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## **FUTURE PLANS AND USE OF PROCEEDS**

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### **BUSINESS OBJECTIVES AND STRATEGIES**

Our Group will endeavor to expand our business operations by adopting our business strategies through the following implementation plans. For details of our business strategies, please refer to the paragraph headed “Business – Business strategies” in this prospectus. Our Group’s actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will be materialised in accordance with the expected time frame or that the business objectives of our Group will be accomplished at all.

### **REASONS FOR THE LISTING**

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 and/or sizeable 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. Our Directors believe that the Listing is beneficial to our Company and our Shareholders as a whole because of the following reasons:

- the net proceeds from the Share Offer will provide additional financial resources to our Group for our business plans as set out in the paragraph headed “Business – Business strategies” of this prospectus, which will further strengthen our market position and expand our market share in the structural steelwork industry in Hong Kong;
- a public listing status will enhance our corporate profile and recognition and enable our Group to be considered more favourably by our customers when tendering for structural steelwork projects, given that a listed company is subject to ongoing regulatory compliance for announcements, financial disclosures and corporate governance;
- the Share Offer will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders. Such platform would allow us to gain direct access to the capital market for equity and/or debt financing, both at the time of the Listing as well as at later stage, to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance to enhance Shareholders’ return; and
- upon the Listing, our Shares will be freely traded on the Stock Exchange. A public listing status will offer us a broader shareholder base which could lead to a more liquid market in the trading of our Shares.

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### **Funding needs for implementing our business strategies**

As at 30 September 2023, our cash and cash equivalents, which represents our immediately available working capital, amounted to approximately HK\$19.1 million, as set out in the paragraph headed “Financial information – Net current assets” in this prospectus. Our Directors consider that the amount of our available working capital fluctuates from time to time, depending on the timing of (i) payment from our customers; and (ii) payment to our subcontractors and suppliers of materials and other services. The average monthly expenses incurred by us, primarily comprising staff cost, subcontracting fees for structural steel fabrication works and construction site works, cost of materials, machinery service fees, administrative expenses and other miscellaneous expenses for our daily operations during the Track Record Period was approximately HK\$21.3 million. In light of our ability to obtain new projects and the associated working capital requirements, our Directors consider that it is financially prudent for us to reserve our current available cash resources for meeting our operating expenses.

In view of the aforesaid, our current available working capital would not have room for our further business expansion such as expanding our production capacity, expanding our workforce and/or undertaking additional and/or sizeable projects which would inevitably require more available cash for up-front costs and general working capital. Therefore, our Directors consider that we will need to raise additional funding through the Share Offer to facilitate the implementation of our future plans, while reserving our current available working capital for our existing business operations.

For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Company’s subsidiaries declared and settled dividends by cash of HK\$8.2 million, nil, HK\$8.0 million and HK\$20.0 million to their then shareholders, respectively. Our Directors consider that it was commercially reasonable and justifiable for our Group to declare and settle the dividends aforesaid instead of reinvesting such cash resources in our Group’s operations during the Track Record Period, taking into consideration the followings:

- (i) the declaration and settlement of dividends was mainly for rewarding the shareholders for their ownership in the company and realising the value of and providing a direct financial return on the investment made by the respective shareholders. In fact, it is fairly common that listed companies in Hong Kong, regardless of their market capitalisation or business scale, would declare and distribute certain retained earnings as dividends to their pre-IPO shareholders as a way to reward their past contributions to the companies prior to the listings;
- (ii) our Group remained profitable throughout the Track Record Period. For FY2020, FY2021, FY2022 and the nine months ended 30 September 2023, our Group’s total comprehensive income for the year/period was approximately HK\$35.6 million, HK\$16.7 million, HK\$40.7 million and HK\$15.9 million, respectively;
- (iii) as at 31 December 2020, 2021, 2022 and 30 September 2023, our Group recorded retained earnings of approximately HK\$81.2 million, HK\$98.5 million, HK\$129.8 million and HK\$124.9 million, respectively. The amount of dividend declared and

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settled by our Group for FY2020, FY2021, FY2022 and the nine months ended 30 September 2023 accounted for approximately 10.1%, nil, 6.2% and 16.0% of our retained earnings as at the end of the corresponding year/period, respectively; and

- (iv) as at 31 December 2020, 2021, 2022 and the nine months ended 30 September 2023, our Group recorded amounts due to Directors of approximately HK\$16.7 million, HK\$13.9 million, HK\$6.0 million and HK\$1.1 million, respectively. Our amounts due to Directors are non-trade in nature and represented cash advanced by our Controlling Shareholders, also being our Directors, Mr. Kelvin Chan, Mr. Eddie Chan, Ms. Karen Chan, Mr. WH Chan and Ms. Choi to our Group for working capital purpose. The success of our Group is underpinned by the continuous financial support provided by our Controlling Shareholders, which provided the necessary working capital for project financing and business expansion. Their contributions are vital to us in achieving the present scale of our business as well as market presence in the Hong Kong structural steelwork industry. 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; and
- (v) our Group represents the core family asset of our Controlling Shareholders. The two generations of our Controlling Shareholders' family (all being our Directors) have devoted significant parts of their careers and resources in building up our Group's business. But for their contributions throughout the years, we would not have become one of the established market players in the Hong Kong structural steelwork industry. The distribution of dividends to our Controlling Shareholders is an appropriate and fair way to reward their personal contributions to our development.

### USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (assuming the Over-allotment Option is not exercised) based on the Offer Price of HK\$0.26 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.25 to HK\$0.27 per Offer Share, after deducting the related expenses, are estimated to be approximately HK\$96.0 million. We intend to apply such net proceeds in the following manner:

- (a) approximately HK\$59.0 million, representing approximately 61.5% of the estimated net proceeds, will be used for financing the up-front costs of our projects;

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

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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 business 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.

Our executive Directors have earmarked three projects which we intend to apply our net proceeds towards fulfilling part of the relevant up-front costs. Out of the three earmarked projects, (i) one of the projects with an estimated contract sum of approximately HK\$388.0 million involving a commercial development in Causeway Bay, has already been secured by us in September 2023; and (ii) the remaining two projects represent tenders submitted by our Group of which our Directors consider that we would likely be able to secure taking into account the latest negotiation with the relevant customer.

The following table sets forth the particulars of these earmarked projects:

Project No.	Customer	Private/ public sector	Nature of projects	Status	Date of commencement and completion of our works <sup>(Note)</sup>	Estimated	Estimated
						contract sum/Tender amount <i>HK\$'000</i>	amount of up-front costs <i>HK\$'000</i>
#13	Hip Hing Group	Private	Commercial	Successful	Commencement: Third quarter of 2023 Completion: Fourth quarter of 2025	388,000	46,560
T01	Customer Group E	Public	Infrastructure and public facilities	Submitted revised tender based on negotiation with customer and attended tender interview	Commencement: Second quarter of 2024 Completion: Third quarter of 2026	201,430	24,172

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Project No.	Customer	Private/public sector	Nature of projects	Status	Date of commencement and completion of our works <sup>(Note)</sup>	Estimated contract sum/Tender amount	Estimated amount of up-front costs
						HK\$'000	HK\$'000
T02	Customer Group E	Public	Infrastructure and public facilities	Submitted revised tender based on negotiation with customer	Commencement: Second quarter of 2024 Completion: Fourth quarter of 2025	166,256	19,951
Total						<u>755,686</u>	<u>90,683</u>

*Note:* The expected commencement and completion dates are provided based on our management's best estimation. In making the estimation, our management takes into account factors including the letter of award (if applicable), the tender information available from the relevant customers and the estimated work schedule.

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 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.

Although our executive Directors consider that we would likely be able to secure the tender for Project No. T01 and T02 based on their latest tender status as set out above, there is no assurance that such tenders will eventually be awarded to us. Should we be unable to secure such project, we will utilise the net proceeds from the Share Offer allocated for financing the project up-front costs of other successful projects. 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.

In the event that the net proceeds designated by us are insufficient to fully fund the up-front costs of those projects successfully obtained by us, we currently plan to finance the shortfall by our internal resources and/or debt financing.

There is inherent uncertainty involved in predicting the number and scale of projects which will eventually be awarded to us and when exactly we are required to make available cash for project up-front costs. Further, the time required to complete tender review process and the subsequent award of contract varies

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depending on the customer and project size. Therefore, there is no assurance that we can accurately estimate when the results for the tenders we submitted are released or when exactly we are required to incur the up-front costs for the projects awarded. These timelines will depend on, among others, (i) the timetable of the potential project which may or may not be available to us before we submit a tender; (ii) the particular customer's internal arrangement which may be affected by market conditions and may or may not adhere to the original project timetable provided to us; (iii) the scope of work of the project which may in turn affect whether and when we are required to make payments to our subcontractors and suppliers; and (iv) our negotiation with our customers which may in turn affect the payment terms of our projects.

- (b) approximately HK\$35.0 million (equivalent to approximately RMB32.2 million), representing approximately 36.4% of the estimated net proceeds, will be used for acquiring a piece of land within or in proximity to Dongguan, the PRC, and setting up a new production facility with a gross floor area of approximately 16,000 sq.m. and a maximum annual production capacity of approximately 6,600 tonnes (the "**New Production Facility**").

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.

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 estimated consideration of approximately RMB25.0 million (equivalent to approximately HK\$27.2 million) for the acquisition of land is determined with reference to the market price of similar land as informed by the property agent in the PRC. 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.

The capital expenditure for the setup of the New Production Facility was determined with reference to a fee quotation obtained from a construction contractor in the PRC for the construction and setup of the New Production Facility. According to the fee quotation provided by the construction contractor,

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the capital expenditure for setting up the New Production Facility is approximately RMB20.0 million (equivalent to approximately HK\$21.7 million) comprising the cost of constructing production facility buildings, basic fitting-out and interior decorations, setting up a gantry crane and procurement of necessary machinery and tools, mainly including cranes, cutting machines, drilling machines, grinding machines and welding machines, etc..

Our Directors currently expect that out of the HK\$48.9 million, approximately HK\$35.0 million will be financed with the net proceeds from the Share Offer and the remaining HK\$13.9 million will be financed with our internal resources and/or debt financing; and

- (c) approximately HK\$2.0 million, representing approximately 2.1% of the estimated net proceeds, will be used for further expanding and strengthening our manpower by recruiting three project managers and one engineer.

### **BASIS AND ASSUMPTIONS**

The implementation plan set out by our Directors is based on the following assumptions:

- there will be no impediments, legal or otherwise, such as obtaining the relevant land use right certificate(s) and construction permits, which would materially disrupt our acquisition of land and/or construction of the New Production Facility;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no changes in the effectiveness of the licences, permits and qualifications obtained by our Group, where applicable;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" in this prospectus.

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There can be no assurance that the net proceeds from the Share Offer will be sufficient for fully implementing our business expansion plans. For instance, (i) the acquisition costs for a piece of land within or in proximity to Dongguan, the PRC, for production facility use and the construction costs for the New Production Facility may exceed the net proceeds allocated for such purpose as set out above; (ii) the up-front costs requirement for projects awarded to us may exceed the net proceeds allocated for such purpose as set out above; and (iii) the number of additional staff we intend to recruit may not fulfil the manpower needs as we continue to undertake additional and more sizeable projects. In the event any of the above occurs or that the Listing becomes unsuccessful such that the net proceeds from the Share Offer becomes unavailable to us, we may adjust the timing and scale of our business expansion plans and/or seek alternative form of financing.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by the applicable laws and regulations, we will deposit the net proceeds into short-term interest-bearing deposits with licensed commercial banks in Hong Kong and/or other authorised financial institutions (as defined under the SFO).

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the sales of these additional Offer Shares of approximately HK\$18.3 million, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an Offer Price of HK\$0.26 per Share, being the mid-point of the proposed Offer Price range of HK\$0.25 to HK\$0.27. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK\$12.9 million. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK\$23.7 million. The allocation of the additional net proceeds will be used in the same proportions as set out above.

Assuming the Over-allotment Option is not exercised at all, and in the event that the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds to be received from the Share Offer will increase or decrease by approximately HK\$4.7 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Share Offer as described above.