing in Hong Kong and the PRC. According to the transfer pricing study, Wing Kei Dongguan is characterised as a limited-risk structural steel fabricator, having considered its business function, risk profile and asset profile. The key basis of the benchmarking study involved a comparison of the operating margin of Wing Kei Dongguan and the operating margin of the market comparables.

Based on the transactional net margin method and benchmarking analysis and having considered the operating nature of Wing Kei Dongguan for FY2020, FY2021 and FY2022, full cost mark-up ("**FCMU**") is considered to be the most appropriate profit level indicator and the result of the benchmarking analysis are as follows:

- for FY2022, the inter-quartile range of the three-year weighted average FCMU for the three-year period cycle ended FY2022 ranges between 2.07% and 4.29%, with a median of 3.62%. The adjusted FCMU of Wing Kei Dongguan is determined to be 3.65%, having adjusted the cost inefficiencies arising from the impact of the COVID-19 pandemic disruption, which falls within the inter-quartile range for the three-year period cycle ended FY2022;

- for FY2021, the inter-quartile range of the three-year weighted average FCMU for the three-year period cycle ended FY2021 ranges between 3.21% and 4.12%, with a median of 3.44%. The FCMU of Wing Kei Dongguan is determined to be 3.44%, which falls within the inter-quartile range for the three-year period cycle ended FY2021; and

- for FY2020, the inter-quartile range of the three-year weighted average FCMU for the three-year period cycle ended FY2020 ranges between 1.98% and 2.30%, with a median of 2.01%. The adjusted FCMU of Wing Kei Dongguan is determined to be 2.08%, having adjusted cost inefficiencies arising from the impact of the COVID-19 pandemic disruption, which falls within the inter-quartile range for the three-year period cycle ended FY2020.

Our executive Directors, after considering the analysis result and reviewing the transfer pricing study prepared by our independent tax adviser, are of the view that the Transfer Pricing Arrangements were carried out on an arm's length basis in a material respect and does not result in material reduction to Wing Kei Dongguan's taxable income in the PRC for the three years ended 31 December 2022.

As advised by the Hong Kong Legal Counsel, save as disclosed in the paragraph headed "Regulatory Overview – Hong Kong – Laws and Regulations in relation to Tax and Transfer Pricing" in this prospectus, our Group is not subject to any applicable laws and regulations in Hong Kong in respect of transfer pricing. As advised by the PRC Legal Advisers, save as disclosed in the paragraph headed "Regulatory Overview – The PRC – Laws and Regulations in relation to Taxation – Tax on Related Party Transactions", our Group is not subject to any applicable laws and regulations in the PRC in respect of transfer pricing. Our executive Directors confirmed that our Group did not pay any tax subject to applicable laws and regulations in Hong Kong and the PRC in respect of transfer pricing during the Track Record Period.

OUR SUPPLIERS

Characteristics of our suppliers

Suppliers of goods and services which are specific to our business and are required on a regular basis to enable us to continue carrying on our business mainly include (i) suppliers of materials such as steel; (ii) subcontractors of construction site works; (iii) subcontractors of structural steel fabrication works; and (iv) suppliers of other miscellaneous services such as testing, machinery services, transportation and technical engineering services.

The following table sets forth a breakdown of our total purchase, which represents our cost of services excluding direct labour costs and depreciation, during the Track Record Period by type of goods and services provided by our suppliers:

							For the nine months ended 30 September			
	FY2020		**FY2021**		**FY2022**		**2022**		**2023**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000*	*%*
Materials	150,560	62.1	62,266	41.9	73,708	32.1	48,694	28.2	85,938	52.5
Subcontracting of construction site works	71,005	29.3	48,919	32.9	91,606	39.8	72,941	42.3	57,190	34.9
Subcontracting of structural steel fabrication works	4,854	2.0	13,014	8.8	13,696	6.0	10,949	6.4	5,641	3.4
Miscellaneous services *(Note)*	16,169	6.6	24,403	16.4	50,922	22.1	39,787	23.1	15,123	9.2
Total	242,588	100.0	148,602	100.0	229,932	100.0	172,371	100.0	163,892	100.0

Note: These miscellaneous services mainly included testing, machinery services, transportation and technical engineering services.

Please refer to the paragraph headed "Financial information – Key factors affecting our results of operations and financial conditions – Fluctuation in our cost of services" in this prospectus for a discussion of the fluctuation in our purchases from our suppliers and subcontractors during the Track Record Period as shown in the above table as well as the relevant sensitivity analysis in this connection. During the Track Record Period, save for the temporary disruption to the transportation between Hong Kong and the PRC during 2022 caused by the fifth wave of outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant, we did not experience any material shortage in the supply of goods and services that we required.

We may obtain pre-bid quotations from our suppliers and/or subcontractors in making our cost estimation during the tender phase. We may negotiate on the pricing and contract terms with them after we are awarded with the projects. Our Directors consider that we are generally able to pass on the increase in purchase costs to our customers because we generally take into account our overall costs of providing our services to customers when determining our tender price.

Principal terms of engagement

Suppliers of materials

During the Track Record Period, our suppliers of materials were mainly located in Hong Kong and the PRC and our purchases were denominated in Hong Kong dollars and Renminbi. Steel is the major type of material sourced by us.

We purchase materials from our suppliers on an order-by-order basis. We have not committed to any minimum purchase amount with our suppliers of materials. Our purchase orders generally specify the unit price, volume, delivery date, product specifications and types of materials we required. The purchased materials are generally delivered to our production facilities in the PRC and the transportation costs are generally borne by us.

Upon delivery of the materials to our production facilities in the PRC, we typically arrange for testing on the materials by external laboratory selected by the Hong Kong government or by us. Any materials that fail to comply with the specifications or standards provided in the purchase order will be returned to the suppliers for replacement.

Subcontractors of construction site works

We engage our subcontractors of construction site works on a project-by-project basis. The construction site works undertaken by our subcontractors mainly include installation, touch-up painting and fire protection works for our fabricated structural steel. We have neither entered into long-term agreements nor committed to any minimum purchase amount with our subcontractors. The salient terms included in our subcontracting agreements are summarised as follows:

Scope of services

The subcontracting agreement generally sets forth the scope of services to be provided by our subcontractors. We require our subcontractors to complete the subcontracted works according to our customers' specifications, drawings and requirements.

Subcontracting fees

The contracts with our subcontractors are mainly on re-measurement basis. Under the re-measurement contracts, the final contract sum will be determined based on the agreed unit rates of each item set out in the bill of quantities or schedule of rate and the actual quantities of work done.

Payment arrangements

Our subcontractors are required to submit progress payment application to us setting out the details of the completed work on a monthly basis. Depending on our engagement terms with subcontractors, we may withhold up to 10% of each payment made to our subcontractors as retention monies. Generally, the retention monies are partially released upon completion of the project, expiry of the defects liability periods or a pre-agreed time period.

As at 31 December 2020, 2021, 2022 and 30 September 2023, our retention payables to subcontractors amounted to approximately HK$3.0 million, HK$4.3 million, HK$7.2 million and HK$5.9 million, respectively. Please refer to the paragraph headed "Financial information – Discussion of selected statement of financial position items – Trade and retention payables" in this prospectus for further details.

Depending on the terms of engagements with our subcontractors, we may directly settle the wages of the site workers deployed by our subcontractors and subsequently deduct such amounts in the relevant progress payment application issued to us by such subcontractors. According to the Industry Report, it is common for construction contractors to directly settle the wages of their subcontractors which will be subsequently deducted from the progress payment application issued by the subcontractors and the purpose of such arrangement is to offer better protection and ensure timely settlement of wages to the employees of the subcontractors.

Termination and liquidated damages

Subcontractors are required to indemnify our Group against any loss, expense or claim arising from the failure to comply with subcontracting agreement by the subcontractor and/or its employees. We may be entitled to hold our subcontractors liable for any loss and damage suffered by our Group if their works are not performed in accordance with our requirements. We may also be entitled to terminate the work order in the event of breach of contract by our subcontractor.

Subcontractors of structural steel fabrication works

On occasions, our customers may require us to perform galvanising works on the structural steel which requires specialised technical skills. To achieve optimisation in our production, we outsource all required galvanising works to our subcontractors in the PRC. Further, depending on our production capacity, we may also subcontract other parts of structural steel fabrication works to our subcontractors in the PRC.

We engage our subcontractors of structural steel fabrication works on a project-by-project basis. Our agreements with the subcontractors generally specify the price, scope of services and technical and quality standards required and delivery date. Depending on our negotiation with subcontractors of structural steel fabrication works, we may make prepayments to our subcontractors on a case-by-case basis. We have neither entered into long-term agreements nor committed to any minimum purchase amount with our subcontractors.

Suppliers of miscellaneous services

We also procure services from suppliers of miscellaneous services such as testing, machinery services, transportation and technical engineering services.

Our Group engages external laboratory selected by the Hong Kong government or by us to conduct testing of materials and engages third party testing service providers to conduct weld testing.

Our Group mainly relies on third party machinery services providers for the hiring of machinery to be used at construction sites such as cranes and lifting machines.

Our Group engages third party logistics service providers for (i) the delivery of materials from Hong Kong to our production facilities in the PRC; and (ii) the delivery of our finished structural steel products from our production facilities in the PRC to the relevant construction sites in Hong Kong. Depending on our negotiation with third party, we may make prepayments to the logistics service providers on a case-by-case basis.

Depending on the complexity of the project, we may also engage external technical engineering consultant to assist with our technical submissions to customers on a case-by-case basis. Our purchase orders generally specify the price, scope of services required and delivery date. We have neither entered into long-term agreements nor committed to any minimum purchase amount with our suppliers of miscellaneous services.

Top suppliers

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, the percentage of our total purchases from our top supplier amounted to approximately 26.8%, 15.6%, 15.2% and 24.0% respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 73.2%, 46.4%, 56.0% and 63.7%, respectively. The following tables set forth the information of our top five suppliers for each year/period during the Track Record Period:

FY2020

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
					HK$'000	*%*
1	Customer B *(Note 1)*	Mainly supply of steel and machinery services	Since 2018	N/A *(Note 1)*	64,961	26.8
2	Wo Lee Group *(Note 2)*	Mainly supply of steel	Since 2013	90 days; by cheque	59,211	24.4
3	Supplier B *(Note 3)*	Mainly subcontracting of construction site works	Since 2018	30 days; by cheque	29,110	12.0
4	Supplier C *(Note 4)*	Mainly subcontracting of construction site works	Since 2016	30 days; by cheque	15,031	6.2
5	Sum Kee Metal Company Limited *(Note 5)*	Mainly supply of steel	Since 2009	90 days; by cheque	9,344	3.8
			Top five suppliers combined		177,657	73.2
			All other suppliers		64,931	26.8
			Total purchases		242,588	100.0

FY2021

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers HK$'000	%
1	Wo Lee Group *(Note 2)*	Mainly supply of steel	Since 2013	90 days; by cheque	23,109	15.6
2	Wah Chong Engineering Company *(Note 6)*	Mainly subcontracting of construction site works	Since 2019	30 days; by bank transfer	18,263	12.3
3	Easy Smart Engineering Limited *(Note 7)*	Mainly subcontracting of fire protection works on fabricated structural steel	Since 2009	30 days; by cheque	14,756	9.9
4	Supplier Group G *(Note 8)*	Mainly supply of steel	Since 2009	45 days; by cheque	6,499	4.4
5	Kanson Crane & Heavy Transport Company Limited *(Note 9)*	Mainly supply of machinery services	Since 2016	30 days; by cheque	6,278	4.2
			Top five suppliers combined		68,905	46.4
			All other suppliers		79,697	53.6
			Total purchases		148,602	100.0

FY2022

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers HK$'000	%
1	Easy Smart Engineering Limited *(Note 7)*	Mainly subcontracting of fire protection works on fabricated structural steel	Since 2009	30 days; by cheque	34,887	15.2
2	Wah Chong Engineering Company *(Note 6)*	Mainly subcontracting of construction site works	Since 2019	30 days; by cheque	29,842	13.0
3	Wo Lee Group *(Note 2)*	Mainly supply of steel	Since 2013	90 days; by cheque	29,286	12.7
4	Kanson Crane & Heavy Transport Company Limited *(Note 9)*	Mainly supply of machinery services	Since 2016	30 days; by cheque	20,950	9.1
5	Supplier Group G *(Note 8)*	Mainly supply of steel	Since 2009	45 days; by cheque	13,844	6.0
			Top five suppliers combined		128,809	56.0
			All other suppliers		101,123	44.0
			Total purchases		229,932	100.0

Nine months ended 30 September 2023

Rank	Supplier	Types of goods or services purchased by us from the suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
					HK$'000	*%*
1	Wo Lee Group *(Note 2)*	Mainly supply of steel	Since 2013	90 days; by cheque	39,324	24.0
2	Wah Chong Engineering Company *(Note 6)*	Mainly subcontracting of construction site works	Since 2019	30 days; by bank transfer	22,532	13.7
3	Supplier Group G *(Note 8)*	Mainly supply of steel	Since 2009	45 days or payment on delivery; by cheque and bank transfer	20,414	12.5
4	Sun Fook Kong Construction Limited *(Note 1)*	Mainly steel	Since 2018	N/A *(Note 1)*	11,950	7.3
5	Hip Hing Group *(Note 1)*	Mainly steel, machinery services and subcontracting of construction site works	Since 2010	N/A *(Note 1)*	10,146	6.2
			Top five suppliers combined		104,366	63.7
			All other suppliers		59,526	36.3
			Total purchases		163,892	100.0

Notes:

1. Hip Hing Group, Customer B and Sun Fook Kong Construction Limited were also our top customers during the Track Record Period. The amount of our purchase of materials and/or services from them was directly deducted from the relevant progress payments issued to us. For further details, please refer to the paragraphs headed "Our customers – Top customers" and "Our customers – Top customers who were also our suppliers" above in this section.

2. Wo Lee Group consists of (i) Wo Lee Steel Company Limited, a private limited liability company incorporated in Hong Kong in 1962 principally engaged in the supply of steel products; and (ii) Qianhai Helida (Shenzhen) Supply Chain Management Company Limited* (前海和利達(深圳)供應鏈管理有限公司), a private limited liability company established in the PRC in 2015 principally engaged in the provision of supply chain management and related services.

3. Supplier B is a sole proprietorship established in Hong Kong principally engaged in the provision of subcontracting services of construction site works.

4. Supplier C is a sole proprietorship established in Hong Kong principally engaged in the provision of engineering services. Supplier C commenced its business in February 2001 and ceased its business in July 2022. There was no outstanding amount due from us to Supplier C as at the Latest Practicable Date.

5. Sum Kee Metal Company Limited is a private limited liability company incorporated in Hong Kong in 1989 principally engaged in the fabrication and supply of steel products.

6. Wah Chong Engineering Company is a sole proprietorship established in Hong Kong in 2001 principally engaged in the provision of welding services.

7. Easy Smart Engineering Limited is a subsidiary of Easy Smart Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2442) which is principally engaged in fire protection works as a subcontractor in Hong Kong. According to publicly available information, Easy Smart Group Holdings Limited generated revenue of approximately HK$240.5 million for the year ended 30 June 2022.

8. Supplier Group G consists of (i) a private limited liability company incorporated in Hong Kong in 1983 principally engaged in the supply of steel products; and (ii) a private limited liability company established in the PRC in 2004 principally engaged in steel processing and supply of steel products.

9. Kanson Crane & Heavy Transport Company Limited is a private limited liability company incorporated in Hong Kong in 2004 principally engaged in the provision of crane rental and heavy transportation services.

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of the top five suppliers of our Group for each year/period during the Track Record Period.

Basis of selecting our suppliers of materials

We generally purchase materials from our internal list of approved suppliers. In selecting our materials suppliers, we take into account various factors, including pricing, quality of materials provided, timeliness of delivery and ability to comply with our requirements and specifications. We maintain an internal list of approved suppliers which is updated on a continuous basis.

Reasons for subcontracting arrangement

Construction site works

We mainly focused on the role of project management and supervision in carrying out our projects, and we have engaged subcontractors to perform a substantial part of the construction site works under our supervision. According to the Industry Report, it is common for structural steelwork contractors in Hong Kong to engage subcontractors to perform construction site works. Our executive Directors confirm that our subcontracting arrangement is in line with normal market practice.

Structural steel fabrication works

On occasions, our customers may require us to perform galvanising works on the structural steel which requires specialised technical skills. To achieve optimisation in our production, we outsource all required galvanising works to our subcontractors in the PRC. Further, depending on our production capacity, we may also subcontract other parts of structural steel fabrication works to our subcontractors in the PRC.

Basis of selecting our subcontractors

We evaluate subcontractors taking into account their quality of services, skills and technique, reputation, prevailing market price, delivery time and availability of resources in accommodating our requests. Based on these factors, we maintain an internal list of approved subcontractors which is updated on a continuous basis. We generally obtain quotations from different suitable subcontractors for comparison and select our subcontractors based on their experience relevant to the particular project as well as their availability and fee quotations.

QUALITY CONTROL

We believe that our commitment to quality services is crucial to our reputation and continual success. We place strong emphasis on service quality by implementing a comprehensive quality control system. Our Group has obtained certification certifying its quality management to be in conformance with the requirements of ISO 9001:2015 standard. In conformity with the ISO 9001:2015 standard, our Group has developed and implemented a quality manual which stipulates procedures and control in relation to quality management system, proper filing, communication with customers, revision on quality manual and procedures, employees' training, internal and external audits, procurement of materials and subcontracting services, structural steel fabrication process and non-conforming works management.

The quality control measures adopted by our Group include the followings:

Procurement, inspection and testing of materials

Our Group maintains an approved list of suppliers which is updated on a regular basis. Depending on the contract terms with our customers, we may be required to procure materials with certain specifications or quality standards. Our Group would generally arrange for testing of the materials by external laboratory selected by the Hong Kong government or by us. We typically conduct inspection on the materials upon their delivery to our production facilities in the PRC. Our customers would also direct their own representatives to conduct inspection and endorse on the materials. Please refer to the paragraph headed "Our suppliers – Basis of selecting our suppliers of materials" above for our procurement policies of materials. Our suppliers are responsible for replacing any materials which do not meet the relevant specifications or standards and any associated costs incurred.

Quality control on the structural steel fabrication process

Our quality control department closely monitors our structural steel fabrication process to ensure strict compliance with our standard operating procedures. Our Group submits quality control report to our customers throughout the structural steel fabrication process on a regular basis. Our Group also engages third party testing service providers for weld testing to ensure the strength and quality of our semi-finished products. The third party testing service provider will issue testing reports to our Group, which will be submitted to our customers for approval.

We have implemented a maintenance system for our machinery, which includes regular inspection and regular repair and maintenance of machinery. Our production department is responsible for conducting management, examination, repair and maintenance of our machinery for fabrication of structural steel products from time to time in order to ensure their proper functioning and safe operation, thus enhancing our productivity and product quality. For further details on the repair and maintenance of our machinery, please refer to the paragraph headed "Production facilities and capacity – Repair and maintenance" above in this section.

Quality control on finished products

We perform in-house inspections on each batch of finished goods to ensure our products comply with the specifications and requirements of our customers. We are generally required to provide outgoing quality inspection reports to our customers for approval before the products are delivered to the construction sites in Hong Kong. Our foremen and our customers' representatives at the construction sites would also conduct inspection on the finished products upon their arrival.

Any defective products identified will not be delivered to our customers. Our quality control inspectors will identify the causes for any product defects and follow up closely with our quality control department to confirm any deficiencies in our production process.

Collecting feedbacks from customers

Our executive Directors and senior management team regularly communicate with and conduct site visits to collect feedbacks from our customers. We would follow up and respond to the feedbacks from our customers in a timely manner with a view to maintain and continually improve our service standards. Throughout the project implementation, we may be invited to attend progress meetings held by our customers from time to time to resolve any issues identified in the projects.

Designation of project management team

A project management team is assigned for every project based on the project nature and the relevant qualifications and experiences required. The project management team is headed by the project manager who is responsible for the overall management of the project, including liaising and communicating with our customers, coordinating and providing guidance to the other team members, overseeing the progress, budget and quality of services rendered. Depending on our customers' requests, we are generally required to submit progress reports to our customers throughout the project implementation. Our progress reports are prepared by the project management team which will report on the project status and any issue identified during project implementation. After the review by our senior management team, the progress reports will then be submitted to our customers for record.

Works performed by subcontractors of construction site works

We remain accountable to our customers for the performance and quality of works rendered by our subcontractors. In general, works performed by our subcontractors are inspected and monitored by our project management team based on our quality management system, environmental management system and occupational health and safety management system which are in conformity with the requirements of ISO 9001, ISO 14001 and ISO 45001 standards, respectively.

We have implemented the following measures to monitor the quality and progress of works outsourced to our subcontractors so as to ensure the compliance with our contract specifications:

(i) our project management team conducts regular meetings with subcontractors' responsible personnel to review their performance and resolve any issues encountered in the course of their works;

(ii) our project management team reviews the works performed by our subcontractors on a continual basis during project implementation based on our quality control manual. We assess the performance of our subcontractors based on their (a) ability to meet delivery schedules; (b) response to instructions; (c) management commitment; (d) quality of services; and (e) cost competitiveness; and

(iii) our subcontractors are required to follow our guidelines and instructions on workplace safety. Our project management team will closely monitor the on-site safety performance of our subcontractors.

INVENTORY

We do not keep any inventory during the Track Record Period. We do not purchase materials in advance for anticipated orders from customers. The size, shape, density and specifications of steel procured by us are generally tailored to fulfil the specific requirements for each project and the materials procured by us are physically endorsed with the signature of our customers' representatives. Hence, each batch of procurement is designated for a pre-determined project. Once the materials are procured by us for a pre-determined project, it cannot and would not be applied for the use in other projects.

LOGISTICS

We engage third party logistics service providers for (i) the delivery of materials from Hong Kong to our production facilities in the PRC; and (ii) the delivery of our finished structural steel products from our production facilities in the PRC to the relevant construction sites in Hong Kong. The logistics service providers are responsible for the risks associated with the delivery of goods and have to bear any losses or other liabilities should the goods be damaged during delivery. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we incurred transportation expenses of approximately HK$4.5 million, HK$5.5 million, HK$12.0 million and HK$3.6 million to third party logistics services providers, respectively.

INSURANCE

We undertook projects in the role of subcontractor during the Track Record Period. Our executive Directors confirmed that our structural steelwork were covered by the employees' compensation insurance and contractors' all risks insurance taken out by the main contractors. Such insurance policies covered and protected all employees of main contractors and subcontractors of all tiers working in the relevant construction site and works performed by them in the relevant construction site.

Our Group has also maintained key man life insurance policies for our executive Directors and employees' compensation insurance for our executive Directors and employees at our office in Hong Kong.

Our executive Directors consider that our insurance coverage is adequate and consistent with the industry norm having regard to our current operations and the prevailing industry practice.

Uninsured risks

Certain risks disclosed in the "Risk factors" section of this prospectus, such as risks in relation to our ability to obtain new contracts, our ability to retain and attract personnel, credit risk and liquidity risk, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed "Risk management and internal control systems" below in this section for further details regarding how our Group manages certain uninsured risks.

EMPLOYEES

Number of employees

As at the Latest Practicable Date, we had a total of 148 employees (including our three executive Directors and two non-executive Directors but excluding our three independent non-executive Directors). The following table sets out a breakdown of our employees by function and geographical location during the Track Record Period and as at the Latest Practicable Date:

	As at 31 December 2020	As at 31 December 2021	As at 31 December 2022	As at 30 September 2023	As at the Latest Practicable Date
Hong Kong					
– General management	5	5	5	5	5
– Project management and supervision	10	10	10	10	12
– Engineering	5	7	6	5	4
– Site workers	31	49	22	16	16
– Finance and accounting	3	3	3	4	4
Sub-total:	54	74	46	40	41
The PRC					
– Production	89	96	78	85	89
– Drawing	6	5	5	5	5
– Quality control	5	5	5	5	4
– Finance and administration	12	11	10	9	9
Sub-total:	112	117	98	104	107
Total:	166	191	144	144	148

Our number of site workers increased from 31 as at 31 December 2020 to 49 as at 31 December 2021 and decreased to 22 and 16 as at 31 December 2022 and 30 September 2023, respectively.

Our Group secured Project No. #02 from Hip Hing Group in late 2019. According to the original project schedule, our contract works under Project No. #02 were supposed to commence in or around late 2019 and complete by mid-2021. By mid-2020, we were informed that our works schedule of Project No. #02 would be revised and the substantial part of our construction site works would be rescheduled to 2021. Taking into consideration (i) the sizeable scale and relatively tight project schedule of Project No. #02; (ii) a substantial part of our construction site works was rescheduled to be performed in or around 2021; and (iii) the uncertainty arising from the COVID-19 outbreak and the associated risks of labour shortage, our Group started recruiting additional site workers by late 2020 in order to equip ourselves with sufficient labour force to prepare for the rescheduled construction site works under Project No. #02 in 2021, which resulted in our number of site workers totaling 31 as at 31 December 2020.

Subsequently, our Group had further recruited additional number of site workers in preparation of the rescheduled construction site works, resulting in the increase in number of our site workers in 2021. However, later in mid-2021, our Group was informed that the substantial part of our construction site works under Project No. #02 would be further rescheduled. Notwithstanding we had been informed about the revision in schedule of our construction site works under Project No. #02, our Group had decided to keep, instead of immediately laying-off, our site workers who were designated for Project No. #02, taking into consideration (i) the rescheduling was expected to last for several months and the substantial part of our construction site works was expected to be performed by 2022; (ii) it is administratively not desirable to lay-off such site workers and hire for replacements shortly after. In light of the revision in project schedule, our Directors anticipated that we would be required to complete our construction site works within a shorter timeframe. Hence it is vital for us to retain our site workers in order to mitigate the risks of being unable to identify suitable and sufficient site workers later by the time when the substantial part of our construction site works was expected to be performed by us.

Due to natural attrition, the number of our site workers gradually decreased during 2022. Instead of recruiting additional site workers to fill the vacancies for performing the construction site works for Project No. #02, we have decided to subcontract a relatively larger amount of our construction site works under Project No. #02, having considered that it may be costly to recruit suitable labour in a short period of time. We consider such arrangements were in our interests, given that (i) our subcontractors indicated they could readily deploy suitable and sufficient labour for undertaking our construction site works under Project No. #02; and (ii) the increasing use of subcontractors was not expected to adversely affect our ability to meet the project schedule or work quality. Further, based on negotiation with Hip Hing Group, we were allowed to claim for certain increase in our subcontracting fees resulting from the rescheduling of Project No. #02 to Hip Hing Group.

Taking into consideration (i) our subcontractors were able to provide quality works which fulfil the requirements and schedule to the satisfaction of Hip Hing Group under Project No. #02, while we continued to focus on our role of project management and supervision; and (ii) our past experience in which we had to bear the costs of our site workers throughout the rescheduling of Project No. #02, our Directors consider that the costs of maintaining a pool of site workers may be burdensome especially when our projects experience unforeseen rescheduling resulting in the revenue generated therefrom being lower than expected, our Group had decided not to re-fill the vacancies, resulting in the number of our own site workers being lowered to 16 as at 30 September 2023.

Training and recruitment policies

We recruit our employees through online recruitment platform and referral from existing employees. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and determines whether additional personnel is required to cope with our business development from time to time.

We provide various types of training to our employees and sponsor our employees to attend various training courses covering areas such as technical knowledge relating to the carrying out of structural steelwork, safety, first aids, and environmental matters. Such training courses include our internal trainings as well as courses organised by external parties such as the Construction Industry Council.

Staff costs and remuneration policy

In general, our Group determines employees' salaries based on their qualifications, position and seniority. In order to attract and retain valuable employees, our Group reviews the performance of our employees annually which will be taken into account in annual salary review and promotion appraisal.

Our Group incurred staff costs (including directors' remuneration) of approximately HK$32.5 million, HK$51.0 million, HK$45.8 million and HK$27.4 million for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, respectively.

Employee relationship

Our Directors believe that we have maintained a good relationship with our employees. Save as disclosed in the paragraph headed "Litigations and claims" in this section, we have not experienced any significant problems with our employees or any disruption to our operations due to labour disputes nor have we experienced any material difficulties in the recruitment and retention of experienced core staff or skilled personnel during the Track Record Period. There has not been any trade union set up for our employees.

Welfare contribution

We participate in a provident fund scheme (the "**MPF Scheme**") registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. For further details on the MPF Scheme, please refer to the paragraph headed "Regulatory overview – Hong Kong – Laws and regulations in relation to labour, health and safety" in this prospectus.

Pursuant to applicable PRC laws and regulations, employers are required to make contributions to, and employees are required to participate in, a number of social security funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and the housing provident fund. For further information, please refer to the paragraph headed "Regulatory overview – The PRC – Laws and regulations in relation to social security and housing provident funds" in this prospectus.

LICENCES, REGISTRATIONS AND PERMITS

The following table sets forth the details of the material licences and registrations of Wing Kei Hong Kong as at the Latest Practicable Date:

Relevant authority/ Organisation	Registration and qualification	Trade Code/ Category	Date of expiry
Construction Industry Council	Registered subcontractor	Structural steelwork	24 October 2025

Relevant authority/ Organisation	Registration and qualification	Trade Code/ Category	Date of expiry
Development Bureau	Contractor on the List of Approved Specialist Contractors for Public Works	Structural steelwork	N/A

Our executive Directors are of the view that our aforesaid registrations are adequate for our business needs. As advised by our Hong Kong Legal Counsel, Wing Kei Hong Kong has obtained all necessary licences, permits and registrations which are required to carry on our principal business activities in Hong Kong as at the Latest Practicable Date.

The following table sets forth the details of the material registrations of Wing Kei Dongguan as at the Latest Practicable Date:

Permit	Issuing authority	Date of expiry
Customs Declaration Entity Registration Certificate of the PRC*（中華人民共和國海關報關單位註冊登記證書）	Chang'an office of Huangpu Customs District*（黃埔海關長安辦事處）	N/A
Registration for discharge of fixed pollutant*（固定污染源排污登記回執）	Ministry of Ecology and Environment of the PRC*（中華人民共和國生態環境部）	26 April 2025

Our executive Directors are of the view that our aforesaid registrations are adequate for our business needs. As advised by our PRC Legal Advisers, Wing Kei Dongguan has obtained all necessary licences, permits and registrations which are required to carry on our principal business activities in the PRC as at the Latest Practicable Date.

Our Directors confirm that our Group has not experienced suspension or failure to renew any material licences and registrations in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL COMPLIANCE

Our Group has established an environmental management system and also formulated an environmental policy to provide guidance, support and adequate resources for effective implementation of our environmental protection measures. Our environmental management system involves, among others, the following environmental protection measures:

- ensuring our compliance with regulatory requirements, customers' specifications and industry practices in relation to environmental protection;

- evaluating the environmental impact of our business activities, products and services and the associated environmental risks, and devising targets and plans for managing such risks;

- effectively conserving the use of resources and minimising waste generation;

- ensuring our subcontractors and their workers comply with our environmental protection policies; and

- providing trainings to our employees in relation to our environmental management system.

We are subject to general Hong Kong and PRC laws and regulations on environmental protection. For details, please refer to the paragraphs headed "Regulatory overview – Hong Kong – Laws and regulations in relation to environmental protection" and "Regulatory overview – The PRC – Laws and regulations in relation to environmental protection" in this prospectus. We are committed to conducting our business operations to comply with all applicable environmental laws and regulations.

We generally arrange recycling of any leftover steel materials. Our Directors believe that our fabrication process does not generate a large amount of environmental hazards and does not impose significant adverse impact on the environment and that our environmental protection measures are adequate to comply with all applicable PRC laws and regulations on environmental protection. We engaged third-party agencies to assess, examine and evaluate the environmental impact of the operations of our production facilities.

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we incurred approximately RMB98,000, RMB76,000, RMB105,000 and RMB68,000, respectively, directly in relation to our compliance with applicable environmental requirements in Hong Kong and the PRC. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation.

During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements in Hong Kong and the PRC that resulted in prosecution, conviction, penalty or administrative sanction being brought against or imposed upon us.

OCCUPATIONAL HEALTH AND WORK SAFETY

Our Group places emphasis on occupational health and work safety. Our Group has implemented occupational health and safety policies, which is certified to be in compliance with ISO 45001 standards, in order to provide our employees with a safe and healthy working environment.

Work safety measures at our production facilities

We are committed to maintain a safe working environment at our production facilities in the PRC and abide by work safety laws and regulations imposed by the PRC government authorities. We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. We have adopted and implemented occupational health and safety procedures and measures for our structural steel fabrication process which include operational and safety control procedures, occupational health management procedures, machinery operation and maintenance procedures and emergency control procedures.

We provide our production staff with safety induction and regular trainings on work safety in connection with matters such as the safe operation of machinery with a view to enhancing occupational safety and minimising the occurrence of work-related accidents and occupational illness. Our production department carries out regular safety inspections on our production facility to ensure compliance with the safety measures. Protective devices are installed and warning signs are posted to ensure the machinery is operated safely. Our production staff is provided with occupational safety gear such as safety helmets, protective eyewear, safety shoes and gloves.

We have established a policy in recording and handling accidents. Upon occurrence of an accident, the employees shall report to the relevant department head and the administration department. The relevant department head shall prepare a report detailing the accident, including date and time of the accident, employees involved, cause, confirmation of responsibility, suggestion on rectification, and submit to the administration department. The department shall then carry out an investigation, assess the impact of the accident and recommend appropriate measures to improve safety.

Work safety measures at project sites

Our Group has put in place an internal safety manual which sets out the work safety measures implemented by our Group to prevent workplace accidents at the construction sites. Set out below are some of the work safety measures included in our internal safety manual:

- organises site safety induction briefing sessions for workers on the first day of work and provides trainings for the workers on site, including subcontractors' employees. Topics of the safety training typically cover safety procedures for performing structural steel works, safety procedures for emergency and duties and procedures for reporting hazards, incidents, accidents and diseases, potential hazards in respect of the work sites, function and proper usage of personal protection equipment, contingency measures at work sites, and good housekeeping of workplaces;

- effective promotion and communication of safety procedures are maintained through among others, establishing safety bulletin and detailed record of accident statistics, holding regular internal and external safety meetings, and documenting safety measures and issues identified for each project by preparing safety reports and training record;

- risk assessments are conducted to identify potential hazards and accidents and provide suggestion on proper preventive measures prior to commencement of works;

- site inspections are carried out by our safety officers on a daily basis to ensure strict compliance with the statutory occupational health and safety laws, rules and regulations. We may also engage external safety consultant to assist with our safety supervision on a case-by-case basis;

- our safety officer shall (i) advise our senior management team on the legal requirements in respect of occupational health and safety matters; (ii) anticipate possible workplace hazards and recommend relevant prevention procedures; (iii) provide statistics and analysis on workplace accidents and make recommendations for improvement; (iv) report and investigate works accidents, determine their causes and recommend measures for preventing recurrence; and (v) arrange safety trainings for all our employees;

- our project management team shall ensure that our work safety measures are incorporated into our proposed construction methods from the planning stage, and are subsequently adhered to throughout project implementation;

- our site foremen shall co-operate with our safety officer to establish on-site safety practices and ensure that all new comers to the construction sites are aware of their obligations to comply with such practices; and

- safety audits and safety reviews are conducted in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulation.

Our project management team is responsible for overseeing the implementation of our occupational health and safety policies at project sites and ensuring that we comply with all applicable occupational health and safety standards and laws. Our internal safety manual is reviewed from time to time to incorporate the best practices and to address and improve specific areas of our occupational health and safety policies. Our workplace and safety rules set out in our internal safety manual identify common safety and health hazards and recommendations on prevention of workplace accidents. We require our employees and our subcontractors' employees to strictly comply with our safety rules.

We provide suitable personal protective equipment such as full-body harness, safety helmet and safety boots to our employees and our subcontractors' employees. We also provide safety training to all of our employees who are working at the construction sites to ensure that they are aware of and comply with our internal safety guidelines.

Our project management team regularly provides guidance to our workers and subcontractors on correct and safe working practices. We may impose fines on or remove the subcontractors who have repeatedly breached the internal safety procedures from our internal approved list of subcontractors. We also hold regular meetings with our subcontractors to discuss on the implementation of safety measures and follow up with any safety issues identified during the course of project implementation.

During the Track Record Period, we engaged safety auditors for the purpose of conducting safety audits on our safety management system in accordance with the requirements of the Factories and Industrial Undertakings (Safety Management) Regulation. During the course of the safety audits, the safety auditors (i) conducted physical inspection on selected sites to assess if our established safety management system was implemented in accordance with the relevant laws and regulations in Hong Kong; (ii) conducted interview with personnel selected from different levels; (iii) obtained documents for review to assess the adequacy and effectiveness of our safety management system; and (iv) suggested areas of improvements and recommendations on our safety management system. Upon completion of the safety audits, the safety audit reports were submitted to our executive Directors for review and then submitted to the Labour Department. Our Directors confirmed that no material deficiencies in relation to our safety management system had been identified by the safety auditors and that our safety management system had continually fulfilled the relevant safety regulations in all material respects.

Handling and recording of workplace accidents

Our Group has a proper system in place for handling and recording work accidents at the construction sites during the Track Record Period and up to the Latest Practicable Date. Set out below is our general procedures for handling and recording work accidents:

- Upon occurrence of an accident, we require the injured worker or person who witnessed the accident to report to our safety officer about the details of the accident on a timely basis, including the venue, time, cause of injury, etc..

- Our safety supervisor will prepare a notice of accident and send the notice of accident to the project manager and our administrative staff detailing the venue, date and time of the accident, name of the injured, details of the accident and injury and follow up action performed by the safety supervisor after the occurrence of the accident. Our administrative staff maintains a master file for recording all details of injury cases.

- Our administrative staff will report the work injury case on time to the main contractor and the Labour Department in accordance with the relevant requirements.

Fatal accident prior to the Track Record Period

Prior to the Track Record Period, a fatal accident occurred at the site of Siu Ho Wan Depot, Lantau Island, Hong Kong (the "**Siu Ho Wan Site**"), at which our Group was engaged by the main contractor to provide structural steelwork as a subcontractor. On 11

March 2017, one worker (the "**Deceased**"), being an employee of the subcontractor of our Group, sustained fatal injury during the course of work. It was alleged that while the Deceased was working on a metal platform at height located at the Siu Ho Wan Site, an unfixed metal plate displaced and dropped, thereby causing the Deceased to fall from the metal platform onto the ground (the "**Siu Ho Wan Accident**").

Following the Siu Ho Wan Accident, our Group has implemented enhanced work safety measures to prevent recurrence of similar accidents, which included but not limited to:

(i) conducting an external safety audit under the Factories and Industrial Undertakings (Safety Management) Regulation in which the external safety auditor was satisfied with the findings on the safety management system of our Group;

(ii) adopting and implementing safety work system for working-at-height activities;

(iii) carrying out site inspections regularly by our safety officer to ensure strict compliance with the statutory occupational health and safety laws, rules and regulations;

(iv) providing frequent reminders and briefings to our workers and our subcontractors' workers to increase their awareness to occupational safety and health and our in-house safety rules;

(v) issuing warning letters to our workers and our subcontractors' workers if they failed to follow our in-house safety rules; and

(vi) taking disciplinary actions against our workers and our subcontractors' workers if they repeatedly or seriously breached our in-house safety rules.

As advised by the Hong Kong Legal Counsel, (i) all the litigation and claims relating to the Siu Ho Wan Accident has been fully settled and hence there is no litigation risk going forward; and (ii) the Siu Ho Wan Accident would have no impediment to our renewal of registration with the Construction Industry Council and the Development Bureau in the future. During the Track Record Period, we did not have any fatal accidents.

Workplace accidents during the Track Record Period and up to the Latest Practicable Date

During the Track Record Period and up to the Latest Practicable Date, we recorded one accident involving our employee at our project site in Hong Kong which gave rise or may give rise to potential employees' compensation claim and/or personal injury claims. The following table sets out the nature of the aforesaid accident occurred during the Track Record Period and up to the Latest Practicable Date:

Date of accident	Details of the accident
13 November 2021	An employee of our Group suffered injury to her left leg during work hours.

For further details of the employees' compensation claims under the Employees' Compensation Ordinance and personal injury claims under common law, please refer to the paragraph headed "Litigations and claims" below in this section. Save as disclosed above, our Group did not experience any significant incidents or accidents at our project sites in relation to workers' safety during the Track Record Period and up to the Latest Practicable Date.

Analysis of accident rates

The following table sets out a comparison of the industrial accident rate per 1,000 workers and the industrial fatality rate per 1,000 workers in the construction industry in Hong Kong between our Group and the industry average during the Track Record Period:

	Industry average in Hong Kong *(Note 1)*	**Our Group** *(Notes 2 and 3)*
From 1 January to 31 December 2020		
Accident rate per 1,000 workers	26.1	Nil
Fatality rate per 1,000 workers	0.185	Nil
From 1 January to 31 December 2021		
Accident rate per 1,000 workers	29.5	7.8
Fatality rate per 1,000 workers	0.218	Nil
From 1 January to 31 December 2022		
Accident rate per 1,000 workers	29.1	Nil
Fatality rate per 1,000 workers	0.162	Nil
From 1 January to 30 September 2023		
Accident rate per 1,000 workers	N/A *(Note4)*	Nil
Fatality rate per 1,000 workers	N/A *(Note4)*	Nil

Notes:

1. The statistics are extracted from the Occupational Safety and Health Statistics Bulletin Issue No.23 (August 2023) published by the Occupational Safety and Health Branch of the Labour Department.

2. Our Group's accident rate is calculated as the number of industrial accidents during the year/period divided by the daily average of the construction site workers in our Group's projects during the year/period.

3. The above data provided includes the employees of our Group and workers of our subcontractors in Hong Kong during the Track Record Period.

4. The relevant data has not been published as at the Latest Practicable Date.

The following table sets forth our Group's lost time injuries frequency rate ("**LTIFR**") during the Track Record Period:

	LTIFR *(Note 1)*
For the year ended 31 December 2020	Nil
For the year ended 31 December 2021	3.8
For the year ended 31 December 2022	Nil
For the nine months ended 30 September 2023	Nil

Notes:

1. LTIFR is a frequency rate that shows how many lost time injuries occurred over a specified time (e.g. per 1,000,000 hours) worked in a period. The LTIFRs shown above are calculated by multiplying the number of lost time injuries of our Group that occurred during the relevant year/period by 1,000,000 divided by the number of hours worked by site workers over the same year/period. It is assumed that the working hour of each worker is 8 hours per day.

2. The above data provided includes the employees of our Group and workers of subcontractors during the Track Record Period.

RESEARCH AND DEVELOPMENT

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

PROPERTIES

Leased properties

As at the Latest Practicable Date, we leased and occupied properties consisting of (i) a parcel of land and buildings located in Dongguan, the PRC for our Dapianmei Production Facility; (ii) the Xinlong Production Facility located in Dongguan, Guangdong, the PRC; and (iii) offices and car parking spaces in Hong Kong. The table below sets forth the information regarding the properties leased by us as at the Latest Practicable Date:

Address and description of location	Landlord	Use of property	Approximate area	Term of tenancy
Dapianmei Village, Dalingshan Town, Dongguan City, Guangdong Province, PRC (中國廣東省東莞市大嶺山鎮大片美村)	Independent third parties	Production facility and ancillary use	A parcel of land with a site area of approximately 8,400 sq.m. and buildings with an aggregate gross floor area of approximately 7,000 sq.m.	13 July 1999 to 12 July 2049
1/F, building no. 3-4, Xinlong Technology Park, 1 Lingchuang Street, Yongjun Road, Dalingshan Town, Dongguan City, Guangdong Province, PRC (中國廣東省東莞市大嶺山鎮擁軍路嶺創街1號鑫隆科技園第3-4棟一樓)	An independent third party	Production facility and staff dormitory	8,700 sq.m.	23 October 2022 to 22 October 2024
Rooms 1510-1512 and 1520, Fortune Commercial Building and parking lot nos. 315, 316 and 201, 362 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	Wealthy River International Investment Limited *(Note)*	Office and car parking space	1,896 sq.ft.	1 January 2024 to 31 December 2024
Room 1516, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	An independent third party	Office	297 sq.ft.	1 January 2024 to 31 December 2024
Room 2318, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	An independent third party	Office	282 sq.ft.	17 May 2023 to 16 May 2024
Parking lot no. 511, Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	An independent third party	Car parking	125.9 sq.ft.	1 February 2023 to 31 January 2025

Note: Wealthy River International Investment Limited is owned as to one-third by Mr. Kelvin Chan (an executive Director, the chief executive officer of our Group and one of our Controlling Shareholders), one-third by Mr. Eddie Chan (an executive Director, the chief operating officer of our Group and one of our Controlling

Shareholders) and one-third by Ms. Karen Chan (an executive Director and one of our Controlling Shareholders). Therefore, Wealthy River International Investment Limited is a connected person of our Company. For details, please refer to the paragraph headed "Relationship with our Controlling Shareholders – Transactions entered into before the Listing which would otherwise constitute connected transactions" in this prospectus.

As at 30 September 2023, our Group had no single property with a carrying amount of 15% or more of our Group's total assets. On this basis, our Group is not required by Rule 5.01A of the Listing Rules to include any valuation report in this prospectus. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with 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 in respect of the requirements for a valuation report with respect to interests in land or buildings.

Leased land and leased properties which are subject to title defects

As at the Latest Practicable Date, we have entered into agreements in the PRC in relation to (i) a lease of land (the "**Leased Land**") and the property for the Dapianmei Production Facility ("**Leased Property No. 1**") for a term of 50 years; and (ii) a lease of the property for the Xinlong Production Facility ("**Leased Property No. 2**", together with the Leased Land and Leased Property No. 1, collectively the "**Leased Properties**").

In respect of Leased Property No. 2, it is located at 1/F, Building No. 3-4, Xinlong Technology Park, 1 Lingchuang Street, Yongjun Road, Dalingshan Town, Dongguan City, Guangdong Province, PRC, which is not at the same location as the Leased Land being located in another village. In relation to the land use right of Leased Property No. 2 ("**Land No. 2**"), two agreements have been entered into, namely (i) the land use right transfer agreement between the relevant village committee and a villager of the village ("**the Villager**"), pursuant to which it is agreed that the relevant village committee shall transfer the land use right of Land No. 2 to the Villager for the purpose of industrial use for a period of 50 years from 2002 to 2052, and that the Villager shall have the right to use or sublet Land No. 2; and (ii) the sublease agreement between the Villager and the owner of the Leased Property No. 2 regarding the construction and sub-leasing of a factory building (i.e. Leased Property No. 2) for a period of 50 years from 2002 to 2052.

The ownership nature of the land for both of the Leased Property No. 1 and Leased Property No. 2 is collectively owned land. To the best of our Directors' knowledge and as advised by our PRC Legal Advisers, owing to historical reasons, (i) the landlords of the Leased Land and Leased Property No. 1 failed to obtain the land use right certificate（土地使用權證書）for the Leased Land, and the construction planning permit（建設工程規劃許可證）and property ownership certificate（房屋所有權證）for Leased Property No. 1; whereas (ii) the landlord of Leased Property No. 2 failed to obtain the construction planning permit（建設工程規劃許可證）and property ownership certificate（房屋所有權證）for Leased Property No. 2. In addition, both landlords failed to obtain the consent of over two-thirds of the members or over two-thirds of the representatives of villagers at the villagers' meetings of the relevant collective economic organisations in respect of the leases for the Leased Properties.

Legal consequences

According to the Regulations on the Lease of Properties in Towns and Cities in the Guangdong Province (《廣東省城鎮房屋租賃條例》), a landlord shall not lease any building without relevant property ownership certificate or management right, and shall not lease any property with illegal building structure. According to the Laws on Rural and Urban Planning of the PRC (《中華人民共和國城鄉規劃法》), if a landlord of a property does not possess valid construction planning permit, the landlord may be ordered by the relevant PRC authorities to dismantle the property within a prescribed time limit. According to the Interpretation by the Supreme People's Court about the Specific Application of Law on Certain Issues in the Hearing of Contractual Dispute Cases on the Leasing of Properties in Towns and Cities (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》), if a landlord enters into a lease with a tenant for a property which has not been issued with the construction planning permit or was not built in accordance with the provisions of the construction planning permit, such lease shall be invalid. Nevertheless, if before the closing of debate in the court of first instance, such property obtains the construction planning permit or the construction of such property is approved by the competent authorities, the People's Court shall hold such lease to be valid.

If the agreements in respect of the lease of the Leased Properties are declared null and void, the landlords of the Leased Properties may be ordered by the relevant PRC authorities to dismantle the properties within a prescribed time limit. In such circumstances, we may need to relocate from our production facilities.

According to the Land Administration Law of the PRC (1998 revision) (《中華人民共和國土地管理法(1998修訂)》), the right to use land collectively owned by peasants may not be granted, transferred or leased for non-agricultural construction. According to the Land Administration Law of the PRC (2019 revision) (《中華人民共和國土地管理法(2019修訂)》), assignment or leasing of collectively-operated development land shall be subject to consent by more than two-thirds of the members of the rural collective economic organisation or more than two-thirds of villager representatives. According to the Administrative Measures of Guangdong Province for the Circulation of the Right to the Use of Collectively-owned Land for Construction Purposes (《廣東省集體建設用地使用權流轉管理辦法》) (the "**Measures**"), collectively-owned land for construction purposes may be used for the establishment and development of industrial and commercial enterprises or foreign-invested enterprises, provided that the lease of the right to use the collectively-owned land for construction purposes is approved by more than two-thirds of the members or more than two-thirds of the villagers' representatives at the villagers' meeting of the relevant collective economic organisation. Any failure to comply with the aforesaid procedure may result in the lease being declared null and void.

Leased Land and Leased Property No. 1

On 9 May 2023, the PRC Legal Advisers and the Sponsor consulted Dongguan Dalingshan Town Planning Management Office (東莞市大嶺山鎮規劃管理所) and Dalingshan Branch of Dongguan City Natural Resources Bureau (東莞市自然資源局大嶺山分局), and both of which confirmed that: (i) Wing Kei Dongguan is not subject to any administrative penalties for violation of laws and regulations relating to land management and planning, and Wing Kei Dongguan's use of the Leased Land and Leased Property No. 1 does not constitute any material violation of any PRC laws; (ii) neither Dongguan Dalingshan Town Planning Management Office nor Dalingshan Branch of Dongguan City Natural Resources Bureau will impose any fines or other administrative penalties, such as demolition, confiscation of property in kind or illegal income on us for the use of the Leased Land and Leased Property No. 1; (iii) the Leased Land and Leased Property No. 1 are in compliance with land use master plan and urban-rural planning, there is no plan to change the existing land use of the Leased Land and Leased Property No. 1 and Leased Property No. 1 is not subject to any risks of demolition or confiscation as a result of any proposed changes to the land use; (iv) Wing Kei Dongguan is entitled to continue to use the Leased Land and Leased Property No. 1 on an as-is basis; and (v) the leasing of lands and properties without the relevant certificates and/or permits was relatively common in such region.

As confirmed by the Dongguan City Natural Resources Bureau（東莞市自然資源局）to the PRC Legal Advisers, the Dongguan Songshan Lake Hi-Tech Industrial Development Zone Management Committee Natural Resources Bureau（東莞松山湖高新技術產業開發區管理委員會自然資源局）is the competent superior authority of the Dalingshan Branch of Dongguan City Natural Resources Bureau. As confirmed by the Dongguan Songshan Lake Hi-Tech Industrial Development Zone Management Committee Natural Resources Bureau to the PRC Legal Advisers, the Dalingshan Branch of Dongguan City Natural Resources Bureau is the competent authority to give administrative order or impose penalty within the jurisdiction of Dalingshan Town; and the Dongguan Songshan Lake Hi-Tech Industrial Development Zone Management Committee Natural Resources Bureau confirmed to the PRC Legal Advisers, the Dongguan Dalingshan Town Planning Management Office is the competent authority within the jurisdiction of Dalingshan Town to implement the administrative supervision and management.

On 21 July 2023, the PRC Legal Advisers and the Sponsor consulted the landlords of the Leased Land and Leased Property No. 1, which, also being the relevant village committee and collective economic organisation, confirmed that: (i) there are no complaints, disputes, controversies, disagreements, litigations or arbitrations between our Group and the landlords in relation to the validity, interpretation, execution and performance of the lease for the Leased Land and Leased Property No. 1 ("**Agreement No. 1**"); and (ii) Wing Kei Dongguan is entitled to continue to use the Leased Land and Leased Property No. 1 in accordance with Agreement No. 1. In addition, the landlords confirmed that they have no intention to early terminate Agreement No. 1.

According to the Response of the Legal System Working Committee of the Standing Committee of the National People's Congress to the Request for Clarification on the Division of Rights and Relations between Village Committee and Collective Economic Organisation（《全國人大常委會法制工作委員會對關於村民委員會和村經濟合作社的權利和關係劃分的請示的答覆》）of 31 January 1992, the land owned collectively by the peasants of the village in accordance with the law shall be operated and managed by collective economic organisation such as village agricultural production cooperatives or, if there is no village collective economic organisation, by village committee. According to the Organic Law of the Villagers Committees of the PRC (amended in 1998)（《中華人民共和國村民委員會組織法(1998)》）, which was in force at the time, and the Organic Law of the Villagers Committees of the PRC (amended in 2018)（《中華人民共和國村民委員會組織法(2018)》）, which is currently in force, the villagers committee shall, in accordance with the provisions of laws, administer the affairs concerning the land and other property owned collectively by the peasants of the village. Therefore, as advised by the PRC Legal Advisers, based on the foregoing, the landlords of the Leased Land and Leased Property No. 1, which also being the relevant village committee and collective economic organisation, could represent the members or representatives of villagers to give the confirmations in relation to the continuous usage of the Leased Land and Leased Property No. 1.

As confirmed by our Directors, no administrative penalties have been imposed on Wing Kei Dongguan by any PRC government authority in relation to our use of the Leased Land and Leased Property No. 1 and neither Wing Kei Dongguan nor the landlords have been challenged, investigated or penalised by any PRC government authority in relation to our use of the Leased Land and Leased Property No. 1 since the date of Agreement No. 1 and up to the Latest Practicable Date. Considering that (i) Leased Property No. 1 has obtained a Building Structural Safety Appraisal Report《房屋結構安全鑒定報告》issued by a qualified institution in 2019, which concluded that the Leased Property No. 1 has complied with the safety requirements for use of the building structure and can continue to be used safely in the existing conditions; According to the Building Structural Safety Appraisal Report of Leased Property No. 1, Leased Property No. 1 can continue to be used safely in the existing conditions within the prescribed service loads, with the next appraisal to be conducted by April 2024 under normal conditions of use; (ii) Leased Property No. 1 has not experienced any safety-related issues since completion of its construction in 2000; (iii) Wing Kei Dongguan has never received any penalties or notices from the relevant authority for safety-related issues in respect of Leased Property No. 1; (iv) the failure of Leased Property No. 1 to obtain a construction planning permit is due to historical reasons and does not necessarily indicate that there are any issues with the safety of the building. Our Directors are of the view that Leased Property No. 1 has no safety concern. In addition, as advised by the PRC Legal Advisers, based on the Building Structural Safety Appraisal Report《房屋結構安全鑒定報告》, Leased Property No. 1 in all material respects complies with relevant standards and safety regulations.

According to the Measures for the Administration of Construction Project Quality Appraisal (《建設工程質量檢測管理辦法》), an appraisal institution which issues building structural safety appraisal reports should obtain the qualification as a construction project quality appraisal institution and being engaged in construction project quality appraisal activities within the scope of the qualification permit. The appraisal institution which issued the Building Structural Safety Appraisal Report for Leased Property No. 1 is an appraisal institution which has obtained the qualification as a construction project quality appraisal institution. As at the date of the Building Structural Safety Appraisal Report, the qualification of the appraisal institution was valid and subsisting.

According to the Measures for the Administration of Construction Project Quality Appraisal, the appraisal institution should carry out construction project quality appraisal in accordance with laws, regulations and applicable standards, and issue appraisal reports. Furthermore, as confirmed by the relevant authority which is in charge of the appraisal institution, if the appraisal report concludes that the building can continue to be used safely within prescribed service loads, the building structure meets the requirements for structural safety. The building has no safety concerns and complies with relevant standards and safety regulations in all material respects.

Leased Property No. 2

On 9 May 2023, the PRC Legal Advisers and the Sponsor consulted Dongguan Dalingshan Town Planning Management Office (東莞市大嶺山鎮規劃管理所) and Dalingshan Branch of Dongguan City Natural Resources Bureau (東莞市自然資源局大嶺山分局), and both of which confirmed that: (i) Wing Kei Dongguan is not subject to any administrative penalties for violation of laws and regulations relating to land management and planning, and Wing Kei Dongguan's use of Leased Property No. 2 does not constitute any material violation of any PRC laws; (ii) neither Dongguan Dalingshan Town Planning Management Office nor Dalingshan Branch of Dongguan City Natural Resources Bureau will impose any fines or other administrative penalties, such as demolition, confiscation of property in kind or illegal income on us for the use of Leased Property No. 2; (iii) Leased Property No. 2 is in compliance with land use master plan and urban-rural planning, there is no plan to change the existing land use of Leased Property No. 2 and Leased Property No. 2 is not subject to any risks of demolition or confiscation as a result of any proposed changes to the land use; (iv) Wing Kei Dongguan is entitled to continue to use Leased Property No. 2 on an as-is basis; and (v) the leasing of properties without the relevant certificates and/or permits was relatively common in such region.

As confirmed by the Dongguan City Natural Resources Bureau to the PRC Legal Advisers, the Dongguan Songshan Lake Hi-Tech Industrial Development Zone Management Committee Natural Resources Bureau is the competent superior authority of the Dalingshan Branch of Dongguan City Natural Resources Bureau. As confirmed by the Dongguan Songshan Lake Hi-Tech Industrial Development Zone Management Committee Natural Resources Bureau to the PRC Legal Advisers, the Dalingshan Branch of Dongguan City Natural Resources Bureau is the competent authority to give the administrative order or penalty within the jurisdiction of Dalingshan Town; and the Dongguan Songshan Lake Hi-Tech Industrial Development Zone Management Committee Natural Resources Bureau confirmed to the PRC Legal Advisers, the Dongguan Dalingshan Town Planning Management Office is the competent authority within the jurisdiction of Dalingshan Town to implement the administrative supervision and management.

On 21 July 2023, the PRC Legal Advisers and the Sponsor consulted the relevant village committee and collective economic organisation of the village where the Leased Property No. 2 is located, confirmed that: (i) there are no complaints, disputes, controversies, disagreements, litigations or arbitrations among our Group, the village committee, the owner and the landlord of Leased Property No. 2 in relation to the lease for Leased Property No. 2 ("**Agreement No. 2**"); and (ii) Wing Kei Dongguan is entitled to continue to use Leased Property No. 2 in accordance with Agreement No. 2. In addition, on 21 July 2023, the owner and the landlord of Leased Property No.2 confirmed that they have no intention to early terminate Agreement No. 2.

As mentioned above, according to the Response of the Legal System Working Committee of the Standing Committee of the National People's Congress to the Request for Clarification on the Division of Rights and Relations between Village Committee and Collective Economic Organisation of 31 January 1992, the land owned collectively by the peasants of the village in accordance with the law shall be operated and managed by collective economic organisation such as village agricultural production cooperatives or, if there are no village collective economic organisation, by village committee. According to the Organic Law of the Villagers Committees of the PRC (amended in 1998), which was in force at the time, and the Organic Law of the Villagers Committees of the PRC (amended in 2018), which is currently in force, the villagers committee shall, in accordance with the provisions of laws, administer the affairs concerning the land and other property owned collectively by the peasants of the village. Therefore, as advised by the PRC Legal Advisers, based on the foregoing, the relevant village committee and collective economic organisation of the village where the Leased Property No. 2 is located could represent the members or representatives of villagers to give the confirmations in relation to the continuous usage of the Leased Property No. 2.

As confirmed by our Directors, no administrative penalties have been imposed on Wing Kei Dongguan by any PRC government authority in relation to our use of Leased Property No. 2 and neither Wing Kei Dongguan nor the landlord has been challenged, investigated or penalised by any PRC government authority in relation to our use of Leased Property No. 2 since the date of Agreement No. 2 and up to the Latest Practicable Date. Considering that (i) Leased Property No. 2 has obtained a Building Structural Safety Appraisal Report（《房屋結構安全鑒定報告》）issued by a qualified institution in 2023, which concluded that Leased Property No. 2 has complied with the safety requirements for the use of the building structure and can continue to be used safely in the existing condition. According to the Building Structural Safety Appraisal Report of Leased Property No. 2, Leased Property No. 2 can continue to be used safely in the existing conditions within the prescribed service loads, with the next appraisal to be conducted by August 2025 under normal conditions of use; (ii) Leased Property No. 2 has not experienced any safety-related issued since we leased it in 2019; (iii) Wing Kei Dongguan has never received any penalties or notices from the relevant authority for safety-related issues in respect of Leased Property No. 2 since we leased it in 2019; and (iv) the failure of Leased Property No. 2 to obtain a construction planning permit is due to historical reasons and does not necessarily indicate that there are any issues with the safety of the building. Our Directors are of the view that Leased Property No. 2 has no safety concern. In addition, as advised by the PRC Legal Advisers, based on the Building Structural Safety Appraisal Report《房屋結構安全鑒定報告》, Leased Property No. 2 in all material respects complies with relevant standards and safety regulations.

According to the Measures for the Administration of Construction Project Quality Appraisal (《建設工程質量檢測管理辦法》), an appraisal institution which issues building structural safety appraisal reports should obtain the qualification as a construction project quality appraisal institution and being engaged in construction project quality appraisal activities within the scope of the qualification permit. The appraisal institution which issued the Building Structural Safety Appraisal Report for Leased Property No. 2 is an appraisal institution which has obtained the qualification as a construction project quality appraisal institution. As at the date of the Building Structural Safety Appraisal Report, the qualification of the appraisal institution is still valid and subsisting.

According to the Measures for the Administration of Construction Project Quality Appraisal, the appraisal institution should carry out construction project quality appraisal in accordance with laws, regulations and applicable standards, and issue appraisal reports. Furthermore, as confirmed by the relevant authority which is in charge of the appraisal institution, if the appraisal report concludes that the building can continue to be used safely within prescribed service loads, the building structure meets the requirements for structural safety. The building has no safety concerns and complies with relevant standards and safety regulations in all material respects.

Indemnity from Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to indemnify and will keep Wing Kei Dongguan fully indemnified against all claims, losses, liabilities, damages, costs, charges, fees, expenses, fines suffered or incurred by Wing Kei Dongguan as a result of or in connection with Agreement No. 1 and Agreement No. 2 being void or terminated prematurely as a result of the above mentioned title defects.

Views of our PRC Legal Advisers

Based on the foregoing, our PRC Legal Advisers are of the view that (1) the usage of the Leased Properties were in accordance with the land usage planning; (2) the districts in which the Leased Properties situated are not subject to any new planning, and the Leased Properties are not expected to be demolished; (3) the relevant authorities have no plans to change the existing land use of the Leased Properties and there is no risk of demolition or confiscation as a result of any proposed changes to the land use of Lease Properties; (4) Wing Kei Dongguan will be able to continue to use the Leased Properties on an as-is basis according to the terms of Agreement No. 1 and Agreement No. 2; (5) as a tenant, we are not liable for the title defects and are not in breach of the applicable laws and regulations; (6) we will not be subject to any administrative punishment or penalties in this regard; and (7) the chance that Wing Kei Dongguan will be required to relocate due to title defects in the Leased Properties is remote, and that the risk of material adverse effect on Wing Kei Dongguan's overall production and operations is remote.

Views of our Directors

On the aforesaid basis, we intend to continue to lease the Leased Properties in accordance with the terms of the Agreement No. 1 and Agreement No. 2, respectively. Our Directors consider that the possibility that we will be forced to relocate our production facilities before the expiry of Agreement No. 1 and Agreement No. 2 is low because:

(i) from the respective dates we started to lease the Leased Properties (namely 13 July 1999 for the Leased Land and Leased Property No. 1 and 23 October 2019 for Leased Property No. 2) and up to the Latest Practicable Date, we and the landlords had not received, and the relevant government authorities had not issued, any notice, letter or order, about the title defect of the Leased Properties, and the respective landlords or villagers raised no objections to our use of the Leased Properties;

(ii) the relevant and competent authorities have confirmed that Wing Kei Dongguan is entitled to continue to use the Leased Properties on an as-is basis; and

(iii) the respective landlords of the Leased Properties have confirmed that Wing Kei Dongguan is entitled to continue to use the respective Leased Properties in accordance with the terms of the Agreement No. 1 and Agreement No. 2, respectively.

Our Directors further consider that the chance that both our Dapianmei Production Facility and Xinlong Production Facility need to be relocated at the same time due to the title defects is very remote.

Contingent relocation plan

We carry out fabrication of structural steel required in our projects at the Leased Properties. In the unlikely event that we were forced to relocate our operations from the existing production facilities, we might be subject to possible risk of disruption to our business. In order to mitigate such risk, our management has devised a contingent plan for relocating our operations to other suitable leased premises.

We have consulted a property agent in the PRC for identifying suitable leased properties for our contingent relocation plan based on the following criteria (i) being located within or in proximity to Dongguan with a gross floor area of approximately 8,000 sq.m.; (ii) being available for lease at the monthly rental between RMB200,000 and RMB220,000; (iii) permitted for industrial use; (iv) having obtained the necessary certificates and registrations including land use certificate and building ownership certificate; (v) having complied with all relevant standards and safety regulations; (vi) equipped with all necessary fitting-out and ancillary facilities; and (vii) readily available for immediate use and occupation. Based on the response from the property agent, there are at least six properties which fulfil the abovementioned criteria available for lease. In order to ensure that suitable properties which fulfil our criteria will be readily available for lease, the property agent had agreed to continue updating the list of identified properties on a regular basis. In the event any of the identified properties is no longer available for lease, the property agent shall identify alternative properties that fulfil our criteria.

In the unlikely event of forced relocation, we would migrate our operations to other leased property(ies) in phases to mitigate the risks of complete suspension in our fabrication works and to minimise any potential adverse impact brought by the relocation.

According to the Administrative Penalty Law of the PRC (《中華人民共和國行政處罰法》), an administrative organ shall make a decision on administrative penalty within 90 days from the date the case of administrative penalty is placed on file. According to the Administrative Compulsory Law of the PRC (《中華人民共和國行政強制法》), for any unlawful building, structure, facility or otherwise that needs to be removed mandatorily, a statutory period is required for the party concerned to apply for administrative reconsideration or brings an administrative lawsuit. According to the Administrative Procedure Law of the PRC (as amended in 2017) (《中華人民共和國行政訴訟法》), where a citizen, a legal person or any other organisation chooses to directly initiate an action to a people's court, he or it shall do so within six months from the date when he or it knows or should know that a specific administrative act has been taken.

According to the consultation by the PRC Legal Advisers with the Dongguan Urban Management and Comprehensive Law Enforcement Bureau (東莞市城市管理和綜合執法局), the time limit imposed by the administrative order or penalty to the dismantlement is determined on a case-by-case basis. As a general practice, the time limit imposed by the order or penalty to the dismantlement generally ranges from six to 18 months. As confirmed by the PRC Legal Advisers, according to the Breakdown Table of Administrative Law Enforcement Powers and Administrative Law Enforcement Responsibilities of Dalingshan Town, Dongguan City (《東莞市大嶺山鎮行政執法職權和行政執法責任分解表》), Dongguan Urban Management and Comprehensive Law Enforcement Bureau (東莞市城市管理和綜合執法局) is competent to give such confirmation.

Based on our estimation, the phased migration of our operations would be completed within approximately two to three months, taking into account the transportation time of our machinery and materials, and the setup time for our machinery at the new premises. Further, if we encountered significant production orders while we were conducting relocation, we might temporarily outsource some of our steel fabrication works to subcontractors.

As advised by the PRC Legal Advisers, if an administrative order or penalty to dismantle any illegal building, structure or facility is imposed on the Dapianmei Production Facility or Xinlong Production Facility, the time limit for implementing such administrative order or penalty generally ranges from six to 18 months. As we would unlikely be forced to relocate immediately or within short notice, our Directors believe that it would be feasible for us to carry out the relocation in phases and make appropriate planning or adjustment to our production schedule before relocation, thereby mitigating the overall adverse impacts on our operations. For instance, if we received notice from the relevant landlord(s) requiring us to relocate our production facilities in our Dapianmei Production Facility and/or Xinlong Production Facility, we could prioritise our fabrication works with regard to the schedule of our construction site works and the urgency of having the relevant materials delivered to Hong Kong. In order to facilitate our production efficiency during the relocation period, the more imminent fabrication work orders would remain with our existing production facilities, while those less urgent orders might be processed at the new premises during the transition period of relocation. Further, once the actual timing of relocation is determined, we could negotiate with our customers for providing us with temporary space at the construction work sites so that we might complete the fabrication works earlier in advance and place the fabricated items in Hong Kong or rent a warehouse in the PRC temporarily as an interim measure. This would enable us to allocate our production capacity more evenly, and hence reducing the risk of late delivery during the relocation period. Where necessary, we may also consider seeking for minor extension or rescheduling of our installation works from our customers such that we could have more leeway in planning our production schedule.

In the unlikely event that we were forced to relocate our operations from both the Dapianmei Production Facility and the Xinlong Production Facility at the same time, we estimate that we would have to incur additional subcontracting fees of approximately RMB2.0 million during the relocation. Such estimation takes into account various factors including (i) the expected extent of reduction in our total production capacity during the relocation, as mitigated by appropriate planning or adjustment to our production schedule as explained in the paragraph above; (ii) the estimated volume of structural steel fabrication works which might have to be outsourced to subcontractors during the relocation; and (iii) the historical unit rate chargeable by our subcontractors in relation to structural steel fabrication works.

Save as the additional subcontracting fees that we might have to incur, our Directors consider that any forced relocation of our production facilities in the Dapianmei Production Facility and/or Xinlong Production Facility would not result in a material loss of revenue and/or material adverse impact on our Group's financial performance, given that we could significantly mitigate the potential impact by (i) carrying out the relocation in phases and making appropriate planning or adjustment to our production schedule in the meantime; (ii) where necessary, temporarily outsourcing part of our fabrication works to subcontractors; and (iii) seeking for special arrangements with our customers or renting a warehouse in the PRC temporarily for temporary storage space and/or minor extension or rescheduling for our installation works. Our Directors believe that these measures could prevent failure to deliver the required fabricated materials to Hong Kong for our construction site works.

Our Directors consider that we will not experience material difficulties in identifying suitable and readily available subcontractors for structural steel fabrication works with sufficient production capacity and quality assurance for fulfilling any temporary increase in our needs for subcontracting services in case of relocation taking into consideration (i) our Group maintains an approved list of subcontractors for structural steel fabrication works which is updated on a regular basis. We select our subcontractors based on their quality of services, qualifications, skills and technique, prevailing market price, delivery time, availability of resources in accommodating our requests and reputation. As at the Latest Practicable Date, our Group had a pool of over 10 approved subcontractors for structural steel fabrication works which fulfil our evaluation criteria; (ii) our quality control staff conducts site inspection at our subcontractors' production facilities on a regular basis to ensure their works comply with the quality standards, requirements and specifications of our Group and our customers; and (iii) during the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage in the supply of subcontracting services for structural steel fabrication works or any material quality issues in relation to the works of our subcontractors for structural steel fabrication works.

Given we plan to carry out the necessary relocation in phases and we would be able to temporarily engage more subcontracting services, if necessary, as interim measure, our Directors expect that the potential relocation would neither result in substantial downtime in our production, nor material impact in our Group's operation.

Set forth below is a quantitative analysis on the potential impact in case of forced relocation from our Leased Properties:

Xinlong Production Facility

Our Group incurs a monthly rental of RMB265,000 under the lease of the Xinlong Production Facility. Since the prevailing market rental for similar properties are between RMB200,000 and RMB220,000, we expect that we would not have to incur additional monthly rental if we had to relocate from the Xinlong Production Facility to another property of similar features. Therefore, in the event of forced relocation from the Xinlong Production Facility, we would likely incur only minimal logistics and setup costs of approximately RMB0.2 million for the relocation.

Dapianmei Production Facility

By the time we leased the Dapianmei Production Facility, we had already settled upfront rental for the entire lease term of 50 years up to July 2049. If we were forced to relocate from our Dapianmei Production Facility to another property of similar features, it is estimated that we would incur additional monthly rental expenses of approximately RMB200,000 to RMB220,000. In addition, we would likely incur logistics and setup costs of approximately RMB0.2 million for the relocation.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group is the registered owner of four trademarks in Hong Kong and a domain name. For further information, please refer to the section headed "B. Further information about the business of our Group – 2. Intellectual property rights" in Appendix V to this prospectus.

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

LEGAL COMPLIANCE

Hong Kong

Our Directors confirm, and as advised by the Hong Kong Legal Counsel, that during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance incident in relation to our Hong Kong operation which is material or systemic in nature.

The PRC

Non-compliance incident	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Latest status, remedial actions and measures
Failure to make adequate social insurance contributions for all employees During the Track Record Period, Wing Kei Dongguan failed to make adequate social insurance contributions for all of its employees in accordance with provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (the "**Social Insurance Law**"). The social insurance contributions made by Wing Kei Dongguan for its employees have reached the minimum amount required by the local government, but are less than the amount calculated based on the actual salaries of the employees. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, the outstanding amounts of social insurance contributions were approximately RMB30,000 *(Note)*, RMB0.9 million, RMB0.6 million and RMB0.5 million, respectively.	The non-compliance was primarily due to (i) Wing Kei Dongguan made social insurance contributions based on the local minimum wages; and (ii) some of the employees of Wing Kei Dongguan preferred not to make social insurance contributions at the actual salary level or at all. In particular, certain employees have made social insurance contribution in their hometowns and refused to make additional contribution.	Pursuant to Article 86 of the Social Insurance Law, if an employer fails to pay its social insurance contributions in accordance with the Social Insurance Law, the relevant authority may demand the employer to pay all outstanding social insurance contributions within a prescribed time limit. The employer may also be subject to a surcharge at a daily rate of 0.05% on the outstanding amount, accruing from when the social insurance contribution was due. If the employer fails to make such payment within the prescribed time limit, the relevant authority may impose a further fine of one to three times the outstanding amount. According to Article 20 of the Regulation on Labour Security Supervision (《勞動保障監察條例》), if the violation of labour security laws, regulations or rules has not been discovered by the labour security administrative department within 2 years, nor has it been reported or complained, the labour security administrative department shall no longer investigate and deal with it. According to the Law of the PRC on Administrative Penalty (《中華人民共和國行政處罰法》), where an illegal act is not discovered within two years of its commission, administrative penalty shall no longer be imposed. Therefore, as advised by the PRC Legal Advisers, Wing Kei Dongguan might be demanded to pay the outstanding social insurance contributions for a period of two years prior to the Latest Practicable Date of approximately RMB1.3 million and a late payment fee of approximately RMB0.3 million within a prescribed time limit. If Wing Kei Dongguan fails to make such payment within the prescribed time limit, the relevant authority may impose a further fine of one to three times of the abovementioned outstanding social insurance contributions.	As confirmed with Dalingshan Branch Office of Dongguan Municipal Human Resources and Social Security Bureau (東莞市人力資源和社會保障局大嶺山分局) on 28 July 2023, we had not been penalised for violating any PRC laws or regulations in relation to social insurance contributions. On 28 July 2023, our PRC Legal Advisers confirmed with the Dalingshan Branch Office of Dongguan Municipal Human Resources and Social Security Bureau (東莞市人力資源和社會保障局大嶺山分局) that (i) the authority was fully aware of the production and operation situation of Wing Kei Dongguan and its social insurance payment; (ii) as of the date of the interview, Wing Kei Dongguan has not been found to have violated any laws, regulations, rules or ordinances and has not been subject to any administrative penalties or supervisory measures for violating social insurance laws and regulations; and (iii) the authority has never initiated and will not initiate any proceedings including requiring us to pay all outstanding social insurance contributions. As advised by the PRC Legal Advisers, the aforementioned government authority have the authority and are competent to make the aforesaid confirmations. **Indemnity from our Controlling Shareholders** On 22 February 2024, each of our Controlling Shareholders issued a letter of indemnity, pursuant to which he/she/it jointly and severally undertook that if Wing Kei Dongguan is required to pay outstanding social insurance contributions for its employees, or bear any fine or loss due to Wing Kei Dongguan's failure to pay social insurance contributions for its employees in accordance with the Social Insurance Law, he/she/it would jointly and severally make up such payment for Wing Kei Dongguan unconditionally and undertake responsibilities on behalf of Wing Kei Dongguan. During the Track Record Period and up to the Latest Practicable Date, (i) we had not received any notification from Dongguan Municipal Bureau of Human Resources, Dalingshan Sub-bureau of Social Security and Dongguan Municipal Bureau of Human Resources and Social Security (東莞市人力資源社會保障局及東莞市人力資源社會保障局大嶺山分局) or any authority requiring us to pay the outstanding social insurance contributions or imposing surcharge or fine against us; and (ii) we were not aware of any complaint from our employees or dispute with our employees in respect of social insurance contributions. Based on the foregoing, the PRC Legal Advisers are of the view that the risk of Wing Kei Dongguan being required to pay the outstanding social insurance contributions or imposing surcharge penalties against Wing Kei Dongguan is remote. Based on the above, our Directors are of the view, and the Sponsor concurred, that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole and there is no need to make provision for such non-compliance.

Note: We enjoyed certain exemptions from making social insurance contributions on our part in FY2020 due to the introduction of Notice by the Ministry of Human Resources and Social Security, the Ministry of Finance and the State Taxation Administration of the Temporary Reduction and Exemption of Social Insurance Premiums Payable by Enterprises《人力資源社會保障部、財政部、稅務總局關於階段性減免企業社會保險費的通知》and Notice by the Ministry of Human Resources and Social Security, the Ministry of Finance and the State Taxation Administration on the extension of the implementation period of the policy of phased reduction and exemption of enterprise social insurance premiums and other issues《人力資源社會保障部、財政部、稅務總局關於延長階段性減免企業社會保險費政策實施期限等問題的通知》in light of the COVID-19 pandemic in 2020.

Non-compliance incident	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Latest status, remedial actions and measures
Failure to make adequate housing provident fund contributions for all employees During the Track Record Period, Wing Kei Dongguan failed to make adequate housing provident fund contributions for all of its employees in accordance with the Regulations Concerning the Administration of Housing Provident Fund (《住房公積金管理條例》). The housing provident fund contributions paid by Wing Kei Dongguan for its employees have reached the minimum amount required by the local government, but less than the amount calculated based on the actual salaries of the employees. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, the outstanding amount of housing provident fund contributions were approximately RMB0.4 million, RMB0.4 million, RMB0.4 million and RMB0.3 million, respectively.	The non-compliance was primarily due to (i) we made the housing provident fund contributions based on the local minimum; and (ii) some of the employees of Wing Kei Dongguan preferred not to make housing provident fund contributions at the actual salary level or had made housing provident fund contributions in their hometowns, and Wing Kei Dongguan has provided dormitory space as staff welfare for its employees.	Pursuant to Article 38 of the Regulations Concerning the Administration of Housing Provident Fund (《住房公積金管理條例》), if an employer fails to pay its housing provident fund contributions in accordance with the Regulations Concerning the Administration of Housing Provident Fund, the relevant authority has the power to order the employer to pay all outstanding housing provident fund contributions within a prescribed time limit. If the employer fails to make such payment within the prescribed time limit, an application of compulsory enforcement can be made to the People's Court of the PRC. Therefore, in respect of the outstanding housing provident fund contributions during the Track Record Period, the maximum amount that Wing Kei Dongguan might be ordered to pay would be approximately RMB1.5 million.	According to the Credit report(《信用報告(無違法違規證明版)》)dated 2 June 2023, we had not been penalised for violating any PRC laws or regulations in relation to housing provident fund contributions. As confirmed with Dongguan Housing Provident Fund Management Centre (東莞市住房公積金管理中心) on 1 August 2023, the authority will not initiate in requesting enterprises in default of housing provident fund contribution to pay the shortfall unless there is any complaint from the employees. In this regard, the relevant employees have undertaken not to make any complaint or claim, or take any action, in relation to the outstanding housing provident fund contributions. According to the Implementation Measure for the Enforcement of the Dongguan Housing Provident Fund Administrative Law(《東莞住房公積金行政執法管理辦法》東公積金委〔2022〕2號), the Dongguan Housing Provident Fund Management Centre is the competent authority for the enforcement of the housing provident fund administrative law and is responsible for the implementation of the investigation and handling of housing provident fund violations in Dongguan. As advised by the PRC Legal Advisers, the Dongguan Housing Provident Fund Management Centre has the authority and is competent to provide such confirmations. **Indemnity from our Controlling Shareholders** On 22 February 2024, each of our Controlling Shareholders issued a letter of indemnity, pursuant to which he/she/it jointly and severally undertook that if Wing Kei Dongguan is required to pay outstanding housing provident fund contributions for its employees, or bear any fine or loss due to Wing Kei Dongguan's failure to fully pay housing provident fund contributions for its employees, he/she/it would make up payment for Wing Kei Dongguan unconditionally and undertake responsibilities on behalf of Wing Kei Dongguan. During the Track Record Period and up to the Latest Practicable Date, (i) we had not received any notification from the Dongguan Housing Provident Fund Management Center or any authority requiring us to pay the outstanding housing provident fund contributions or about initiation of any compulsory enforcement at the court against us in relation to housing provident fund contributions; and (ii) we were not aware of any complaint from its employees or dispute with our employees in respect of housing provident fund contributions. Based on the foregoing, the PRC Legal Advisers are of the view that the risk of Wing Kei Dongguan being required to pay the outstanding housing provident fund contributions or being subject to compulsory enforcement to court is remote. Based on the above, our Directors are of the view, and the Sponsor concurred, that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole and there is no need to make provision for such non-compliance.

LITIGATIONS AND CLAIMS

During the Track Record Period and up to the Latest Practicable Date, our Group had been involved in certain claims, litigations and potential claims against our Group in the ordinary and usual course of our business. Set out below are the details of (i) the ongoing civil litigation involving our Group as at the Latest Practicable Date; (ii) the litigations against our Group settled or discontinued during the Track Record Period and up to the Latest Practicable Date; and (iii) the potential claim against our Group as at the Latest Practicable Date.

(i) Ongoing civil litigation involving our Group as at the Latest Practicable Date

The following table sets forth details of the ongoing civil litigation against our Group as at the Latest Practicable Date:

Nature of the claim	Particulars of the claim	Status
Winding-up proceedings (the "**Winding-up Proceedings**")	Our Group as the petitioner petitioned for winding-up of the respondent (the "**Respondent**") on insolvency grounds, relying on the Respondent's debts owed to our Group arising from balance of unpaid contract price under a subcontract (the "**Subcontract**") entered into between our Group and the Respondent. *(Note)*	The court has made the winding-up order against the Respondent.

Note: The original contract sum of the Subcontract amounted to approximately HK$30.3 million. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group recognised revenue of approximately HK$9.0 million, nil, nil and nil, respectively, from the Subcontract, representing approximately 2.8%, nil, nil and nil of the total revenue for the corresponding year/period, respectively. As at 30 September 2023, the trade receivables and retention receivables owing from the Respondent amounted to approximately HK$2.6 million and HK$1.5 million, respectively, in which provision for impairment has been fully provided. To the best knowledge and belief of our Directors, our Group has completed all the works under the Subcontract as at the Latest Practicable Date.

(ii) Litigations against our Group settled or discontinued during the Track Record Period and up to the Latest Practicable Date

The following table sets forth details of the litigations against our Group settled or discontinued during the Track Record Period and up to the Latest Practicable Date:

No.	Nature of the claim	Particulars of the claim
1.	Contractual dispute claims *(Note 1)*	These are two duplicated counter-claims by the Respondent of the Winding-up Proceedings in respect of the Subcontract (i.e. the same subcontract under dispute in the Winding-up Proceedings). The Respondent alleged that, as a result of the delay by our Group under the Subcontract, the Respondent incurred a liability to pay liquidated damages to the main contractor under the same project.
2.	Employees' compensation claim *(Note 2)*	It was alleged that, on 13 November 2021, the plaintiff, an employee of our Group, sprained her left leg in the course of employment as a wooden plank was unstable and caused the plaintiff to lose balance.
3.	Personal injury claim *(Note 2)*	This litigation was in respect of the fatal accident occurred prior to the Track Record Period, the details of which are set out in the paragraph headed "Occupational health and work safety – Fatal accident prior to the Track Record Period" in this section.
4.	Labour Tribunal claim *(Note 4)*	It was alleged that our Group failed to grant the plaintiff, an employee of a subcontractor of our Group, statutory holidays.
5.	Labour Tribunal claim *(Note 5)*	It was alleged that the severance payment payable to the plaintiff, an employee of a subcontractor of our Group, was incorrectly calculated.
6.	Personal injury claim *(Note 3)*	It was alleged that, on 28 September 2017, the plaintiff, an employee of our Group, sustained injuries to his right arm and ribs in the course of employment as a metal plank was unstable and caused him to fall from the second floor to the first floor.
7.	Personal injury claim *(Note 2)*	It was alleged that, on 24 August 2018, the plaintiff, an employee for our Group, sustained injuries to his rib and sternum in the course of employment as the bamboo on which he was standing broke and caused the plaintiff falling from the scaffold onto the working platform.
8.	Personal injury claim *(Note 2)*	It was alleged that, on 12 November 2017, an employee of the owner of a lorry-mounted elevating work platform from which our Group rented from, sustained fracture dislocation of his left talus as the elevating work platform toppled over and caused a bucket to fall onto the planter.

No.	Nature of the claim	Particulars of the claim
9.	Personal injury claim *(Note 2)*	It was alleged that, on 2 September 2016, the right hand of the plaintiff, an employee of our Group, was crushed between a box section and a metal rack and sustained injury.
10.	Personal injury claim *(Note 2)*	It was alleged that, on 12 October 2016, a metal subframe fell from height towards the ground and hit the plaintiff, an employee of our Group.
11.	Labour Tribunal claim *(Note 3)*	It was alleged that the annual leave payment in lieu to the plaintiff, an employee of a subcontractor of our Group, was incorrectly calculated.
12.	Personal injury claim *(Note 6)*	It was alleged that, on 12 May 2016, the right hand of the plaintiff, an employee of a subcontractor of our Group, was crushed against an I-beam in the course of employment.
13.	Personal injury claim *(Note 2)*	It was alleged that, on 8 December 2017, the right fingers of the plaintiff, an employee of a subcontractor of our Group, were hurt by heavy metals in the course of employment.
14.	Personal injury claim *(Note 2)*	It was alleged that, on 12 November 2017, the plaintiff, an employee of our Group, sustained left foot fracture in the course of employment as he fell from a work platform onto the planter.

As at the Latest Practicable Date, there was no outstanding liability in respect of all the above litigations.

Notes:

1. The Respondent discontinued with the two duplicated litigations very shortly after it made the counter-claims. As these two litigations were discontinued, the amount of settlement paid by our Group was nil.
2. The amount of settlement paid by our Group was nil as these litigations were covered by insurance.
3. The amount of settlement paid by our Group was nil as these litigations were discontinued.
4. The amount of settlement paid by our Group was approximately HK$46,000.
5. The amount of settlement paid by our Group was approximately HK$34,000.
6. The amount of settlement paid by our Group was approximately HK$516,000.

(iii) Potential claim against our Group as at the Latest Practicable Date

Personal injuries suffered by our employees or by our subcontractors' employees as a result of accidents arising out of and in the course of their employment may lead to employees' compensation claims and common law personal injury claims against us. Potential claims refer to those claims that have not commenced against our Group but are within the limitation period of two years (for employees' compensation claims) or three years (for common law personal injury claims) from the date of the relevant incidents pursuant to the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong).

As at the Latest Practicable Date, there was one accident resulting in injury to our employee which may give rise to potential litigation in relation to common law personal injury claim against our Group. The table below sets out a summary of the expiry of limitation period of the aforesaid work injury accident:

Year	Number of employees' compensation claims which limitation period will expire	Number of common law personal injury claims which limitation period will expire
For the year ending 31 December 2024	–	1
Total	–	1

As no court proceedings for such potential claim have been commenced, the Hong Kong Legal Counsel is of the view that the likely quantum of such potential claim cannot be assessed at this stage. As advised by the Hong Kong Legal Counsel, the amount of such potential claim to be borne by our Group, if any, shall be covered by insurance policies maintained by the relevant main contractor. As such, our Directors consider that such potential claims will not have any material adverse impact on our operation and financial performance and no provision had been made in respect of such potential claim.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us as at the Latest Practicable Date.

Indemnity executed by our Controlling Shareholders

Our Controlling Shareholders have entered into a Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms of the Deed of Indemnity, in respect of all liabilities and penalties which may arise as a result of any legal proceedings instituted by or against our Group and non-compliance by our Group on or before the date on which the Share Offer becomes unconditional. Please refer to the paragraph headed "E. Other Information – 1. Tax and other indemnities" in Appendix V to this prospectus for details.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE MATTERS

Our Group's governance on environmental-related risks, climate-related risks and opportunities, and social responsibilities

Our Directors consider that establishing and implementing sound environmental, social and governance ("**ESG**") principles and practices will help increase the investment value of our Company and provide long-term returns to our stakeholders. We are committed to complying with the Stock Exchange's reporting requirements on ESG following the Listing. We will formulate an ESG policy (the "**ESG Policy**") which will outline, among others, (a) the appropriate risk governance on ESG matters; (b) ESG strategy formation procedures; (c) ESG risk management and monitoring; and (d) identification of key performance indicators ("**KPI(s)**") and the relevant measurements. The ESG Policy will be formulated in accordance with the standards of Appendix 27 to the Listing Rules and be reviewed on an annual basis to ensure that it remain relevant and appropriate to the needs of our operation.

Our Board is principally responsible for (i) overseeing the formulation and reporting of our ESG direction and strategies; (ii) determining our ESG-related risks; (iii) establishing and adopting the ESG policy and targets of our Group; (iv) ensuring that ESG considerations are taken into consideration during the business decision-making process; (v) monitoring and reviewing our ESG performance; and (vi) revising the ESG strategies as appropriate if significant variance from the target is identified. Our Board also closely follows the latest ESG-related laws and regulations and updates our ESG measures correspondingly to ensure that we comply with the latest regulatory requirements.

Upon the Listing, we will establish a committee (the "**ESG Committee**"), comprising our Directors and senior management with sufficient knowledge of our Group's operations, and relevant experience and/or responsibilities for handling the current and emerging ESG matters. The ESG Committee will support our Board in implementing the ESG policy, targets and strategies, conducting materiality assessments of material ESG and climate-related risks and assessing how our Group adapts its business in light of climate change, collecting ESG data from different parties while preparing for the ESG report, and continuous monitoring of the implementation of measures to address our Group's ESG-related risks and responsibilities. The ESG Committee is also responsible for the investigation of deviation from targets and making recommendation on rectification actions. The ESG Committee will report to our Board on a half-yearly basis on the ESG performance of our Group and the effectiveness of our ESG system.

Identification, management and assessment approaches

Our Board has adopted the following approaches to identify, assess and manage material ESG issues relevant to our Group:

(i) *Identification*: Our Directors discuss the ESG issues relevant to our Group with our key stakeholders, including our major customers, major suppliers, management team and employees, and collect their views and opinions on our ESG measures and practices, which, help us better identify and prioritise the ESG issues and risks inherent in our business operations and formulate effective ESG measures to mitigate those risks. Our Directors believe that this open dialogue with stakeholders plays a crucial role in maintaining our business sustainability.

(ii) *Management:* Attributed to the above efforts, we have implemented ESG measures that provide guidelines in managing our ESG issues. In this connection, our Board will review ESG issues arising from our business operations including climate-related issues when reviewing our ESG measures, major plans of actions, risk management policies, annual budget in implementing these ESG measures and our business plans as well as setting our performance objectives.

(iii) *Assessment:* Apart from assessing the performance of our ESG measures through discussion among our Directors and our stakeholders, our Board would engage independent third party inspection and assessment institutions to identify and assess our level of compliance in respect of environmental protection covering air pollution control, noise control and climate changes.

Materiality assessment

We conduct a materiality assessment to identify ESG topics that are material to us, from which we are able to prioritise ESG aspects and strategise our action plan. We identify potential material ESG issues which may affect our Group's business or stakeholders, based on corporate strategies of our Group and characteristics of the Hong Kong structural steelwork industry, as well as the development of relevant government policies and applicable regulatory requirements and industry standards.

In assessing the materiality of identified ESG issues, we take both internal and external materiality assessments into account. The internal materiality assessment takes into consideration factors including but not limited to (i) the likelihood or frequency of the occurrence of the relevant risk; (ii) the degree of impact on our Group if the relevant risk occurs; (iii) our key company values, policies, strategies and objectives; (iv) direct financial impact; (v) ESG issues and metrics of concern to internal stakeholders; (vi) core competencies and strengths of our Group; (vii) reputational risks and opportunities; (viii) key issues in the Hong Kong structural steelwork industry; (ix) the operation environment of structural steel fabrication in the PRC; (x) development of government policies and applicable regulatory requirements and industry standards. The external materiality assessment takes into account (i) ESG issues and metrics of interest from external stakeholders; (ii) key ESG issues of interest from our competitors; (iii) policy guidelines and ESG risks; and (iv) opportunities identified by qualified independent third parties after in-depth investigation.

Based on our evaluation as well as internal and external inputs, we identify certain material ESG topics. Our material topics are closely aligned with our ESG strategic priorities. The results from our materiality exercise enable us to address stakeholder expectations and develop our ESG strategies with better priority setting and more efficient resources allocation.

Environmental matters

We endeavour to minimise any adverse impact on the environment resulting from our business activities. In order to comply with the applicable environmental protection laws, we have established an environmental management system in conformance with ISO 14001 international standard. Our environmental management system includes measures and work procedures governing environmental protection compliance that are required to be followed by our employees and our subcontractors.

Set out below are policies in addressing different environmental issues pertinent to our Group:

A. Emission

GHG emissions

Our major sources of greenhouse gas ("**GHG**") emissions are generated from (i) combustion of petrol by lifting machines and cranes at project sites and motor vehicles (Scope 1); and (ii) electricity consumption at our production facilities in the PRC and our office in Hong Kong (Scope 2). The following table sets forth a breakdown of our GHG emissions during the Track Record Period:

Indicator	Unit	FY2020	FY2021	FY2022	Nine months ended 30 September 2023
Direct GHG emissions (Scope 1) – Petrol consumption	tCO2e	115.2	110.2	119.9	104.8
Indirect GHG emissions (Scope 2) – Electricity consumption	tCO2e	1,424.5	1,606.6	1,588.7	1,111.6
Total GHG emissions (Scope 1 and Scope 2)	tCO2e	1,539.7	1,716.8	1,708.6	1,216.4

We have adopted the following measures to minimise direct GHG emissions in our operations:

- encouraging our employees to switch off idling engines when the lifting machines, cranes or motor vehicles are not in use;

- promoting and adopting the use of energy-saving and efficient equipment, and switching off machinery and electronic appliances when they are not in use;

- cleaning the fan blades of the ventilation system at our production facilities in the PRC regularly and maintaining the equipment for filtering dust and smoke regularly to ensure its normal operation;

- promoting e-office practices and measures, such as switching off electronic appliances when they are not in use; and

- our environmental management plan provides air pollution abatement guidelines and measures, which include (i) ensuring the concentration and rates of air pollutants are in compliance with the relevant environmental protection laws and regulations; and (ii) conducting periodic checks to ensure the GHG emission of lifting machines, cranes and motor vehicles is within the standard level as prescribed by law.

Waste management

(a) Hazardous wastes

Due to our business nature and to the best knowledge of our executive Directors, our Group did not generate hazardous waste in the course of our operation.

(b) Non-hazardous wastes

We generally arrange recycling of any leftover steel materials. The non-hazardous wastes generated from our Group's operations mainly include paper consumed in our office. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, we generated a total of approximately nil, 80 tonnes, 118 tonnes and 61 tonnes of non-hazardous wastes.

With the aim of minimising the environmental impacts from non-hazardous wastes generated from our business operations, our Group has implemented the following measures in waste management and launched different wastes reduction initiatives:

- providing recycling bins for different types of waste streams to promote recycling;

- promoting the use of electronic media for communication and reducing the use of paper;

- promoting reusing paper by placing a collection box for single-sided used paper next to each printer; and

- encouraging our employees to use double sided printing or photocopying wherever possible.

Sewage discharge

As we do not consume significant volume of water in our operation, our operation does not generate material discharges of water during the Track Record Period. Wastewater of our Group is discharged into the municipal sewage pipeline network for processing.

Noise

Our machinery at the production facilities in the PRC emanates noise during operation. To minimise the impact on the environment, we have implemented noise isolation at our production facilities and provided hearing protection devices to our employees.

Besides, due to our business nature, our operations on project sites generate noise. To mitigate disturbance created to the community and the environment, we adopted certain noise pollution control policies on project sites, which include:

- taking practicable measures to reduce excessive noise by using advance construction and noise damping technology;
- ensuring the noise level does not exceed the prescribed level regulated by the Noise Control Ordinance and other relevant regulations; and
- providing hearing protection devices to our employees.

B. Resources consumption

Energy consumption

Our Group's energy consumption mainly included (i) consumption of petrol by lifting machines, cranes and motor vehicles; and (ii) electricity consumed at our production facilities in the PRC and office in Hong Kong. The following table sets forth a breakdown of our major sources of energy consumption during the Track Record Period:

Types of energy consumption	**Unit**	**FY2020**	**FY2021**	**FY2022**	**Nine months ended 30 September 2023**
		(approximately)	*(approximately)*	*(approximately)*	*(approximately)*
Petrol	kWh	44,000	42,000	46,000	40,000
Electricity	kWh	1,726,000	1,946,000	1,924,000	1,349,000
Total	kWh	1,770,000	1,988,000	1,970,000	1,389,000

Apart from the energy saving measures in relation to the use of lifting machines, cranes and motor vehicles as mentioned above, our Group has established the following energy conservation management in order to minimise the waste of energy:

- promoting e-office practices and measures, such as switching off electronic appliances when not in use;
- encouraging our employees to set room temperature ranges from 23°C to 25°C;
- conducting regular trainings and workshops to help our employees identify energy-saving measures and enhance their awareness; and
- promoting and adopting the use of energy-saving and efficient equipment and will adopt immediate maintenance once damage is reported.

Water consumption

We mainly consume water in our production facilities in the PRC and office in Hong Kong. To ensure water is efficiently used, our Group has adopted measures to increase water efficiency such as placing environmental signs with water-saving messages at prominent places to remind our employees to conserve water.

Social matters

Set out below are our policies in addressing different social issues pertinent to our Group:

A. Employment

We are committed to upholding the principles of equal opportunities, diversity and anti-discrimination in our workplace. Recruitment and retention of employees are based on a range of diversity parameters, including but not limited to gender, age, cultural and educational background, nationality, ethnicity, industry experience, skills and knowledge. We conduct performance appraisal to analyse our employees' personal strengths and weaknesses, and suitability for promotion or further training. Discretionary bonus and salary adjustment are given to our employees based on their performance appraisal.

B. Health and safety

Please refer to the paragraph headed "Occupational health and work safety" in this section.

C. Development and training

- Staff handbook is given to our employees to ensure that they are familiar with our Group's policy.

- On-the-job training and industrial trainings are provided to our employees to equip them with the skills and knowledge essential to our fabrication process and construction site works.

D. Labour standards

We comply with the relevant laws and regulations in Hong Kong and the PRC and follow strictly with the Employment of Children Regulations and the Employment Ordinance in the recruitment of staff. We are also committed to eliminating discrimination in working environment and strive to provide our employees with equal job opportunities in relation to recruitment, training, opportunities, benefits and job arrangements, regardless of their race and gender.

Our Group also prohibits any punishments, management methods and disciplinary actions that involve verbal or physical abuse, physical punishment, or any actions that may constitute oppression or sexual harassment against our employees for any reason.

E. Supply chain management

- We have adopted a stringent policy and procedure on the selection of suppliers and subcontractors. For further details of our evaluation criteria, please refer to the paragraphs headed "Basis of selecting our subcontractors" and "Basis of selecting our suppliers of materials" in this section.

- We carry out quality assurance checks on materials received from suppliers to ensure the quality and reliability of materials meet our requirement. We generally arrange for testing of the materials by external laboratory selected by the Hong Kong government or by us.

- Our quality control department closely monitors our structural steel fabrication process to ensure strict compliance with our standard operating procedures. Our Group submits quality control report to our customers throughout the structural steel fabrication process on a regular basis. Our Group also engages third party testing service providers for weld testing to ensure the strength and quality of our semi-finished products. The third party testing service provider will issue testing report to our Group, which will be submitted to our customers for approval.

- We perform in-house inspections on each batch of finished goods to ensure our products comply with the specifications and requirements of our customers. We are generally required to provide outgoing quality inspection reports to our customers for approval before the products are delivered to the construction sites in Hong Kong.

- All subcontractors are required to follow our safety inspection policy and comply with our safe work practices when carrying out structural steelwork on project sites.

- We have developed a procedure in evaluating and assessing the safety performance of our subcontractors. Any unsatisfactory performance of our subcontractors will be reported to our Directors and warning letter may be issued to the relevant subcontractor. If the unsatisfactory performance persisted, we may remove such subcontractor from our internal approved list of subcontractors for a period of time and cease our existing engagements with such subcontractor should there be any material non-conformance with the safety requirement following the issue of the warning letter.

F. Services responsibility

We maintain ongoing communication with our customers to ensure understanding and satisfaction of their demand and expectations.

Upon completion of our projects, our project management team will arrange handover of the project sites to our customers. Site visits are performed by our customers and if any defects on our works are detected, we will arrange for rectifications.

G. Anti-corruption and whistleblowing

We strictly abide by the laws and regulations related to anti-corruption, including but not limited to the Anti-Unfair Competition Law of the PRC, the Criminal Law of the PRC and the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong). We uphold a high standard of integrity and adopt a zero-tolerance policy on acts of corruption in any form, including bribery and extortion, fraud and money laundering. Our Group stipulates the disciplinary code in our staff handbook and ensure our employees understand the details of the terms. Any suspected or actual fraudulent behavior will be reported to our Directors immediately. We strongly encourage our employees to report any suspected misconduct.

To avoid any conflict of interest of our employees, we stipulate the declaration of interest guidelines in our staff handbook, which provides guidelines and procedures to our employees in exercising their good faith and honesty in all transactions and avoid using their positions or knowledge gained from their employment for their own personal benefits. Our employees are required to ensure there is no conflict of interest between their personal interest and their duties to our Group and declare any potential or perceived conflict of interest to our executive Directors when they have or have had a personal relationship with a related person.

Our Group also adopts a whistleblowing policy and encourages our employees who have concerns about any suspected misconduct or malpractice within our Group to come forward and voice their concerns. Complainants are assured of their anonymity and are protected against unfair dismissal, victimisation or unwarranted disciplinary action even when their concerns turn out to be unsubstantiated. Our Audit Committee is responsible for monitoring and reviewing the effectiveness of the whistleblowing policy.

H. Community involvement

We are working towards to building a healthy and sustainable community and maintaining communication and interaction with the community. We aim to promote the stability of society and support the underprivileged to improve the quality of life. We focus to inspire our employees towards social welfare awareness and encourage our employees to participate in voluntary works to make contribution to society.

Corporate governance matters

Our Company will comply with the Corporate Governance Code. We have established procedures for developing and maintaining internal control systems covering areas such as corporate governance, operations management, compliance matters, financial reporting, as appropriate for our business operations. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. In particular, we have adopted the following internal control measures to enhance our corporate governance:

(i) our Board includes three independent non-executive Directors, whose backgrounds and profiles are set out in the section headed "Directors and senior management" in this prospectus, to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge;

(ii) our Directors will review and provide recommendation on our risk management related policies and procedures, and review the effectiveness and adequacy of our risk management activities annually;

(iii) we have established three board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the paragraph headed "Directors and senior management – Board committees" in this prospectus;

(iv) we have strengthened our internal audit system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the Audit Committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our financial controls, internal control and risk management systems. Our internal control system will be reviewed by our internal audit personnel or independent internal control consultant on an annual basis to ensure that effective internal control procedures are in place;

(v) our Directors have attended a training session on 25 July 2023 conducted by our legal advisers as to Hong Kong law on, among other things, the obligations, on-going corporate governance requirements and the duties of directors of a company listed on the Stock Exchange;

(vi) our company secretary, Mr. Tam Hon Fai, will attend external professional training each year to keep himself abreast of the latest accounting and/or regulatory regime in Hong Kong;

(vii) we have appointed Grande Capital as our compliance adviser to advise us on compliance matters in relation to the Listing Rules;

(viii) to avoid potential conflicts of interest, we will implement corporate governance measures in compliance with the Corporate Governance Code set out in Appendix C1 to the Listing Rules; and

(ix) our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance reports to be included in our annual reports after Listing.

Actual and potential impact of environmental, social and climate-related risks and opportunities on our Group's business, strategy and financial performance

Our executive Directors are responsible for evaluating and managing any material ESG issues and climate-related risks and opportunities of our Group. Our executive Directors will meet regularly to discuss issues and risks that are pertinent to the business development of our Group. Our executive Directors will keep track of the latest policies implemented by the Hong Kong government in tackling climate change. For better identification of the risks and opportunities, our executive Directors and senior management will attend to discussion on sustainability of the structural steelwork industry and low-carbon economy. Our Board will work closely in identifying future risks and opportunities, as well as identifying appropriate actions to cope with the ever-changing situations.

We may be exposed to possible financial loss and non-financial detriments arising from environmental and climate-related risks which can be mainly categorised into (i) physical risks; and (ii) transitional risks.

A. Physical risks

Increased frequency and severity of extreme weather conditions such as cyclones and extreme precipitation

During recent years, Hong Kong and the PRC have faced extreme weather conditions. Extreme precipitation events have become more frequent in the last few decades. Increase in frequency and severity of extreme weather events may result in the following adverse impacts on our Group:

- Damage to our products: Our structural steel products are susceptible to water damage. Flooding may cause rusting to our products and render them unusable, resulting in material financial loss to our Group.

- Delay in project completion: The progress of our projects could be adversely affected if there is an increase in the occurrence of tropical cyclones and/or floods. The rising frequency of extreme weather conditions are likely to interrupt the delivery of our materials, project schedule and wreak havoc on the project sites' environment. Any damage on our project sites will render us in deploying more resources on ensuring the safety conditions of our project sites before work is resumed, thereby resulting in delay in our projects as heightened safety procedures are adopted. In particular, our employees and/or our subcontractors' employees may be required to work at height, which are susceptible to extreme weather conditions such as strong wind. If there is any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.

- Increase in our operation costs: We may have to deploy additional resources to minimise the potential adverse impacts caused by extreme weather hazards. For instance, should there be any temporary project suspension and/or delay resulted from extreme weather conditions, we may have to deploy additional workers, engage additional subcontractors and/or arrange for additional overtime works to ensure timely delivery of works to our customers, thereby increasing our operating costs and resulting in project costs overrun. Further, we may have to implement additional precautionary and safety measures at our project sites to prevent damage caused by extreme weather conditions, resulting in an increase in our overall operating costs. Also, in order to strengthen our protection against intense precipitation and flood, we may have to implement enhanced flood protection measures such as installation of flood gate system and improvement in the water and drainage system at our production facility, resulting in an increase in our operation costs.

- Increase in maintenance cost and storage fees for our machinery: Extreme weather conditions may result in flooding and cause damages to our machinery, resulting in increased maintenance cost. If our machinery and equipment is damaged, there is a need to replace the machinery or lease additional machinery from third party machinery services providers to ensure timely completion of our structural steel fabrication process and construction site works.

Rising mean temperature and increasing number of days of extreme heat

According to the Hong Kong Observatory, the average temperature increasing rate per decade was 0.14°C from 1885 to 2022. The rate of increase accelerated in the latter half of the 20th century and the average increasing rate per decade was 0.28°C from 1993 to 2022. Furthermore, the annual number of very hot days (i.e. days with a maximum temperature of 33°C or above) in Hong Kong has increased from 2.2 for 1885 to 1914 to 17.5 for 1991 to 2020.

Our employees and/or our subcontractors' employees are prone to rising temperature since most of our project sites are not equipped with air-conditioning systems. Hot weathers can easily lead to heat exhaustion, heat strokes or other health diseases. Such negative impacts on the health condition of our employees and/or our subcontractors' employees may reduce our productivity and/or delay our work progress, resulting in interruption to our business operations.

To lower the risks of sickness suffered by our employees and/or our subcontractors' employees, we will have to provide heat-relieving measures, such as providing electric fans, resting areas and sufficient hydration to the workers, to combat increasing temperatures and re-arrange work schedules to avoid working under hot weathers.

Rising temperature and heightened precipitation has also resulted in the proliferation of mosquitoes, which increases the risk of transmission of mosquito-borne diseases in Hong Kong. Several mosquito-borne diseases are of public health concern in Hong Kong, including dengue fever and Japanese encephalitis. Heightened measures will have to be implemented at our project sites to guard against mosquito-borne diseases, such as (i) frequent cleaning at the project site to avoid accumulation of stagnant water; (ii) installation of bug zappers; and (iii) encourage workers to wear loose, light-coloured, long-sleeved tops and trousers and wear insect repellent clothing at work.

In the event of heatwave or extremely hot weather in the PRC, our machinery located at our production facilities may face the problem of overheating and lead to reduced useful life. We will have to adopt additional measures, which include letting the machinery rest after prolonged use and more frequent maintenances to ensure smooth fabrication process, thereby resulting in additional costs to be incurred by us.

Rising sea levels

Hong Kong is a low-lying coastal city, and the rise in sea level can pose immediate flooding risk. Low-lying areas in Hong Kong such as Tai O, North District and Lei Yue Mun are constantly hit by flooding in summer. Flooding at our project sites may result in severe damages to our structural steelwork performed, resulting in rectification works to be performed and additional costs and time to be incurred by us. If the rectification works to be performed by us result in any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.

B. Transitional risks

Potential impairment on our financial performance due to the transition to low-carbon economy

The Hong Kong government has been working towards to achieve sustainable development in Hong Kong. In response to the Paris Agreement, which was ratified by the PRC on 3 September 2016 and applied to Hong Kong as decided by the Central People's Government of the PRC, the Hong Kong government has implemented the Hong Kong's Climate Action Plan 2030+, targeting to reduce the carbon emission per capita by 3.3 to 3.8 tonnes, absolute carbon emission by 26% to 36% and carbon intensity by 65% to 70% in 2030, as compared to 2005. Furthermore, the Hong Kong government also aims to (i) reduce carbon by phasing down coal for electricity generation and replacing it with natural gas by 2030; (ii) optimise the introduction of renewable energy in a more systematic manner with the Hong Kong government taking the lead; (iii) promote energy saving to continuously reduce carbon emissions in construction and property development; and (iv) provide a safe, efficient, reliable and environmentally friendly transport system.

There is no assurance that the Hong Kong government will not impose carbon tax on the emission of greenhouse gases ("**GHG**"). In the event that the Hong Kong government decided to levy carbon tax, our financial performance may be adversely affected as we may have to allocate resources in strengthening our environmental control measures on lowering our GHG emissions or settle any levies imposed by the Hong Kong government on our GHG emission.

Changing customer behaviour

Driven by the gradual recognition and promotion of low-carbon economy by the Hong Kong government, our executive Directors anticipate that our Group will be increasingly required by our customers to adopt clean technology and deploy energy-saving and efficient machinery in performing our projects. If we are unable to fulfil our customers' requirements in this regard, our customers may become less likely to award projects to us, resulting in material adverse impact on our reputation, business, financial condition and results of operation.

Increasing costs in compliance with applicable environmental requirements

In the event of any changes in the laws and/or regulations and/or government policies in environmental protection in Hong Kong and/or the PRC and more stringent requirements are imposed on our Group, we may have to incur additional costs and expenses to comply with such requirements. We may also be required to revise our current practices, implement enhanced compliance and internal control measures and systems, adopt the use of energy-saving and efficient equipment, offer training to our employees and/or our subcontractors' employees and introduce new preventive or remedial measures so as to ensure compliance with the relevant laws, regulations, policies and standards, which would incur additional financial, human and other resources. Furthermore, if we fail to comply, or are alleged to fail to comply, with the relevant laws and regulations, we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant judicial or governmental authorities. Our reputation may also be adversely affected, resulting in a loss of business as our customers may be less inclined to engage subcontractors with environmental non-compliance. Regulatory development and evolution may potentially have significant impacts on our business operations and present transition risks to us.

C. *Opportunities*

Our Group has identified the following potential business opportunities arising from our promotion of low-carbon economy:

Reduce fossil usage and consumption

In view of the increasing awareness of sustainable development and green energy, our Group has set out a plan in replacing our machinery at our production facilities in the PRC with those that are more efficient in energy consumption. As at the Latest Practicable Date, our Group did not have a fixed timeline for the replacement schedule. The replacement of our existing machinery is likely to provide long-term benefits to our Group. With reduced energy consumption, we will create a more environmentally-friendly workplace for our employees.

Recycling steel waste

According to the Industry Report, structural steelwork is more environmentally friendly than concrete construction as steel can be recycled and reused. Once steel structures reach the end of their lifespan or usage, the steel materials can be dismantled, collected and re-melted to manufacture new products. As such, steel recycling has significant environmental benefits such as reducing landfill waste, lowering emissions from mining and manufacturing operations, and conserving natural resources required for new steel production. In contrast, concrete from demolished structures typically ends up as landfill waste because it cannot be recycled in the same way as steel. The raw materials used to produce concrete like sand, gravel and limestone also require heavy mining operations which result in damages to the environment.

During the Track Record Period, we arranged recycling of leftover steel materials. Recycling steel waste helps to reduce the amount of landfill waste generated from our projects. In view of the increasing awareness of eco-friendliness and sustainable property development by property developers and construction contractors, our executive Directors consider that our practice of recycling steel waste will enable our Group to be considered more favourably by our customers and increase our prospect of obtaining new projects.

Metrics and targets

Our Board will set targets for each KPI at the beginning of each financial year in accordance with the disclosure requirements of Appendix 27 to the Listing Rules and other relevant rules and regulations upon Listing. The relevant targets on material KPIs will be reviewed on an annual basis to ensure that they remain appropriate to the needs of our Group. In setting targets for the KPIs, our Group has taken into account their respective historical levels during the Track Record Period, and has considered our future business expansion in a thorough and prudent manner with a view of balancing business growth and environmental protection to achieve sustainable development. Set forth below are the key metrics and targets for the material KPIs we have currently identified:

(i) our major sources of GHG emissions are generated from (a) scope 1 direct GHG emissions resulting from the combustion of petrol by lifting machines and cranes at project sites and motor vehicles; and (b) scope 2 indirect GHG emissions resulting from electricity consumed in our production facilities in the PRC and our office in Hong Kong. Our Group will make continuous efforts in working towards the target of reducing the level of GHG emissions in terms of tonnes of carbon dioxide equivalent (tCO2e). By using FY2022 as a baseline year, our Group strives to reduce our GHG emissions intensity by 3% before 2025;

(ii) our major sources of wastes are paper consumed in our office. By using FY2022 as a baseline year, we will make continuous efforts in working towards the target of reducing the tonnes of wastes produced by 3% annually; and

(iii) our major sources of energy consumption are petrol and electricity. Our Group will make continuous efforts in working towards the target of reducing the kilowatt-hour (kWh) of petrol and electricity consumed annually. By using FY2022 as a baseline year, our Group targets to decrease our energy consumption intensity by 3% by 2025.

Our Group has adopted the policies and measures as explained in the paragraph headed "Environmental, social and corporate governance matters – Environmental matters" in this section with the aim of reducing our GHG emissions, wastes and energy consumption to minimise any adverse impact on the environment resulting from our business activities. Our Directors consider that the implementation of such policies and measures in achieving our ESG targets will not have any material adverse impact on our Group's operations. Further, by achieving the ESG targets, our Group will be able to reduce the consumption of resources, which will in turn lower our operating costs, thereby enhancing our profitability in the long term.

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR OPERATIONS

Our operations in the PRC

Due to the emergence of the COVID-19 pandemic in the PRC in early 2020, the PRC Government imposed lockdown measures in Dongguan, the PRC in the first quarter of 2020. Transport was restricted, major roads and highways were closed and factories were ordered to suspend operations. In response to the requirements of the local government authorities, our production facilities suspended from operations during the lockdown period.

Our Directors consider that impact of the lockdown on our business and financial performance for FY2020 was mitigated taking into consideration the suspension was only temporary and the operations of our production facilities resumed normal since May 2020;

while the temporary suspension in our PRC production facilities hindered the progress of our fabrication works, the overall impact on us was partly mitigated as the structural steel required in some projects were already delivered to Hong Kong by the end of 2019 in view of the forthcoming Chinese New Year holiday in early 2020, and hence we were able to continue with our installation works for such projects during the first quarter of 2020. Once our production facilities resumed normal operations in May 2020, our Group had made efforts to fulfil the project schedule required by our customers. During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material delay in fulfilling the project schedule required by our customers. As at the Latest Practicable Date, our Group also did not experience any material delay requested by our customers in relation to our projects on hand.

Subsequent to the withdrawal of the "zero-COVID-19" policy by late 2022, a number of our staff based in the PRC experienced infection which resulted in temporary loss of manpower for our structural steel fabrication and temporary disruption to the operation of our production facilities between November to December 2022. Our business operations in the PRC had resumed to normal by early 2023.

Our operations in Hong Kong

From January 2022 and up to April 2022, Hong Kong recorded the fifth wave of the outbreak of COVID-19 attributable to the SARS-CoV-2 Omicron variant (the **"Fifth Wave Outbreak**"), as the daily number of confirmed cases increased significantly during the period. Our Group experienced temporary disruption to the transportation of materials from Hong Kong to the PRC and finished products from the PRC to Hong Kong during 2022 since cross-border transportation was significantly disrupted. Our Directors consider that the temporary disruption to the transportation of materials and finished products did not have long-lasting adverse impact on our operation, taking into consideration that (i) cross-border transportation have gradually resumed to normal level as the pandemic came under control in 2022; (ii) as contingency measures, our Group had engaged third party logistics services providers to deliver materials and finished products between Hong Kong and the PRC by sea instead of by road at that time to minimise the impact of such disruption on the supply of raw materials to our production facilities and structural steel to our work sites; and (iii) we were generally able to pass on part of the increase in logistics costs incurred by us from the delivery of materials and finished products between Hong Kong and the PRC by sea to our customers.

Save as disclosed above and based on information available as at the Latest Practicable Date, our Directors confirm that the COVID-19 pandemic did not and will not have material adverse impact on our business operations and financial performance.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed "Risk factors" in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control system for managing the more particular operational and financial risks relating to our business operation:

(i) Customer concentration risk

Please refer to the paragraph headed "Our customers – Customer concentration" above in this section.

(ii) Risk of cost overruns

We estimate our costs to be incurred in a project to determine our tender price and there is no assurance that the actual amount of costs we incur would not exceed our estimation during the course of project implementation. For details of our measures on minimising the risk of cost overruns, please refer to the paragraph headed "Pricing strategy" above in this section.

(iii) Risk relating to subcontractors' performance

Please refer to the paragraphs headed "Our suppliers – Basis of selecting our subcontractors" and "Quality control – Works performed by subcontractors of construction site works" above in this section.

(iv) Credit risk management

We are subject to risks in relation to the collectability of our trade and other receivables, details of which are summarised in the paragraph headed "Risk factors – We are subject to credit risk in relation to the collectability of our trade receivables and contract assets".

For the purpose of mitigating our exposure to credit risk, our finance and administration staff are responsible for conducting individual credit evaluations on our customers on a regular basis. Prior to accepting work orders from new customers, our finance and accounting staff would check on the background of the potential customer in order to assess their credibility.

Material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions having regard to our business relationship with the customer, its history of making payments, its financial position as well as the general economic environment. During the Track Record Period, our follow-up actions for recovering long-overdue payment included active communications, conducting follow up calls with the customers and commencing legal actions. Despite we have actively conducted follow-up actions with our customers in respect of material overdue payments, our Group recorded long overdue payments from a customer during the Track Record Period. In 2022, our Group petitioned to wind-up such customer on insolvency grounds, relying on its debts owed to our Group arising from the subcontract with us. As at 30 September 2023, the trade receivables and retention receivables owing from this customer amounted to approximately HK$2.6 million and HK$1.5 million, respectively, for which impairment provision has been fully provided.

We generally grant our customers a credit term ranging from 30 to 60 days from the invoice date. As at 31 December 2020, 2021 and 2022 and 30 September 2023, we recorded trade receivables (net of provision for impairment) of approximately HK$10.9 million, HK$22.1 million, HK$14.5 million and HK$19.8 million respectively.

To ensure timely identification of doubtful or irrecoverable debts, our finance and administration staff would report to our financial controller on the collection status and ageing analysis of outstanding payments on a regular basis. Trade receivables overdue will be reviewed by our financial controller and, if appropriate, provisions for impairment of trade receivables will be made accordingly.

(v) Liquidity risk management

There are often time lags between making payment to our suppliers and receiving payment from our customers when undertaking contractual works, resulting in possible cash flow mismatch. In order to manage our liquidity position in view of the aforementioned working capital requirement and the possible cash flow mismatch associated with undertaking contractual works, we have adopted the following measures:

- our financial controller is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements;

- as a general policy, we only procure materials on an as-needed basis according to the requirement and schedule of the project to prevent excessive purchases; and

- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and aging analysis, and following up closely to ensure prompt receipt of amounts due from our customers; and (iii) performing monthly review of our trade payables and aging analysis to ensure that payments to our suppliers are made on a timely basis.

(vi) Regulatory risk management

We keep ourselves abreast of any changes in government policies, regulations, and licensing requirements in Hong Kong and the PRC in relation to our business operations, as well as the relevant environmental and safety requirements. We will ensure that any changes of the above are closely monitored and communicated to our senior management for proper implementation and compliance.