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## RISK FACTORS

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*Potential investors should carefully consider all of the information set out in this document and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the [REDACTED]. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the [REDACTED] of the Shares could decline due to any of these risks, and you may lose all or part of your investments.*

*This document contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this document. Factors that could contribute to such differences are set out below as well as in other parts in this document.*

### RISKS RELATING TO OUR BUSINESS

**Most of our revenue during the Track Record Period was derived from projects awarded by a limited number of customers and any significant decrease in the number of projects with our major customers may materially and adversely affect our financial performance**

A significant portion of our revenue was derived from a limited number of customers during the Track Record Period. For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, our top five customers for each year/period contributed revenue of approximately HK\$296.6 million, HK\$216.4 million, HK\$315.6 million and HK\$71.3 million to our Group, respectively, which accounted for approximately 91.5%, 94.6%, 93.8% and 96.7% of our total revenue for the corresponding year/period, respectively. In particular, Customer Group A contributed revenue of approximately HK\$126.6 million, HK\$151.6 million, HK\$237.7 million and HK\$37.6 million to our Group, respectively, which accounted for approximately 39.0%, 66.3%, 70.7% and 51.1% of our total revenue for each year/period during the Track Record Period, respectively. We undertake structural steelwork on a project-by-project basis during the Track Record Period. There is no assurance that we will continue to obtain contracts from our major customers in the future. If there is a significant decrease in the number of projects awarded by our major customers, and we are unable to secure suitable projects of a comparable size and quantity as replacements from other customers, our financial condition and operating results would be materially and adversely affected.

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

During the Track Record Period, 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. For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, we derived approximately 44.1%, 66.3%, 84.6% and 90.7% of our revenue from public sector projects. The nature, extent and timing of available public sector structural steelwork projects is determined by an interplay of a variety of factors, including the Hong Kong government's policies on the infrastructure and public facilities

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development, its land supply and public housing policy and the general conditions and prospects of the Hong Kong's economy. In the event the Hong Kong government reduces its expenditure on or changes its policy in relation to public residential and/or infrastructure and public facilities developments, the number of available public sector structural steelwork projects may decrease and our business, financial condition and results of operations may be materially and adversely affected.

**Our revenue is mainly derived from projects which are non-recurrent in nature and there is no guarantee that our customers will provide us with new businesses**

Our revenue is typically derived from projects which are non-recurrent in nature and our customers are under no obligation to award projects to us. During the Track Record Period, we secured new businesses mainly through invitation for tender by customers. There is no assurance that we will be able to secure new contracts in the future. Accordingly, the number and scale of projects and the amount of revenue we are able to derive therefrom may vary significantly from period to period, and it may be difficult to forecast the volume of future business. For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, we recorded a tender success rate of approximately 16.7%, 8.9%, 8.9% and 10.3%, respectively. Our Directors consider that our success rate on project tendering depends on a range of factors, which primarily include our pricing and tender strategy, competitors' tender and pricing strategies, the availability of our resources and subcontractors, level of competition and our customers' evaluation standards. Furthermore, so far as our Directors are aware, some of our customers have maintained an evaluation system to ensure that the service providers meet certain standards of management, industrial expertise, financial capability, reputation and regulatory compliance which may change from time to time. There is no assurance that our Group could achieve the same or higher tender success rate in the future as we did during the Track Record Period. In the event that our Group fails to secure new contracts or there is a significant decrease in the number of tender invitations or contracts available for bidding in the future, the business, financial position and prospects of our Group could be materially and adversely affected.

**Our projects may not proceed according to the original project schedule or budget, which may result in delay in recognition of our revenue and therefore adversely affect our cash flows, financial performance and results of operation**

The progress of our project schedule could be adversely affected by factors beyond our control, including (i) unforeseen changes in engineering and design by the main contractor or project owner; (ii) changes in market conditions or economic downturn; (iii) shortages of materials, subcontracting services and/or machinery services; (iv) labour disputes; (v) workplace accidents; (vi) natural disasters; (vii) acts of God or occurrence of epidemics; (viii) adverse weather conditions; or (ix) other unforeseen circumstances. Any changes to our project schedule or budget may affect our cash flows, financial performance and results of operations. Our customers generally make progress payments to us according to our work progress, and such payments are required to be certified by our customers before we issue an invoice to our customers. Project delay or rescheduling may result in delay in our recognition of revenue, which may in turn adversely affect our cash flows, financial performance and results of operation.

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

We rely on our suppliers for the stable and timely delivery of steel, which represents our major type of material, on commercially acceptable terms to enable us to carry out structural steel fabrication. If there is any shortage of such materials or supplies or in the event of material delay in delivery by our suppliers, we may fail to fabricate our structural steel products and hence complete our projects on time or at all. There is no guarantee that we would be able to identify suitable alternative sources of supply at acceptable prices or with the required quantity and quality, or at all. Further, if there is any deterioration in the quality of materials from our suppliers, and we are unable to identify suitable alternative sources or detect the defective materials, the progress and quality of our works may be materially and adversely affected, thereby damaging our reputation and adversely affecting our financial results.

**Any price fluctuations of materials used for our structural steel fabrication may increase our production costs**

Steel is the principal type of material used for our structural steel fabrication. Key factors affecting the purchase price of materials include supply and demand in the market and market competition, many of which are beyond our control. For further details on the historical price trend of our materials, please refer to the paragraph headed "Industry overview – Cost structure analysis" in this document. We purchase materials from our suppliers on an order-by-order basis. We did not enter into any long-term supply agreement with our suppliers and we did not engage in any hedging activities to minimise the risk of price fluctuation of materials. Price fluctuations of our principal types of materials will affect our structural steel fabrication costs. We cannot assure you that we will be able to transfer any increase in cost of materials to our customers in a timely manner or at all. There is no guarantee that the cost of materials will remain stable in the future, or that any increase in price of materials will not lead to unexpected and potentially significant increase in our production costs. If we are unable to transfer the increase in cost of materials to our customers in a timely manner or at all, our profitability and profit margins may be adversely affected.

**Disruptions, damages or destructions to our production facilities and machinery may materially and adversely affect our business, results of operations and financial condition**

As at the Latest Practicable Date, our Group operates 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..

Our ability to fabricate structural steel is dependent on the continued operation of our production facilities. Our production facilities are subject to inspection, maintenance and replacement of our machinery during which production capacity may be affected. Our production facilities are also subject to operation risks and disruptions such as interruptions of utilities supplies including water and electricity, labour disputes and industrial accidents.

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A power surge or outage could disrupt or even result in the halt of our structural steel fabrication process. There is no assurance that our machinery will not be damaged or lost as a result of, among others, improper operation, fire, adverse weather conditions, theft or robbery. We may also need to incur additional cost to repair or replace any damaged machinery or equipment. Machinery may also break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or replaced, or if any lost machinery cannot be replaced in a timely manner, our operations and financial performance could be adversely affected.

In addition, our structural steel fabrication process may be disrupted due to (i) natural disasters such as typhoons and floods; (ii) political instability, riots, civil unrest and terrorist attacks; (iii) epidemics such as the Severe Acute Respiratory Syndrome (SARS), the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or, most recently, COVID-19, since it could require our employees to be quarantined and/or our production facilities to be disinfected; and (iv) other events that are beyond our control in the regions where we operate.

**We recorded certain non-compliances with the PRC laws and regulations. Any enforcement action against us may adversely affect our business and reputation**

Our Group failed to make adequate social insurance and housing provident fund contributions for all our employees in accordance with certain legal and statutory requirements in the PRC during the Track Record Period. Pursuant to the relevant PRC laws and regulations, the possible legal consequences in respect of our failure to make adequate social insurance and housing provident fund contributions for all our employees include payment of all outstanding contributions and fines and compulsory enforcement by the relevant authority. For further details on the non-compliance incidents, please refer to the paragraph headed "Business – Legal compliance" in this document. If any of the PRC Government authorities takes enforcement action against us in relation to the non-compliance incidents, we may be ordered to pay fines and/or other penalties, which could adversely affect our business and reputation.

**We may be required to relocate our production facilities as a result of title defects in our leased properties**

We leased two production facilities, namely the Dapianmei Production Facility and Xinlong Production Facility, to fabricate structural steel for the structural steelwork projects in Hong Kong undertaken by Wing Kei Hong Kong. Dapianmei Production Facility is located at Dapianmei Village, Dalingshan Town, Dongguan City, Guangdong Province, the PRC (中國廣東省東莞市大嶺山鎮大片美村) with gross floor area of approximately 7,000 sq.m., while the Xinlong Production Facility is located at 1/F, building no. 3-4, Xinlong Technology Park, 1 Lingchuang Street, Yongjun Road, Dalingshan Town, Dongguan City, Guangdong Province, the 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3-4棟一樓) with gross floor area of approximately 8,700 sq.m. As advised by our PRC Legal Advisers, the Dapianmei Production Facility and Xinlong Production Facility have certain title defects, details of which are set out in the paragraph headed "Business — Properties — Leased land and leased properties which are subject to title defects" in this document.

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In case of forced relocation of our production facilities in our Dapianmei Production Facility and/or Xinlong Production Facility, we may suffer production interruption and loss and damage including relocation costs, additional rental expenses and operating losses. Our business operations and financial results may be materially and adversely affected.

We plan to acquire a piece of land within or in proximity to Dongguan, the PRC and construct an additional production facility using part of the [REDACTED] from the [REDACTED]. For details, please refer to the paragraph headed “Business — Business strategies — Expanding our production capacity of structural steel” in this document. If we are forced to relocate our operations from Dapianmei Production Facility and/or Xinlong Production Facility before the proposed acquisition, we may need to lease an alternative premises for relocation. If we cannot identify alternative production facilities in a timely manner, we may experience delays before resuming production at full capacity or at all, and we may incur higher than expected loss of revenue and profits as well as further claims and/or liquidated damages due to delay and/or failure to deliver our structural steel for our projects. As such, our business, operating results and financial condition may be materially and adversely affected.

**Potential mismatch in time between receipt of progress payments from our customers, payment of project up-front costs, and payments to our suppliers may adversely affect our cash flows**

We may experience net cash outflows as project up-front costs at the preliminary stage of a project. The up-front costs of our projects generally include 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. 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”). 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 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 customers generally make progress payments according to our work progress, and such payments are required to be certified by our customers before we issue an invoice to our customers. In addition, our customers may withhold up to 10% of each of our progress

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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 April 2023, gross retention receivables of approximately HK\$50.5 million, HK\$53.4 million, HK\$55.9 million and HK\$57.7 million, respectively, were retained by our customers as retention monies. For further information, please refer to the paragraph headed “Business – Our customers – Principal terms of engagement” in this document.

Accordingly, our cash flow typically turns from net outflows at the early stage of a project into accumulative net inflows gradually as the project progresses. This results in a cash flow gap and in the event that we have more projects at the initial stage or that a substantial amount of retention monies from various projects are being withheld by our customers at any given point of time, our liquidity may be materially and adversely affected.

### **We are subject to credit risk in relation to the collectability of our trade receivables and contract assets**

A contract asset represents our Group’s right to consideration from customers in exchange for the provision of structural steelwork that our Group has transferred to the customers that is not yet unconditional. Contract assets arise when our Group has provided the structural steelwork under the relevant contracts but the works have yet to be certified by architects, quantity surveyors or other representatives appointed by the customers and/or our Group’s right to payment is still conditional on factors other than passage of time. Any amount previously recognised as a contract asset is reclassified to trade receivable at the point when our Group’s right to payment becomes unconditional other than passage of time.

Our Group recorded contract assets (net of provision for impairment) of approximately HK\$97.1 million, HK\$82.0 million, HK\$73.8 million and HK\$94.1 million as at 31 December 2020, 2021, 2022 and 30 April 2023, respectively. Our Group’s contract assets comprised (i) unbilled revenue; and (ii) retention receivables for structural steelwork.

Our Group recorded unbilled revenue of approximately HK\$48.6 million, HK\$29.7 million, HK\$20.7 million and HK\$38.6 million as at 31 December 2020, 2021, 2022 and 30 April 2023, respectively. In addition, 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 April 2023, our gross retention receivables amounted to approximately HK\$50.5 million, HK\$53.4 million, HK\$55.9 million and HK\$57.7 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 document for a further discussion and analysis regarding our unbilled revenue and retention receivables.



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For details of the subsequent settlement of these contract assets, please refer to the paragraph headed “Financial information – Discussion of selected statement of financial position items – Contract assets and contract liabilities – Subsequent billing and settlement” in this document. There is no assurance that we will be able to bill all or any part of the contract assets for our services completed according to the payment terms of the contracts and there is no assurance that the retention monies will be released by our customers to us on a timely basis and in full accordingly.

Further, there can be no assurance that our customers will settle our invoices on time and in full. As at 31 December 2020, 2021, 2022 and 30 April 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\$12.1 million, respectively. In the event that we are unable to collect a substantial portion of our trade receivables within the payment terms or at all, our cash flows and financial positions will be adversely affected.

For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, our Group recognised (reversal of impairment losses)/impairment losses on financial assets and contract assets of approximately HK\$0.2 million (reversal), HK\$0.4 million (reversal), HK\$3.8 million and HK\$0.6 million (reversal), respectively. During FY2021, impairment losses of approximately HK\$0.5 million and HK\$0.3 million was made on the gross carrying amounts of trade receivables and retention receivables of a customer, respectively. For further details, please refer to the paragraph headed “Financial information – FY2021 compared with FY2020 – Reversal of impairment losses on financial assets and contract assets” in this document. During the four months ended 30 April 2022, the cheques issued by the abovementioned customer were dishonoured. In April 2022, our executive Directors became aware that there was a winding-up petition against such customer. Our executive Directors considered that the chance of collecting the remaining outstanding receivables balance from the said customer was low. Therefore, impairment losses were made on the remaining gross carrying amounts of such trade receivables and retention receivables of approximately HK\$2.1 million and HK\$1.2 million, respectively. In 2022, our Group petitioned for the winding-up of the said customer on insolvency grounds. For further details, please refer to the paragraph headed “Business – Litigations and claims – (i) Ongoing civil litigation involving our Group as at the Latest Practicable Date” in this document.

### **Unsatisfactory performance by or unavailability of our subcontractors of construction site works may adversely affect our operation and profitability**

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. For further details, please refer to the paragraph headed “Business – Our suppliers – Reasons for subcontracting arrangement” in this document. In order to control and ensure the quality and progress of the works of our subcontractors, our Group selects subcontractors based on their quality of services, skills and technique, reputation, prevailing market price, delivery time and availability of resources in accommodating our requests.

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For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, our subcontracting fees for construction site works amounted to approximately HK\$71.0 million, HK\$48.9 million, HK\$91.6 million and HK\$21.9 million, respectively, representing approximately 29.3%, 32.9%, 39.8% and 45.5% of our total purchase for the corresponding year/period, respectively. There is no assurance that the work quality of our subcontractors can always meet the requirements and specifications of our Group and our customers. We may be affected by the non-performance, inappropriate or poor quality of works rendered by our subcontractors. Such events could materially and adversely affect our profitability, financial performance and reputation. In addition, there is no assurance that our Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

In the event that our subcontractors of construction site works fail to follow the safety guidelines and other requirements imposed by our customers, we may be liable to pay to our customers the expenses and penalties incurred by them. Although we may be entitled to be compensated by our subcontractors in relation to such penalties under the subcontracting agreement, we may not claim from such subcontractors in order to maintain a stable relationship with our major subcontractors. In such event, we may be subject to additional costs and penalties incurred by our subcontractors in relation to their failure to comply with the safety procedures and other requirements imposed by our customers.

In the event that employees of our subcontractors suffer personal injuries as a result of accidents arising out of and in the course of employment of the injured workers and/or involve in labour disputes, we may be involved in claims and litigations. During the Track Record Period and up to the Latest Practicable Date, we were involved in a number of claims and litigations with employees of our subcontractors which arose in the ordinary course of our business. Please refer to the paragraph headed "Business – Litigations and claims" in this document for further information. Such claims and litigations may adversely affect our industry reputation, which may in turn have a material and adverse impact on our business operations.

### **Unsatisfactory performance by or unavailability of our subcontractors of structural steel fabrication works may adversely affect our operation and profitability**

During the Track Record Period, we outsourced all required galvanising works for structural steel to our subcontractors in the PRC. Apart from this, depending on our production capacity, we may also subcontract other parts of structural steel fabrication works to our subcontractors in the PRC. For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, we incurred subcontracting fees for structural steel fabrication works of approximately HK\$4.9 million, HK\$13.0 million, HK\$13.7 million and HK\$1.8 million, respectively, representing approximately 2.0%, 8.8%, 6.0% and 3.7% of our total purchases for the corresponding year/period, respectively. There is no assurance that the work quality of our subcontractors can always meet the requirements and specifications of our Group and our customers. We may be affected by the non-performance, inappropriate or poor quality of works rendered by our subcontractors. Such events could materially and adversely affect our profitability, financial performance and reputation. In addition, there is no assurance that our



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Group will always be able to secure services from suitable subcontractors when required, or be able to negotiate acceptable fees and terms of service with subcontractors. In such event, our operation and financial position may be adversely affected.

**Any material inaccurate cost estimation or cost overruns may adversely affect our financial results**

We prepare our tender price based on a certain percentage of mark-up over our estimated costs. 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. For further details on our pricing strategy, please refer to the paragraph headed "Business – Pricing strategy" in this document.

There is no assurance that the actual amount of time and costs incurred during the performance of our projects would not exceed our estimation. The actual amount of time and costs incurred in completing a project may be adversely affected by many factors, including unforeseen site conditions, adverse weather conditions, accidents, non-performance by our subcontractors, unexpected significant increase in costs of materials agreed to be borne by us, unexpected increase in the amount of rectification works requested by our customers and other unforeseen problems and circumstances. Any material inaccurate estimation in the time and costs involved in a project may give rise to delays in completion of works and/or cost overruns, which in turn may materially and adversely affect our Group's financial condition, profitability and liquidity.

**The total actual value of work done may differ from the original estimated contract sum stated in our contracts with customers**

During the Track Record Period, our contracts with customers are generally on re-measurement basis. 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.

Our customers may request additional, reduction or alteration of works beyond the scope of the contract during project implementation by placing variation orders with us. The aggregate amount of revenue that we are able to derive from a project may be different from the original estimated contract sum specified in the relevant contract due to variation orders placed by our customers. For further details on our variation orders, please refer to the paragraph headed "Business – Our customers – Principal terms of engagement" in this document. As such, there is no assurance that the amount of fees and charges as finally agreed with our customers would be sufficient to recover our costs incurred or provide us with a reasonable profit margin or the amount of revenue derived from our projects will not

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be substantially different from the original estimated contract sum as specified in the relevant contracts and our financial condition may be adversely affected by any decrease in our revenue as a result of variation orders. As a result, there is no assurance that our revenue and profit margin in the future will remain at a level comparable to those recorded during the Track Record Period.

**Failure to maintain safe construction sites and/or implement our safety management system may lead to the occurrence of personal injuries, property damages, fatal accidents or suspension or non-renewal of our registration as a registered subcontractor on the Register of Subcontractors maintained by the Construction Industry Council or our registration on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau**

Due to the nature of works in construction sites, risks of accidents or injuries to workers are inherent. Notwithstanding our occupational health and safety measures that are required to be followed by employees of our Group and our subcontractors, accidents leading to personal injuries, property damages and/or fatal accidents remain an inherent risk at work sites. There is no assurance that there will not be any violation of our safety measures or other related rules and regulations by the employees of our Group or our subcontractors. Any such violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at work sites, which may materially and adversely affect our business operations as well as our financial position to the extent not covered by insurance policies. Also, failure to maintain safe construction sites and/or to implement safety management measures resulting in the occurrence of serious personal injuries or fatal accidents may lead to negative publicity and/or suspension or non-renewal of our registration as a registered subcontractor on the Register of Subcontractors maintained by the Construction Industry Council or our registration on the List of Approved Specialist Contractors for Public Works maintained by the Development Bureau, which in turn adversely affect our reputation, financial position and results of operation.

In addition, any personal injuries and/or fatal accidents to the employees of our Group and our subcontractors may lead to claims or other legal proceedings against our Group. Any such claims or legal proceedings could adversely and materially affect our financial position to the extent not covered by insurance policies. Also, notwithstanding the merits of any such claims or legal proceedings, we need to divert management resources and incur extra costs to handle these matters. Any such claims or legal proceedings could therefore have a material and adverse impact on our business operations.

During the Track Record Period and up to the Latest Practicable Date, we recorded one accident involving our employee which arose in the ordinary course of our business. For further details, please refer to the paragraph headed "Business – Occupational health and work safety" in this document. Although the risks of accidents or injuries to workers are inherent due to the nature of works in the construction industry, such accident record may adversely affect our industry reputation, which may in turn affect our prospect of receiving tender invitations from potential new customers or being awarded with future tenders from

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both our existing and potential new customers. Furthermore, we may have to incur additional costs to strengthen our safety management measures, such as recruiting additional safety supervision staff, which may have an adverse impact on our profitability.

### **We recorded net cash used in operating activities for the four months ended 30 April 2023**

We recorded net cash used in operating activities of approximately HK\$12.0 million for the four months ended 30 April 2023; whilst we recorded net cash generated from operating activities of approximately HK\$8.5 million, HK\$11.5 million and HK\$79.0 million for FY2020, FY2021 and FY2022, respectively. Please refer to the paragraph headed "Financial information – Liquidity and capital resources – Cash flows" in this document for further information. We cannot guarantee that we will be able to generate positive cash flows from operating activities in the future. Net cash used in operating activities may materially and adversely affect our liquidity and financial conditions, and hence may require us to obtain sufficient external financing to meet our financial needs and obligations. If we rely on external financing to generate additional cash, we will incur financing costs and we cannot assure you that we will be able to obtain external financing on terms acceptable to us, or at all.

### **There is no assurance that we will be able to renew our registration under the Registered Specialist Trade Contractors Scheme of the Construction Industry Council**

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. Subcontractors engaged under public sector projects initiated by the Hong Kong government for carrying out structural steelwork are generally required to be registered on the Register of Subcontractors of the Construction Industry Council. Renewal of registration as a registered subcontractor on the Register of Subcontractors is required every three or five years and is generally subject to certain technical and relevant industry experience requirements. There is no assurance that we will be able to renew such registration every time in the future. In the event of non-renewal of such registration, our reputation, our ability to obtain future businesses, and our business and financial position and prospects could be materially and adversely affected.

### **Failure to remain on the List of Approved Specialist Contractors for Public Works may result in a decrease in business opportunities and significantly hinder our business and affect our future financial results**

Wing Kei Hong Kong, our principal operating subsidiary in Hong Kong, is registered on the List of Approved Specialist Contractors for Public Works 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.

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The retention on the List of Approved Specialist Contractors for Public Works is subject to certain financial, technical and management criteria as stipulated in the Contractor Management Handbook revised and published by the Development Bureau in January 2021. For further details, please refer to the paragraph headed "Regulatory overview – Hong Kong – Laws and regulations in relation to contractor licensing regime and operation" in this document. The Secretary for Development of the Hong Kong government reserves the right to remove any contractor from the List of Approved Specialist Contractors for Public Works or take other regulatory actions against a contractor such as suspension, or where applicable, downgrading from confirmed status to probationary status if doubts arise as to the ability of a contractor to meet such criteria. Circumstances which may lead to the taking of regulating actions include unsatisfactory performance, failure to submit accounts or meet the financial criteria, poor site safety record, poor environmental performance, failure to submit a valid competitive tender for a period of three years, failure or refusal to implement an accepted tender, misconduct, violation of laws, etc.

In the event that Wing Kei Hong Kong fails to remain on the List of Approved Specialist Contractors for Public Works under the category of structural steelwork or if any of the aforesaid regulatory actions is taken against it such as suspension, main contractors may be less inclined to select our Group to carry out the structural steelwork in their construction projects, thereby materially and adversely affect our prospect, business and financial condition.

**We may be a party to legal proceedings from time to time and we cannot assure you that such legal proceedings will not have a material adverse impact on our business. In particular, there may be potential employees' compensation claims and personal injury claims**

We may be involved in claims and litigations in respect of various matters from our customers, subcontractors, workers and other parties concerned with our works from time to time. Such claims may include in particular employees' compensation claims and personal injury claims in relation to personal injuries suffered by workers as a result of accidents arising out of and in the course of employment of the injured workers. During the Track Record Period and up to the Latest Practicable Date, we were involved in certain labour disputes, employees' compensation claims and personal injury claims which arose in the ordinary course of our business. Please refer to the paragraph headed "Business – Litigations and claims" in this document for further information.

There is no assurance that we will not be involved in any claims or legal proceedings, nor can we assure you that any such claims or legal proceedings would not have a material adverse impact on our business. Should any claims against us fall outside the scope and/or limit of insurance coverage, our financial position may be adversely affected. Regardless of the merits of any outstanding and potential claims, we need to divert management resources and incur extra costs to handle these claims, which could affect our corporate image and reputation if they were published by the press. If the aforesaid claims were successfully made against our Group and are not covered by insurance policies, we may need to pay damages and legal costs, which in turn could adversely affect our results of operations and financial position.

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## RISK FACTORS

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### **Our historical revenue, gross profit and gross profit margin may not be indicative of our future performance**

For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, our gross profit amounted to approximately HK\$55.0 million, HK\$35.4 million, HK\$66.9 million and HK\$14.7 million, respectively; while our gross profit margin was approximately 17.0%, 15.5%, 19.9% and 19.9%, respectively. However, such trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. There is no assurance that our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

There is an inherent risk in using our historical financial information to project our future financial performance, as they do not have any positive implication or may only reflect on our past performance under certain conditions. Our future performance will depend on, among others, our ability to secure new contracts, control our costs, market conditions in Hong Kong, and competition among contractors. All these may reduce the number of projects awarded to us and/or limit the profit margin of our projects.

In addition, our profit margin may also fluctuate from period to period due to factors such as (i) our ability to accurately estimate our costs when submitting a tender; (ii) the complexity and size of the project; (iii) subcontracting fees; (iv) prices of materials; and (v) our pricing strategy. There is no assurance that our profit margin will remain stable in the future and that we can maintain our current level of performance.

### **Our Group is exposed to foreign exchange risks, and any fluctuation in the exchange rates of RMB may affect our Group's financial performance**

During the Track Record Period, most of our Group's sales are denominated in Hong Kong dollars while our Group's PRC operations are denominated in RMB. There can be no assurance that the exchange rate of RMB will remain stable against Hong Kong dollars. Appreciation of RMB against Hong Kong dollars may lead to an increase in costs of our operations. Our Group does not maintain any hedging policy or engage in any hedging activity. Hence any fluctuation in the exchange rate between Hong Kong dollars and RMB may adversely affect the financial performance and profitability of our Group.

### **Our Group is dependent on key personnel and there is no assurance that our Group can retain them**

Our Directors believe that our success, to a large extent, is attributable to, among other things, the contribution of Mr. Kelvin Chan, Mr. Eddie Chan and Ms. Karen Chan, each being our executive Director. Details of their expertise and experience are set out in the section headed "Directors and senior management" in this document. Our key personnel as well as their management experience in the structural steelwork industry in Hong Kong are crucial to our operation and financial performance. Although we have entered into a service agreement with our executive Directors, there could be an adverse impact on our operation should any of our executive Directors terminate his/her service agreement with us or

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## RISK FACTORS

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otherwise cease to serve our Group and appropriate persons could not be found to replace them. There is no assurance that we will be able to attract and retain capable staff in the future. In such event, the business and financial position and prospects of our Group could be materially and adversely affected.

**Our ability to successfully tender for and undertake new projects is limited by the availability of our project management staff and subcontractors of construction site works**

During the Track Record Period, we have focused on the role of project management and supervision in carrying out our projects. Therefore, our services capacity in undertaking several and sizeable structural steelwork projects is largely limited by the availability of our in-house project management staff and our subcontractors. According to the Industry Report, the Hong Kong structural steelwork industry has been facing a severe shortage of experienced and skilled labour. In view of the aforesaid, we may encounter difficulties in maintaining and recruiting sufficient number of project management staff or engaging suitable subcontractors for undertaking additional projects in the future.

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. 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 development 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.

Therefore, our ability to successfully tender for new projects may be affected by the availability of our project management staff and subcontractors of construction site works. There is a risk that we may not be awarded with new contracts by our customers as our tenders may become relatively less competitive due to limitation in our service capacity.

**Failure to complete our projects on a reliable and timely basis could materially affect our reputation, our financial performance or may subject us to claim**

The contracts with our customers generally contain a liquidated damages clause under which we are liable to pay liquidated damages to our customers if we are unable to deliver or perform the contractual works within the time specified in the contract. Liquidated damages are generally determined on the basis of a fixed sum per day.

Delay in a project may occur from time to time due to various unforeseen factors such as shortage of manpower, delays by subcontractors, industrial accidents, and delay in delivery of materials. If there is any delay on our part in completion of a project, we may be liable to pay liquidated damages under the contract. There is no assurance that there will not be any delay in our existing and future projects resulting in claims in relation to liquidated damages, which in turn will have adverse impact on our reputation, business, financial condition and results of operations.



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### **We are exposed to claims arising from latent defects liability**

We do not maintain any defects liability insurance and we may face claims arising from latent defects that are existing but not yet active, developed or visible, found in the works which are constructed by us or our subcontractors. If there is any significant claim against us for latent defects liability of any default or failure of our services by our customers or other party, our profitability may be adversely affected.

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. Such obligation will be recognised as liability in the statement of financial position if the obligation is considered highly probable and the obliged amount can be reliably measured. Otherwise, such claim will be disclosed as contingent liability.

### **Our insurance coverage may not be adequate to cover potential liabilities**

Certain risks disclosed elsewhere in this section such as risks in relation to customer concentration, our ability to obtain new contracts, our ability to retain and attract personnel, availability and performance of subcontractors, project and cost management, our ability to maintain and renew our registrations, 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. Insurance policies covering losses from acts of war, terrorism, or natural catastrophes are also either unavailable or cost prohibitive.

Further, we may be subject to liabilities against which we are not insured adequately or at all or liabilities against which cannot be insured. Should any significant liabilities arise due to accidents, natural disasters, or other events which are not covered or are inadequately covered by our insurance, our business may be adversely affected, potentially lead to a loss of assets, lawsuits, employee compensation obligations, or other forms of economic loss.

We cannot guarantee that our current levels of insurance are sufficient to cover all potential risks and losses. In addition, we cannot guarantee that we can renew our policies or can renew our policies on similar or other acceptable terms. If we suffer from severe unexpected losses or losses that far exceed the policy limits, it could have a material and adverse effect on our business, financial position, results of operations and prospect.

### **Any significant resurgence of COVID-19 may adversely affect our operation and financial condition**

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.

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## RISK FACTORS

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Besides, from January 2022 and up to April 2022, Hong Kong recorded the fifth wave of 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 disrupted.

Any significant resurgence of COVID-19 in the PRC could have a material adverse impact on our business operations, including further suspension of our structural steel fabrication activities and restrictions on the delivery of our materials and structural steel products due to travel restrictions. There is also no assurance that any recurrence of COVID-19 outbreak in the PRC and/or Hong Kong can be effectively controlled and government authorities will not re-impose stringent measures such as closure of physical workplace premises, full-scale suspension of all business, social and other activities as well as other lockdown policy to control the spread of COVID-19.

Further, any recurrence of COVID-19 pandemic in Hong Kong may have a material adverse impact on Hong Kong economy, which may result in a slowdown in the construction market and lower the availability of structural steelwork projects in Hong Kong. Any deterioration in the outbreak of COVID-19 may also lead to labour shortage, increase in wages of the workers and/or interruption of our business operations, temporary suspension or delay in the work progress of our projects. We cannot assure you that we will not experience any project delays or failure to complete our project according to the planned specifications, schedule and budget as a result of the outbreak of COVID-19, which may expose us to potential claims from customers for liquidated damages and result in adverse impact on our reputation, business, financial condition and results of operations.

In addition, if the Hong Kong and/or PRC Government re-launch measures to combat the spread of COVID-19 including import controls or lockdown policy on a city-wide scale, there is no assurance that our suppliers would be able to (a) maintain their normal business operation without disruptions; and/or (b) deliver the services, materials or subcontracting services to us without delay, and there is no guarantee that we would be able to source the services, materials or subcontracting services from alternative suppliers in time if such measures persist for a substantial period.

**Events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks could significantly delay, or even prevent us from completing, our projects**

Our operations are subject to uncertainties and contingencies beyond our control that could result in material disruptions in our operations and adversely affect our business. These include epidemics, natural disasters, fire, adverse weather conditions, political unrest, wars and terrorist attacks. Any such events could cause us to reduce or halt our operation, adversely affect our business operation, increase our costs and/or prevent us from completing our projects, any one of which could materially and adversely affect our business, financial condition and results of operations.

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In such event, our business operations may also be severely disrupted due to a negative impact on investor confidence and risk appetites, the fund-raising activities of issuers and proposed listing applicants, the macroeconomic condition as well as the financial conditions in Hong Kong. Our business operations, financial condition as well as our fund-raising activities as contemplated by this document may be materially and adversely affected as a result.

**We received government grants, which are non-recurring in nature, and there is no guarantee that we will continue to receive government grant at a similar level or at all**

For FY2020, FY2021, FY2022 and the four months ended 30 April 2023, our Group received government grants of approximately HK\$1.3 million, HK\$0.1 million, HK\$2.6 million and nil, respectively. Such government grants mainly represented wage subsidy granted under the Employment Support Scheme under the Anti-Epidemic Fund. These subsidies are offered to employers who have employed regular employees and paid mandatory provident fund (“MPF”) for them. Wage subsidies were granted to our Group for the use of paying wages and MPF of regular employees from June 2020 to November 2020 and from May 2022 to July 2022. For further details on the government grants received by our Group, please refer to the paragraph headed “Financial information – Principal components of results of operations – Other income and other gain/(loss), net” in this document.

As those Hong Kong government’s relief measures on COVID-19 pandemic are non-recurring in nature, we cannot guarantee that we will continue to receive the aforesaid government grants at a similar level or at all. In the event of any changes in government measures or policies, resulting in any suspension, material reduction or termination of government grants received by our Group, our profitability, financial conditions and results of operations may be materially and adversely affected.

**Our profitability may be affected by the potential increase in depreciation expenses and staff costs upon (i) our planned expansion in production capacity of structural steel fabrication by acquiring a piece of land within or in proximity to Dongguan, the PRC and setup of new production facility; and (ii) our planned recruitment of additional staff**

It is one of our business strategies to expand our production capacity of structural steel fabrication by acquiring a piece of land within or in proximity to Dongguan, the PRC and setting up a new production facility by utilising a portion of the [REDACTED] from the [REDACTED] so as to cope with our business development. Please refer to the section headed “Future plans and use of [REDACTED]” in this document for further details.

As a result of the acquisition of land and construction of a new production facility, it is expected that additional depreciation will be charged to our profit and loss account and may therefore affect our financial performance and operating results. Based on the accounting policies adopted by our Group, depreciation of property, plant and equipment is calculated using the straight-line method. Therefore, it is estimated that additional depreciation

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expenses on property, plant and equipment of approximately RMB1.5 million (equivalent to approximately HK\$1.6 million) will be incurred per annum upon completion of the acquisition of land and construction of the new production facility.

Besides, our business strategies also include the recruitment of additional staff by utilising a portion of the [REDACTED] from the [REDACTED] so as to cope with our business development. Please refer to the section headed “Future plans and use of [REDACTED]” in this document for details of the additional staff that we plan to employ by functions. Based on the intended timing of deployment of the [REDACTED] for recruitment and retention of all the additional staff, it is estimated that additional staff costs of approximately HK\$[REDACTED] million will be incurred per annum.

Our planned investments in property, plant and equipment and labour resources will increase our costs (including depreciation expenses and staff costs) but there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. Should we be unable to obtain more projects and increase our profitability after such planned investments, our business and financial position and prospects may be adversely affected.

### **Possible difficulty in recruiting sufficient labour may hinder our future business strategies**

It is one of our business strategies to expand our labour resources by recruiting additional staff in order to cope with our business development. Please refer to the section headed “Future plans and use of [REDACTED]” in this document for details of the additional staff that we plan to employ by functions. However, the structural steelwork industry in Hong Kong has been facing the problem of labour shortage and ageing workforce, as further discussed in the paragraph headed “Risks relating to the industry in which we operate – The structural steelwork industry in Hong Kong has been facing the problem of labour shortage and ageing workforce” in this section. As a result, there may be potential difficulties for us to recruit sufficient labour for the implementation of our future business strategies. Any material difficulties in recruiting sufficient labour for the implementation of our future business strategies may adversely affect our Group’s ability to successfully grow our business, which may in turn adversely affect our business, financial position and prospects.

### **Our business plans and strategies may not be successful or be achieved within the expected time frame or within the estimated budget**

We intend to further increase our capital reserve for acquiring a piece of land in Dongguan, the PRC and setting up a new production facility, financing our project up-front costs, and strengthening our manpower, in order to cope with the expected increase in demand for our services. However, our plans and strategies may be hindered by risks including but not limited to those mentioned elsewhere in this section. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. Any failure in maintaining our current market position or implementing our plans could materially and adversely affect our business, financial condition and results of operations.

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### **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

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

Some of our competitors may have certain advantages, including but not limited to having long operating history, better financing capabilities and well developed technical expertise. New participants may wish to enter the industry provided that they have the appropriate skills, local experience, necessary machinery, capital and they are granted the requisite licences or approvals by the relevant regulatory bodies. Any significant increase in competition may result in lower operating margins and loss of market share, which may adversely affect our profitability and operating results.

#### **The structural steelwork industry in Hong Kong has been facing the problem of labour shortage and ageing workforce**

According to the Industry Report, owing to Hong Kong's ageing population and increasingly stringent requirements on workers' skills and qualifications, the structural steelwork industry has been facing a severe shortage of experienced and skilled labour. According to the Construction Industry Council, structural steel welder who aged 50 and above accounted for 60.6% of the workforce by the end of 2022. For further information regarding the problem of labour shortage and ageing workforce faced by the structural steelwork industry in Hong Kong, please refer to the paragraph headed "Industry overview – Market challenges and threats" in this document.

The supply and cost of labour in Hong Kong are affected by the availability of labour in the market as well as economic factors in Hong Kong including the inflation rate and standard of living. There is no guarantee that the supply of labour and labour costs will be stable. In addition, the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) requires that an employee is entitled to be paid wages in respect of any wage period of not less than the minimum wage, which shall be derived by reference to the prescribed minimum hourly wage rate (currently set at HK\$40 per hour). There is no assurance that the statutory minimum wage will not increase in the future.

In the event that we or our subcontractors fail to retain existing labour and/or recruit sufficient labour in a timely manner to cope with the demand of our existing or future jobs and/or there is a significant increase in the costs of labour, we may not be able to complete our jobs on schedule and/or within budget and our operations and profitability may be adversely affected.

#### **Rising construction costs, including the costs of construction workers and construction materials, may increase our costs of operation**

According to the Industry Report, the structural steelwork industry in Hong Kong has been facing the problem of increasing operating costs. The increase in operating costs is mainly attributable to the increasing wage trend of structural steelwork welders as well as the prices of steel plates, which are typically required in carrying out structural steelwork. For further details of the past price trend of such construction materials, please refer to the

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paragraph headed “Industry overview – Cost structure analysis” in this document. Any substantial increase in our costs of operation may materially and adversely affect our business and financial positions and prospects.

Construction works are usually divided into various different trades. Each trade requires specialised labour of its own and cannot be easily replaced by labour of another trade. The fees charged by our subcontractors depend on a number of factors, which generally include their own costs of operation. Industrial action of any trade may disrupt our operation and/or the operation of our customers and/or subcontractors and thus the work progress of projects undertaken by us. There is no assurance that trade unions will not launch any industrial actions or strikes to demand for higher wages and/or shorter working hours in the future. If their demands are to be met, we may incur additional direct staff costs, subcontracting fees and/or experience delay in the completion of our projects where our customers may in turn claim against us for not being able to meet the time schedule requirements of the contracts. Therefore, if labour costs and costs of construction materials in Hong Kong keep increasing, our staff costs and subcontracting fees may increase in the future, which could materially and adversely affect our business operation and financial condition.

**Any future changes in existing Hong Kong laws, regulations and government policies, including but not limited to the introduction of more stringent laws and regulations on licensing, environmental protection, labour safety, etc. may cause us to incur substantial additional expenditure**

Many aspects of our business operation are governed by various Hong Kong laws and regulations and government policies. There is no assurance that we will be able to respond to any such changes in a timely manner. Such changes may also increase our costs and burden in complying with them, which may materially and adversely affect our business, financial condition and results of operation. If there are any changes to and/or imposition of the requirements for qualification in the structural steelwork industry in relation to environmental protection and labour safety, and we fail to meet the new requirements in a timely manner or at all, our business operation will be materially and adversely affected.

### **RISKS RELATING TO OUR OPERATIONS IN THE PRC**

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

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. Accordingly, our business, financial condition, results of operations and prospects may be materially affected by the economic, political and social conditions in the PRC.

The PRC’s economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of state ownership of



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productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in the PRC is still owned by the PRC government. The PRC Government continues to play a significant role in regulating and supporting industrial development. It also exercises influence over PRC's economic growth through the allocation of resources, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in the PRC and, in turn, our business. While the PRC economy has experienced significant growth in the past 30 years, such growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall PRC economy but may have a negative effect on us. For example, our results of operations and financial condition could be adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the development of our industry.

### **Uncertainties in the interpretation and application of PRC laws could adversely affect our business, results of operations and financial conditions**

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases are for reference only. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. Our PRC subsidiary is subject to laws and regulations applicable to foreign investment in the PRC in general and laws and regulations applicable to foreign-invested enterprises in particular.

However, there are uncertainties in the interpretation and application of these laws and regulations. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, it may be more difficult to evaluate the outcome of administrative and court proceedings. In addition, such uncertainties, including the inability to enforce our contracts, could adversely affect our business and operations. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published in a timely manner, if any. As a result, we may not be aware of our violation of these policies and rules until some time after the violation, or we may have to go through further approval, registration or filing procedures as required by the relevant PRC governmental authorities. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. Furthermore, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and our foreign investors.

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### **The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment**

On 3 February 2015, the SAT issued the Announcement on Several Issues Concerning the Enterprise Income Tax Deriving from the Indirect Transfers of Properties among Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the “**Announcement 7**”) which was amended on 17 October 2017 and 29 December 2017. The Announcement 7 repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Income From Transfers of Equity Interests by Non-resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the “**Circular 698**”), issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, and the Announcement on the Administration of Enterprise Income Tax on Income of Non-resident Enterprises (《關於非居民企業所得稅管理若干問題的公告》), issued by the SAT on 28 March 2011, with respect to a non-resident enterprise transferring the equity interests of a PRC resident enterprise indirectly through disposing of the equity interests of an overseas holding company, or indirect transfer, and stipulates more detailed rules for tax treatment of indirect transfer of equity interest in PRC resident enterprises and other assets situated in the PRC. Announcement 7 has broadened the scope of the indirect transfer under Circular 698 to non-resident enterprises’ indirect transfer of (i) the assets of an “establishment or place” situated in the PRC; (ii) real estate/immovable property situated in the PRC; and (iii) equity interest in Chinese resident enterprises. The Announcement 7 has also elaborated on how to determine that an indirect transfer has “a reasonable commercial purpose” and specified the legal consequences for failing to withhold and pay tax. We may conduct acquisitions involving changes in corporate structures in the future and Announcement 7 may be interpreted by the relevant tax authorities to be applicable. As a result, we may be required to expend valuable resources to comply with the Announcement 7 and other related tax rules, which could adversely affect our business, results of operations and financial conditions in the future.

### **RISKS RELATING TO THE [REDACTED]**

#### **Investors will experience immediate dilution**

Given the [REDACTED] of our Shares is higher than the combined net tangible assets per Share immediately prior to the [REDACTED], investors of our Shares in the [REDACTED] will experience an immediate dilution in the unaudited pro forma adjusted combined net tangible assets value to approximately HK\$[REDACTED] per Share and HK\$[REDACTED] per Share, respectively, based on the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] to HK\$[REDACTED] per [REDACTED].

#### **There has been no prior public market for the Share and the liquidity, market price and trading volume of the Share may be volatile**

Prior to the [REDACTED], there is no public market for the Shares. The [REDACTED] of, and the permission to [REDACTED], the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the [REDACTED]. Factors such as variations in our Group’s

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revenues, earnings and cash flows, acquisitions made by our Group or our competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation or fluctuations in the market prices for the services provided or supplies required by our Group, the liquidity of the market for the Shares, and the general market sentiment regarding the construction industry in Hong Kong could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the [REDACTED] or at all.

### **Granting options under the Share Option Scheme may affect our Group's result of operation and dilute Shareholders' percentage of ownership**

Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of the Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please see the paragraph headed "D. Share Option Scheme" in Appendix IV to this document.

### **Any disposal by our Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares**

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the [REDACTED]. Our Group cannot predict the effect, if any, of any future sales of the Shares by any Controlling Shareholders, or that the availability of the Shares for sale by any Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

### **The [REDACTED] are entitled to terminate the [REDACTED]**

Prospective investors should note that the [REDACTED] (for themselves and on behalf of the [REDACTED]) are entitled to terminate their obligations under the [REDACTED] by giving notice in writing to us upon the occurrence of any of the events set out in the paragraph headed "[REDACTED] – [REDACTED] arrangements and expenses – The [REDACTED] – Grounds for termination" in this document at any time prior to 8:00 a.m. (Hong Kong time) on the [REDACTED]. Such event may include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out.

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### **The interest of our Controlling Shareholders may not always coincide with the interest of our Group and those of our other Shareholders**

Immediately after the completion of the [REDACTED] and the [REDACTED] (without taking into account any Share that may be allotted and issued upon the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme), our Controlling Shareholders will be interested in [REDACTED] of our Shares. Our Controlling Shareholders will therefore, have a significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporation actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders may be adversely affected as a result.

### **Future issues, offers or sales of Shares may adversely affect the prevailing market price of the Shares**

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issue or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

### **There can be no assurance that we will declare or distribute any dividend in the future**

Dividends of HK\$8.2 million, nil, HK\$8.0 million and HK\$20.0 million were declared and settled by the companies now comprising our Group to their then shareholders during each of FY2020, FY2021, FY2022 and the four months ended 30 April 2023, respectively.

Subject to the Companies Act and the Articles, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay to our Shareholders such interim dividends as appear to our Board to be justified by the financial conditions and the profits of our Company, and may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant by our Board. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. There can be no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

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## RISK FACTORS

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### RISKS RELATING TO THIS DOCUMENT

#### **No representation is given as to the accuracy of the information from official government sources**

The information and statistics set out in the section headed "Industry overview" and other sections of this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Industry Report, an independent industry report, in connection with the [REDACTED]. Our Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry related sources in this document. In addition, our Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, the information from official government sources has not been independently verified by us, the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

#### **You should read the entire document and we strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the [REDACTED]**

There may be press and media coverage regarding us or the [REDACTED], which may include certain events, financial information, financial projections and other information about us and the [REDACTED]. We have not authorised the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy and completeness of such press and media coverage and we make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to subscribe for and/or purchase our Shares, you should rely only on the information included in this document in making your investment decision regarding our Shares. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document.

#### **Our Group's future results could differ materially from those expressed or implied by the forward-looking statements**

Included in this document are various forward-looking statements that are based on various assumptions. Our Group's future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed "Forward-looking statements" in this document. Investors should read this entire document carefully and we strongly caution you

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## RISK FACTORS

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not to place any reliance on any information (if any) contained in press articles or other media regarding us and the [REDACTED] including, in particular, any financial projections, valuations or other forward-looking statements.

Prior to the publication of this document, there may be press or other media which contains information referring to us and the [REDACTED] that is not set out in this document. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED], or the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “**Professional Parties**”) involved in the [REDACTED] has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this document or is inconsistent or conflicts with the information contained in this document, we disclaim any responsibility and liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the [REDACTED]. You should rely only on the information contained in this document.