



羅兵咸永道

The Directors  
Guangdong Syntrust GK Testing and Certification  
Tech Service Centre Co., Ltd.  
1/F, Building A, Construction Bureau Compound,  
Xinyi City, Maoming City, Guangdong Province,  
China

26 August 2024

Dear Sirs,

We refer to the prospectus dated 26 August 2024 in connection with the proposed initial listing of shares of Guangdong Syntrust GK Testing and Certification Tech Service Centre Co., Ltd. (the "Company") on GEM of The Stock Exchange of Hong Kong Limited (the "Prospectus"), a copy of which is attached and initialled by us on its front cover for the purpose of identification.

Our engagement to prepare this letter has been performed in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants.

We hereby consent to the inclusion of our accountant's report and our report on unaudited pro forma financial information, all dated 26 August 2024, in the Prospectus, and the references to our name in the form and context in which they are included.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'P. Cooper', written over the printed name of PricewaterhouseCoopers.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong



# 廣東集信國控檢測認證 技術服務中心股份有限公司

GUANGDONG SYNTRUST GK TESTING AND CERTIFICATION  
TECH SERVICE CENTER CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 8629



## SHARE OFFER

Joint Sponsors



華金融資國際  
Huajin Corporate Finance Int'l



越秀融資  
YUE XIU CAPITAL

Joint Overall Coordinators,  
Joint Bookrunners and Joint Lead Managers



華金證券國際  
Huajin Securities International



越秀證券  
YUE XIU SECURITIES

# IMPORTANT

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



## GUANGDONG SYNTRUST GK TESTING AND CERTIFICATION TECH SERVICE CENTER CO., LTD.

廣東集信國控檢測認證技術服務中心股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

### LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	:	10,179,000 H Shares (subject to Offer Size Adjustment Option)
Number of Placing Shares	:	9,161,000 H Shares (subject to reallocation and the Offer Size Adjustment Option)
Number of Public Offer Shares	:	1,018,000 H Shares (subject to reallocation)
Maximum Offer Price	:	HK\$10.4 per Offer Share (plus brokerage fee of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%, payable in full upon application and subject to refund)
Nominal Value	:	RMB1.00 per H share
Stock code	:	8629

#### Joint Sponsors



#### Joint Overall Coordinators,

#### Joint Bookrunners and Joint Lead Managers



#### Joint Bookrunners and Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies in Hong Kong and Available on Display" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the U.S. and may not be offered, sold, pledged, or transferred within the U.S., except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. securities law.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in "Risk Factors" in this prospectus.

The Offer Price is expected to be determined by agreement between the Joint Overall Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about Wednesday, 4 September 2024 and, in any event, not later than 12:00 noon on Wednesday, 4 September 2024. The Offer Price will be not more than HK\$10.4 per Offer Share and is currently expected to be not less than HK\$8.6 per Offer Share. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$10.4 for each Public Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.00565%, subject to refund if the Offer Price should be lower than HK\$10.4 per Offer Share. If, for any reason, the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price by 12:00 noon on Wednesday, 4 September 2024, the Share Offer will not proceed and will lapse.

The Joint Overall Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice of such reduction will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.xylance.cn](http://www.xylance.cn), not later than the morning of the last day for lodging applications under the Public Offer. Further details are set out in "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus.

Prospective investors of the Offer Shares should note that the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) is entitled, in its absolute discretion, to terminate the Underwriting Agreement with immediate effect by giving notice in writing to our Company if any of the events set forth under "Underwriting - Underwriting arrangements and expenses - Grounds for termination" in this prospectus occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not (and is not intended to) constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions may be restricted by law and therefore persons who possess this prospectus should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities law.

#### ATTENTION

We have adopted a fully electronic application process for the Public Offer. We will not provide printed copies of this prospectus to the public in relation to the Public Offer. This prospectus is available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.xylance.cn](http://www.xylance.cn). If you require a printed copy of this prospectus, you may download and print from the website addresses above.

26 August 2024

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## IMPORTANT

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### IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Public Offer. We will not provide printed copies of this prospectus to the public in relation to the Public Offer.

This prospectus is available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk), under “*HKEXnews > New Listings > New Listing Information*”, and our website at [www.xyjiance.cn](http://www.xyjiance.cn). If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Public Offer Shares, you may:

- (a) apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- (b) apply electronically through the **HKSCC EIPO** channel and cause HKSCC Nominees to apply on your behalf by instructing your broker or custodian who is a HKSCC Participant to give **electronic application instructions** via HKSCC’s FINI system to apply for the Public Offer Shares on your behalf.

We will not provide any physical channels to accept any application for the Public Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance.

If you are an **intermediary, broker or agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

See “How to Apply for Public Offer Shares” in this prospectus for further details of the procedures through which you can apply for the Public Offer Shares electronically.



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## IMPORTANT

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Your application through the **White Form eIPO** service or the **HKSCC EIPO** channel must be for a minimum of 500 Public Offer Shares and in one of the numbers set out in the table. If you are applying through the **White Form eIPO** service, you may refer to the table below for the amount payable for the number of Shares you have selected. You must pay the respective amount payable on application in full upon application for Public Offer Shares.

If you are applying through the **HKSCC EIPO** channel, you are required to pre-fund your application based on the amount specified by your broker or custodian, as determined based on the applicable laws and regulations in Hong Kong.

No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>	No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>	No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>	No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>
500	5,252.44	5,000	52,524.42	30,000	315,146.52	100,000	1,050,488.40
1,000	10,504.89	6,000	63,029.30	35,000	367,670.95	150,000	1,575,732.60
1,500	15,757.32	7,000	73,534.19	40,000	420,195.35	200,000	2,100,976.80
2,000	21,009.77	8,000	84,039.07	45,000	472,719.78	250,000	2,626,221.00
2,500	26,262.21	9,000	94,543.96	50,000	525,244.20	300,000	3,151,465.20
3,000	31,514.65	10,000	105,048.85	60,000	630,293.05	350,000	3,676,709.40
3,500	36,767.09	15,000	157,573.25	70,000	735,341.88	400,000	4,201,953.60
4,000	42,019.53	20,000	210,097.68	80,000	840,390.72	450,000	4,727,197.80
4,500	47,271.97	25,000	262,622.10	90,000	945,439.55	509,000 <sup>(1)</sup>	5,346,985.96

(1) Maximum number of Public Offer Shares you may apply for.

(2) The amount payable is inclusive of brokerage, SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy. If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the GEM Listing Rules) and the SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC; and in the case of the AFRC transaction levy, collected by the Stock Exchange on behalf of the AFRC).

No application for any other number of the Public Offer Shares will be considered and any such application is liable to be rejected.

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on companies listed on GEM.

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## EXPECTED TIMETABLE

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Date<sup>(Note 1)</sup>

Public Offer commences . . . . . 9:00 a.m. on  
Monday, 26 August 2024

Latest time to complete electronic applications under  
the **White Form eIPO** service through  
the designated website [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(Note 2)</sup> . . . . . 11:30 a.m. on  
Tuesday, 3 September 2024

Application lists open<sup>(Note 3)</sup> . . . . . 11:45 a.m. on  
Tuesday, 3 September 2024

Latest time to give **electronic application instructions**  
to HKSCC<sup>(Note 4)</sup> . . . . . 12:00 noon on  
Tuesday, 3 September 2024

Latest time to complete payment of the **White Form eIPO**  
applications by effecting internet banking transfer(s) or  
PPS payment transfer(s) . . . . . 12:00 noon on  
Tuesday, 3 September 2024

If you are instructing your **broker** or **custodian** who is a HKSCC Participant to give **electronic application instructions** via HKSCC's FINI system to apply for the Public Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close . . . . . 12:00 noon on  
Tuesday, 3 September 2024

Expected Price Determination Date<sup>(Note 5)</sup> . . . . . not later than 12:00 noon on  
Wednesday, 4 September 2024

Announcement of:

- the final Offer Price;
- the level of indications of interest in the Placing;
- the level of applications in the Public Offer;
- the basis of allotment of the Public Offer Shares; and
- the number of Offer Shares reallocated, if any, between the Public Offer and the Placing,

will be published on our website at [www.xyjiance.cn](http://www.xyjiance.cn)<sup>(Note 5)</sup>  
and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(Note 6)</sup>  
on or before<sup>(Note 10)</sup> . . . . . Thursday, 5 September 2024

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## EXPECTED TIMETABLE

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Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in "How to Apply for Public Offer Shares – B. Publication of Results" in this prospectus<sup>(Note 10)</sup> ..... not later than 11:00 p.m. on Thursday, 5 September 2024

Results of allocations in the Public Offer from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) (alternatively: [www.eipo.com.hk/eIPOAllotment](http://www.eipo.com.hk/eIPOAllotment)) with a "search by ID" function from<sup>(Note 10)</sup> ..... 11:00 p.m. on Thursday, 5 September 2024 to 12:00 midnight on Wednesday, 11 September 2024

From the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from ..... Friday, 6 September 2024, to Wednesday, 11 September 2024 (except for Saturday, Sunday and public holidays in Hong Kong)

H Share certificates in respect of wholly or partially successful applications will be despatched or deposited into CCASS on or before<sup>(Notes 7 and 10)</sup> ..... Thursday, 5 September 2024

Refund cheques (if applicable) will be despatched on or before<sup>(Notes 7, 9 and 10)</sup> ..... Friday, 6 September 2024

**White Form** e-Refund payment instructions will be despatched on or before<sup>(Notes 7, 9 and 10)</sup> ..... Friday, 6 September 2024

Dealings in H Shares on the Stock Exchange expected to commence at 9:00 a.m. on<sup>(Note 10)</sup> ..... Friday, 6 September 2024

*The application for the Public Offer Shares will commence on Monday, 26 August 2024 through Tuesday, 3 September 2024, being longer than normal market practice of three and a half days. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Friday, 6 September 2024.*

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## EXPECTED TIMETABLE

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*Notes:*

1. All dates and times refer to Hong Kong dates and local time unless otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in “Structure and Conditions of the Share Offer” in this prospectus. If there is any change in the above expected timetable, we will issue a separate announcement in Hong Kong to be published on our website at [www.xyjiance.cn](http://www.xyjiance.cn) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).
2. You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning, Extreme Conditions and/or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 3 September 2024, the application lists will not open and close on that day. See “How to Apply for Public Offer Shares – E. Severe weather arrangements” in this prospectus.
4. Applicants who apply for the Offer Shares by giving **electronic application instructions** to HKSCC via HKSCC’s FINI system should refer to “How to Apply for Public Offer Shares – A. Application for public offer shares – 2. Application channels” in this prospectus.
5. None of the website or any of the information contained on the website forms part of this prospectus.
6. The announcement will be available for viewing on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk).
7. Applicants who have applied for Offer Shares through the **HKSCC EIPO** channel should refer to “How to Apply for Public Offer Shares – D. Despatch/Collection of H Share certificates and refund of application monies” in this prospectus for details.
8. Applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account, may have **White Form** e-Refund payment instructions (if any) despatched to their application payment bank account. Applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts, may have refund cheques in favour of the applicant (or, in the case of joint applications, the first-named applicant) sent to the address specified in their application instructions to the designated **White Form eIPO** Service Provider by ordinary post and at their own risk.
9. **White Form** e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications.
10. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong at any days between Monday, 26 August 2024 and Friday, 6 September 2024, then the day of (i) announcement of results of allocations in the Public Offer; (ii) despatch of H Share certificates and refund cheques/**White Form** e-Refund payment instructions; and (iii) dealings in the H Shares on the Stock Exchange may be postponed and an announcement may be made in such event.



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## EXPECTED TIMETABLE

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**The H Share certificates will only become valid evidence of title provided that the Share Offer has become unconditional in all respects and the Underwriting Agreement is not terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Friday, 6 September 2024. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid evidence of title do so entirely at their own risk.**

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

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# CONTENTS

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## IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Public Offer and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Share Offer. Information contained on our website, located at [www.xyjiance.cn](http://www.xyjiance.cn), does not form part of this prospectus.*

	Page
<b>CHARACTERISTICS OF GEM</b> .....	iii
<b>EXPECTED TIMETABLE</b> .....	iv
<b>CONTENTS</b> .....	viii
<b>SUMMARY</b> .....	1
<b>DEFINITIONS</b> .....	22
<b>GLOSSARY OF TECHNICAL TERMS</b> .....	33
<b>FORWARD-LOOKING STATEMENTS</b> .....	36
<b>RISK FACTORS</b> .....	38
<b>WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES</b> .....	61
<b>INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER</b> .....	64
<b>DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE SHARE OFFER</b> .....	68

---

# CONTENTS

---

<b>CORPORATE INFORMATION</b> .....	73
<b>INDUSTRY OVERVIEW</b> .....	75
<b>REGULATORY OVERVIEW</b> .....	92
<b>HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE</b> .....	129
<b>BUSINESS</b> .....	141
<b>RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING</b> .....	256
<b>CONTINUING CONNECTED TRANSACTIONS</b> .....	262
<b>DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT</b> .....	266
<b>SUBSTANTIAL SHAREHOLDERS</b> .....	285
<b>SHARE CAPITAL</b> .....	286
<b>FINANCIAL INFORMATION</b> .....	290
<b>FUTURE PLANS AND USE OF PROCEEDS</b> .....	348
<b>UNDERWRITING</b> .....	375
<b>STRUCTURE AND CONDITIONS OF THE SHARE OFFER</b> .....	386
<b>HOW TO APPLY FOR PUBLIC OFFER SHARES</b> .....	394
<b>APPENDIX I – ACCOUNTANT’S REPORT</b> .....	I-1
<b>APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION</b> .....	II-1
<b>APPENDIX III – TAXATION AND FOREIGN EXCHANGE</b> .....	III-1
<b>APPENDIX IV – SUMMARY OF PRINCIPAL PRC LEGAL AND REGULATORY PROVISIONS</b> .....	IV-1
<b>APPENDIX V – SUMMARY OF THE ARTICLES OF ASSOCIATION OF OUR COMPANY</b> .....	V-1
<b>APPENDIX VI – STATUTORY AND GENERAL INFORMATION</b> .....	VI-1
<b>APPENDIX VII – DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE ON DISPLAY</b> .....	VII-1

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## SUMMARY

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*This summary aims at giving you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in our Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in our Shares.*

*Various expressions used in this summary are defined in “Definitions” in this prospectus.*

### OVERVIEW

Our Company is principally engaged in the provision of construction engineering testing and inspection services, serving customers in Maoming, Guangdong Province of China. Founded in 2000 and headquartered in Xinyi City, Maoming, we have grown throughout the years in terms of revenue generated from construction engineering testing and inspection services. Our service offerings include a range of construction engineering testing and inspection services covering different types of testing and inspections processes involved in the industry. We primarily offer construction engineering testing services including foundation testing service, infrastructure and public roads testing service, construction material testing service, as well as building structure testing service. Additionally, we provide construction engineering inspection services including slope monitoring and foundation pit monitoring services. Since May 2024, as part of our expansion plan, while remaining our primary business focus on construction engineering testing and inspection services, we have commenced to diversify our service offerings and provide food testing services, which contributed 12.3% to our total revenue generated in 6M2024.

According to the CIC Report, the construction engineering testing and inspection services sector emerged with significant potential. The total market size of the construction engineering testing and inspection industry in Maoming was RMB389.8 million in 2023 and is expected to reach RMB614.6 million in 2028, representing a CAGR of 9.5% from 2023 to 2028. Over the years, the industry has also demonstrated steady growth, mainly driven by the government’s initiative for rapid infrastructure development. The construction engineering testing and inspection industry in Maoming showcased a CAGR of 11.1% from 2019 to 2023.

Our customer base primarily consists of entities involved in the construction industry in China, including private and public sector entities such as property developers and construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus. These customers rely on our expertise to ensure the quality, safety and compliance at relevant stages of their construction or infrastructure projects. The primary focus of our testing and inspection services lies in private commercial and residential construction projects as well as public construction and infrastructure projects. During FY2021, FY2022, FY2023 and 6M2024, we had 268, 182, 279 and 196 customers, respectively.

As at the Latest Practicable Date, we maintain a team of 106 employees, holding a total of 179 testing qualifications issued and approved by the Guangdong Association for Quality and Safety Testing and Appraisal of Construction Projects, enabling them to conduct proficient and reliable testing and inspection processes. Among them, 55 are qualified engineers specialising in construction engineering

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## SUMMARY

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and three are qualified engineers specialising in food and agriculture in China. Our Company has also obtained accreditation in a total of 39 categories for testing and inspection services relating to construction engineering, product and material testing, environmental testing, food testing and agricultural related testing approved by the Guangdong AMR and we offer testing services with over 2,700 parameters under the 39 categories.

We have obtained the Inspection and Testing Agency Qualification Certificate issued by the Guangdong AMR. This certificate grants us permission to use the mark of the CMA (China Inspection Body and Laboratory Mandatory Approval) when conducting our business. CMA is a certification and evaluation of the testing capability and reliability of testing and inspection institutions, conducted by quality inspection departments at the provincial level or above in accordance with the provisions of the Metrology Law of China. Additionally, we also hold the Construction Engineering Quality Inspection Agency Qualification Certificate issued by the Guangdong Provincial Department of Housing and Urban-Rural Development. As a testing and inspection company, we are required to obtain the Inspection and Testing Agency Qualification Certificate. When carrying out testing and inspection activities relating to construction engineering, we are also required to obtain the Construction Engineering Quality Inspection Agency Qualification Certificate. These certificates are crucial for demonstrating our capability and eligibility to provide reliable testing and inspection services. Our market reputation is largely established on the foundation of delivering reliable services, and we maintain this standard through stringent quality control measures. These measures are in place to ensure that we consistently uphold our service standards.

We operate our headquarters located in Xinyi City, Maoming, Guangdong Province, and provide on-site or laboratory testing and inspection services to customers in Maoming. Leveraging on (i) our state-owned background; (ii) our proven track records; (iii) our established market presence in Maoming; and (iv) our experienced senior management supported by our skilled personnel, we have grown throughout the years in terms of revenue generated from the testing and inspection services.

During the Track Record Period, our revenue was mainly derived from our foundation testing service. Revenue from foundation testing service accounted for 74.8%, 56.2%, 59.3% and 61.8% of our total revenue for FY2021, FY2022, FY2023 and 6M2024, respectively. The revenue generated from our foundation testing service was RMB29.7 million, RMB11.2 million, RMB24.6 million and RMB14.1 million for FY2021, FY2022, FY2023 and 6M2024, respectively. The decrease in revenue generated from foundation testing service in FY2022 was due to the impact of the COVID-19 pandemic, as a result, the number of foundation service orders completed by us in FY2022 decreased. See “Effect of the COVID-19 pandemic” below for details. As the impact of the COVID-19 pandemic gradually eased in 2023 and there is a growth in our foundation testing service provided to projects in public sector, our revenue from foundation testing service increased in FY2023.

### **OUR BUSINESS MODEL**

We offer a wide range of comprehensive construction engineering testing and inspection services to customers in the construction industry. Our testing services primarily include foundation testing service, infrastructure and public roads testing service, construction material testing service and building structure testing service, and our inspection services include slope monitoring and foundation pit monitoring services. Since May 2024, we have also commenced to provide food testing services. Our construction engineering testing and inspection services cover the main stages of private commercial and residential construction



## SUMMARY

projects as well as public construction and infrastructure projects and our food testing services since May 2024 cover various types of food products such as fruits, vegetables, tea leaves and eggs where we conduct testings to evaluate whether the products meet the relevant national legal quality and safety standards.

Since FY2022, we have shifted our focus towards providing more testing and inspection services for customers involved in public sector projects. The following table sets forth a breakdown of our revenue by public and private sector construction engineering projects/by public sector customer demanding food testing service and by customers type during the Track Record Period:

	FY2021		FY2022		FY2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Construction engineering testing and inspection services</b>								
<i>Private Sector</i>								
Property developers	22,112	55.6	5,583	28.0	13,098	31.6	9,118	40.0
Construction companies	6,604	16.6	3,900	19.5	4,251	10.2	626	2.7
PRC government institutions <sup>(1)</sup>	-*	0	-	-	85	0.2	45	0.2
PRC government administrative bureaus <sup>(1)</sup>	1	0	-	-	3	0	1	0
Others <sup>(2)</sup>	1,435	3.6	559	2.8	2,028	4.9	943	4.1
Sub-total of private sector	30,152	75.8	10,042	50.3	19,465	46.9	10,733	47.0
<i>Public Sector</i>								
Property developers	1,484	3.7	581	2.9	1,756	4.2	73	0.3
Construction companies	1,955	4.9	1,448	7.3	4,135	10.0	217	1.0
State-owned investment companies	3,502	8.8	2,091	10.5	5,851	14.1	4,202	18.4
PRC government institutions	2,297	5.8	3,934	19.7	6,658	16.1	2,031	8.9
PRC government administrative bureaus	307	0.8	1,807	9.1	3,128	7.5	1,634	7.1
Others	84	0.2	63	0.2	507	1.2	1,141	5.0
Sub-total of public sector	9,629	24.2	9,924	49.7	22,035	53.1	9,298	40.7
Sub-total of construction engineering testing and inspection services	39,781	100.0	19,966	100.0	41,500	100.0	20,031	87.7
<b>Food testing services</b>								
<i>Public Sector</i>								
PRC government administrative bureaus	-	-	-	-	-	-	2,799	12.3
Sub-total of food testing services	-	-	-	-	-	-	2,799	12.3
<b>Total</b>	<b>39,781</b>	<b>100.0</b>	<b>19,966</b>	<b>100.0</b>	<b>41,500</b>	<b>100.0</b>	<b>22,830</b>	<b>100.0</b>

\* represents that the amount is less than RMB1,000

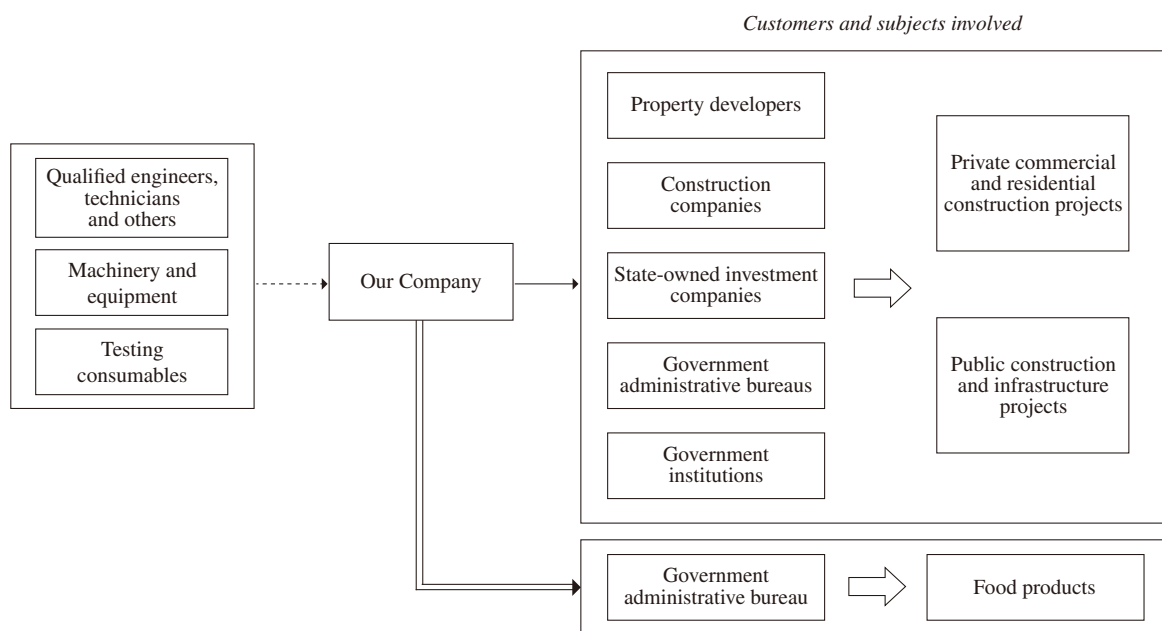
# SUMMARY

*Notes:*

1. Certain PRC government institutions and PRC government administrative bureaus conduct sampling quality inspection on various aspect in a private construction project, such as the quality of the construction materials. As part of this process, they engage us to provide relevant testing services to ensure the required quality standards set by the government are met and maintained in the private construction projects.
2. Including individuals involving in private construction works which require our testing services.

To provide our testing and inspection services, we would rely on our qualified testing and inspection personnel and technicians, our fleet of testing and inspection equipment sourced from relevant companies and manufacturers, and testing consumables sourced for our day to day testing process.

The following diagram illustrates the business chain of our Company:



-----> Elements and components for provision of our services

- > (1) Provision of construction engineering testing and inspection services to customers
- (2) Issuance of testing reports to customers to ensure the quality, safety and compliance of relevant standards and regulations for materials or process involved in various stages of construction or infrastructure projects
- =====> (1) Provision of food testing services to a customer in 6M2024
- (2) Issuance of testing reports to a customer to ensure the compliance of relevant quality and safety standards for the food products

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## SUMMARY

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As at the Latest Practicable Date, we had obtained accreditation in a total of 39 categories for testing and inspection services relating to construction engineering, product and material testing, environmental testing, food testing and agricultural related testing approved by the Guangdong AMR under the Inspection and Testing Agency Qualification Certificate, and we offer testing services with over 2,700 parameters under the 39 categories. These parameters demonstrate the comprehensive range of testing services that we can offer to support the construction and other industries. By obtaining accreditation in multiple categories and covering a diverse set of parameters, we are able to conduct a large number of testing types in relation to each of our services, each testing type provides the approach or method used to perform the testing, while testing categories and parameters define the specific areas or characteristics being assessed within those testing types. As at the Latest Practicable Date, there were a total of 140 categories governed and approved by the Guangdong AMR covering construction engineering, product and material testing, environmental testing, food testing and agricultural related testing.

Our services are required at various stages throughout our customers' construction or infrastructure projects. We assist our customers engaging in construction or infrastructure projects in ensuring compliance with regulatory standards, optimising performance, and enhancing the overall quality and safety of buildings and infrastructure. By delivering reliable and accurate results, we help our customers ensure compliance with contractual standards and confirm the quality of the relevant parts or stages in construction or infrastructure projects. Our testing and inspection services may be sought by our customers either to comply with applicable regulatory requirements or for voluntary testing purposes. For FY2021, FY2022, FY2023 and 6M2024, 99.4%, 98.9%, 99.3% and 99.7% of our revenue were derived from testing reports produced to our customers due to regulatory requirements. For details, see "Business – Our customers" on page 199 of this prospectus.

We are headquartered in Xinyi City, Maoming, Guangdong Province to provide construction engineering testing and inspection services through our professional teams in construction sites located primarily in Maoming. To perform quality tests on construction material samples for our customers, we also operate two in-house laboratory units with various laboratorial function located in Xinyi City. Our laboratories are equipped with advanced testing instrumentation and operated by skilled technicians. Our food testing services provided since May 2024 were also mainly conducted in our laboratories by our skilled technicians with relevant qualifications in food testing. Our employees for our testing services include field personnel that perform on-site testing at the designated construction sites and technicians that perform analytical tests in our laboratories or, for certain food testing, in designated locations. Our services are backed by stringent quality control measures to ensure the quality of testing and inspection services delivered to our customers. For further details, see "Business – Quality control" on page 197 of this prospectus.

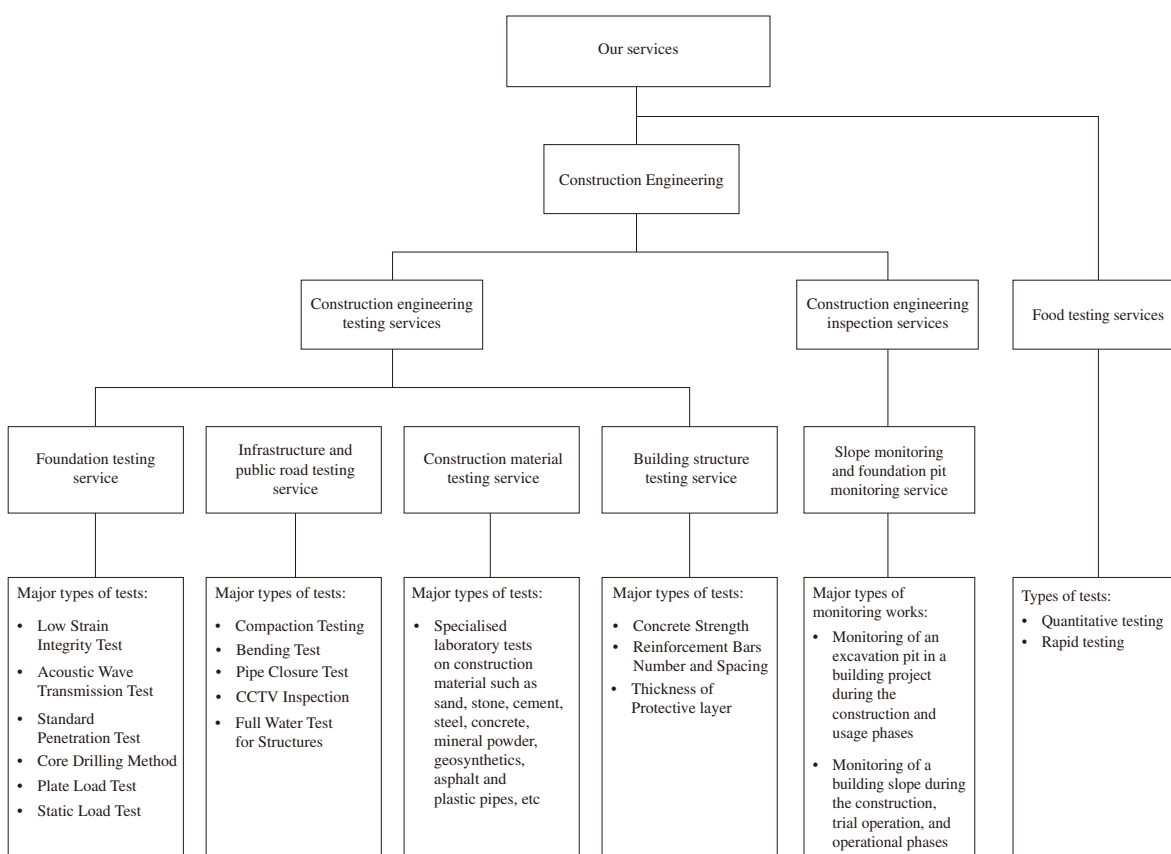
Maoming represents our primary market and all of our revenue generated during the Track Record Period are attributable to our services provided in Maoming.

# SUMMARY

## OUR SERVICES

We provide a wide range of comprehensive construction engineering testing and inspection services to our customers, where (1) our testing services consist of (i) foundation testing service, (ii) infrastructure and public roads testing service, (iii) construction material testing service, and (iv) building structure testing service, and (2) our inspection services consist of (v) slope monitoring and foundation pit monitoring services. In addition, since May 2024, as part of our expansion plan, while remaining our primary business focus on construction engineering testing and inspection services, we have commenced to diversify our service offerings and provide food testing services, which contributed 12.3% to our total revenue generated in 6M2024.

The following diagram illustrates our main service offerings:



For details, see “Business – Our services” on page 170 of this prospectus.

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## SUMMARY

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### OUR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

As at the Latest Practicable Date, we had business relationships with our five largest customers during the Track Record Period from four months to seven years. For FY2021, FY2022, FY2023 and 6M2024, the revenue generated from our five largest customers was RMB14.9 million, RMB8.9 million, RMB15.9 million and RMB9.9 million, respectively, representing 37.6%, 44.4%, 38.3% and 43.6% of our revenue for the same periods, respectively, and the revenue generated from our largest customer for respective year/period amounted to RMB5.1 million, RMB3.7 million, RMB4.5 million and RMB2.9 million, respectively, representing 12.8%, 18.4%, 10.8% and 12.6% of our revenue for the same periods, respectively. For details, see “Business – Our customers” on page 199 of this prospectus.

Our suppliers and subcontractors mainly include companies and manufacturers for testing consumables for conducting our testing services, and also drilling companies that we subcontract certain physically demanding works during the course of provision of our foundation testing service. As at the Latest Practicable Date, we had business relationships with our five largest suppliers, including subcontractors, during the Track Record Period from five months to 15 years. For FY2021, FY2022, FY2023 and 6M2024, the procurement from our five largest suppliers amounted to RMB1.6 million, RMB1.0 million, RMB0.9 million and RMB0.9 million, respectively, representing 90.5%, 80.0%, 61.9% and 78.1% of our total purchases for the same periods respectively. For FY2021, FY2022, FY2023 and 6M2024, the procurement from our largest supplier or subcontractor amounted to RMB0.7 million, RMB0.5 million, RMB0.4 million and RMB0.3 million, respectively, representing 37.6%, 41.0%, 31.8% and 23.8% of our total purchases for the same periods respectively. For details, see “Business – Our suppliers and subcontractors” on page 220 of this prospectus.

### COMPETITIVE STRENGTHS

We believe that our competitive strengths are as follows, each of which is discussed in more detail in “Business – Competitive strengths” on page 144 of this prospectus:

- We provide a wide spectrum and comprehensive construction engineering testing and inspection services and food testing services, serving a diversified base of customers in both private and public sectors
- We strategically targeting the market in the 3rd to 5th tiers cities in Maoming.
- We strategically positioned ourselves to harness the accelerating infrastructure development in China driven by government policies in tier 3 or below cities.
- We implement quality control measures to maintain our service standards and ensure precise testing outcomes.
- Our management team is recognised for their leadership and commitment.



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## SUMMARY

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### BUSINESS STRATEGIES

We intend to implement a business strategy with the following key areas, the details of which will be discussed in “Business – Business strategies” on page 148 of this prospectus:

- Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services.
- Strengthening our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong of China.
- Diversifying our testing and inspection services offering, and expanding into areas including food and agricultural, transportation and fire protection.

### INFORMATION OF OUR CONTROLLING SHAREHOLDER

As at the Latest Practicable Date, Xinyi City CEQS Center directly held approximately 80% of our issued share capital, thus the Controlling Shareholder of our Company under the GEM Listing Rules. Immediately following the completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised), Xinyi City CEQS Center will hold 56% of our enlarged issued share capital. As such, Xinyi City CEQS Center will continue to be the Controlling Shareholder immediately following the completion of the Share Offer.

Each of our Directors and Controlling Shareholder has confirmed that none of them nor any of their respective close associates has any interest in any business, apart from the business of our Company, which competes with, or is likely to compete with our business, whether directly or indirectly, which would otherwise require disclosure under Rules 11.04 of the GEM Listing Rules. See “Relationship with the Controlling Shareholder and Non-competition Undertaking” on page 256 of this prospectus for further information in relation to our Controlling Shareholder.

### PRE-IPO INVESTMENT

On 27 July 2023, our Company entered into a capital injection agreement with Xinyi City CEQS Center and Xinyi Xinhui, pursuant to which Xinyi Xinhui agreed to subscribe for an aggregate of 20% of the enlarged registered capital of our Company at a total consideration of RMB20 million in two tranches. The Pre-IPO investment was completed in November 2023. For details, see “History, Development and Corporate Structure – Pre-IPO Investment” on page 136 of this prospectus.

# SUMMARY

## SUMMARY OF FINANCIAL INFORMATION

### Key financial information

The following table sets forth a summary of our statements of comprehensive income for the periods indicated.

	FY2021	FY2022	FY2023	6M2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue	39,781	19,966	41,500	16,329	22,830
Cost of sales	<u>(9,605)</u>	<u>(8,472)</u>	<u>(11,719)</u>	<u>(5,494)</u>	<u>(6,658)</u>
<b>Gross profit</b>	30,176	11,494	29,781	10,835	16,172
General and administrative expenses	(4,726)	(6,383)	(10,157)	(3,703)	(5,485)
Research and development expenses	–	–	(113)	–	(280)
Net impairment losses on financial assets	(2,121)	(1,380)	(1,317)	(1,589)	(127)
Other income	548	417	620	317	60
Other losses	<u>–</u>	<u>(13)</u>	<u>(931)</u>	<u>–</u>	<u>(84)</u>
<b>Operating profit</b>	23,877	4,135	17,883	5,860	10,256
Finance income	100	97	70	33	49
Finance costs	<u>(254)</u>	<u>(281)</u>	<u>(219)</u>	<u>(142)</u>	<u>(488)</u>
Finance costs – net	<u>(154)</u>	<u>(184)</u>	<u>(149)</u>	<u>(109)</u>	<u>(439)</u>
<b>Profit before income tax</b>	23,723	3,951	17,734	5,751	9,817
Income tax expense	<u>(5,986)</u>	<u>(1,039)</u>	<u>(4,480)</u>	<u>(1,467)</u>	<u>(2,474)</u>
<b>Net profit</b>	<u><u>17,737</u></u>	<u><u>2,912</u></u>	<u><u>13,254</u></u>	<u><u>4,284</u></u>	<u><u>7,343</u></u>
<b>Other comprehensive income, net of tax</b>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Total comprehensive income</b>	<u><u>17,737</u></u>	<u><u>2,912</u></u>	<u><u>13,254</u></u>	<u><u>4,284</u></u>	<u><u>7,343</u></u>

## SUMMARY

### Revenue

During the Track Record Period, we generated revenue primarily from our comprehensive construction engineering testing and inspection services, including (i) testing services which primarily include foundation testing service, construction material testing service, building structure testing service, infrastructure and public roads testing service; and (ii) inspection services which primarily include slope monitoring and foundation pit monitoring services. For FY2021, FY2022, FY2023 and 6M2024, our total revenue was RMB39.8 million, RMB20.0 million, RMB41.5 million and RMB22.8 million, respectively.

The following table sets forth a breakdown of revenue generated by types of service during the Track Record Period.

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(Unaudited)										
<b>Construction engineering</b>										
<i>Testing services</i>										
Foundation testing service	29,743	74.8	11,232	56.2	24,619	59.3	10,683	65.4	14,112	61.8
Construction material testing service	5,185	13.0	2,955	14.8	3,888	9.4	1,831	11.2	2,409	10.5
Building structure testing service	2,649	6.7	759	3.8	1,682	4.0	657	4.0	810	3.5
Infrastructure and public roads testing service	893	2.2	456	2.3	5,837	14.1	2,037	12.5	1,408	6.2
	<u>38,470</u>	<u>96.7</u>	<u>15,402</u>	<u>77.1</u>	<u>36,026</u>	<u>86.8</u>	<u>15,208</u>	<u>93.1</u>	<u>18,739</u>	<u>82.0</u>
<i>Inspection services</i>										
Slope monitoring and foundation pit monitoring services	1,311	3.3	4,564	22.9	5,474	13.2	1,121	6.9	1,292	5.7
	<u>1,311</u>	<u>3.3</u>	<u>4,564</u>	<u>22.9</u>	<u>5,474</u>	<u>13.2</u>	<u>1,121</u>	<u>6.9</u>	<u>1,292</u>	<u>5.7</u>
	<u>39,781</u>	<u>100.0</u>	<u>19,966</u>	<u>100.0</u>	<u>41,500</u>	<u>100.0</u>	<u>16,329</u>	<u>100.0</u>	<u>20,031</u>	<u>87.7</u>
Food testing services	-	-	-	-	-	-	-	-	2,799	12.3
<b>Total</b>	<u>39,781</u>	<u>100.0</u>	<u>19,966</u>	<u>100.0</u>	<u>41,500</u>	<u>100.0</u>	<u>16,329</u>	<u>100.0</u>	<u>22,830</u>	<u>100.0</u>

Our revenue generated from the provision of construction engineering testing services decreased from RMB38.5 million in FY2021 to RMB15.4 million in FY2022, mainly attributable to the overall downturn in the real estate industry and the impact of the COVID-19 pandemic on real estate projects in FY2022, which resulted in delays in the construction progress of foundations and building structures of real estate projects. Our revenue from construction engineering testing services increased from RMB15.4 million in FY2022 to RMB36.0 million in FY2023, mainly attributable to (i) the lifting of COVID-19

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## SUMMARY

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restrictions, such as lockdown and quarantine, as a result, the total number of service orders we completed increased significantly in FY2023; and (ii) our increase in the number and scope of qualifications in infrastructure and public roads testing from 20 parameters under eight categories as at 31 December 2022 to 586 parameters under 11 categories as at 31 December 2023. Our revenue from construction engineering testing services increased from RMB15.2 million in 6M2023 to RMB18.7 million in 6M2024, primarily benefiting from (i) the overall growth in the construction engineering T&I industry in Maoming between 6M2023 and 6M2024 according to the CIC Report; and (ii) an increase in revenue generated from foundation testing service by RMB3.4 million from RMB10.7 million in 6M2023 to RMB14.1 million in 6M2024 primarily due to an increase in the average service order value for foundation testing service from RMB25,993 per service order in 6M2023 to RMB32,516 per service order in 6M2024 mainly because we had provided more foundation testing services with higher testing complexity to our customers in 6M2024.

Revenue from our construction engineering inspection services increased by 248.1% from RMB1.3 million in FY2021 to RMB4.6 million in FY2022, primarily due to the substantial monitoring service work we provided to a sewage network reconstruction project in the fourth quarter of 2022, which resulted in the recognition of revenue of RMB3.7 million. Despite there was some disruption on construction progress of such project attributable to the COVID-19 pandemic, such sewage network reconstruction project continued and we provided our construction engineering inspection service as required by the customer and recognised majority of the revenue attributable to this project in FY2022. Our revenue from construction engineering inspection services increased by 19.9% from RMB4.6 million in FY2022 to RMB5.5 million in FY2023, which was mainly driven by the increase in the number of service orders completed from five in FY2022 to 10 in FY2023, particularly attributable to the services provided to an urban renewal project in Gaozhou City, Maoming, which generated revenue of RMB3.2 million in FY2023. Our revenue from construction engineering inspection services increased by 15.3% from RMB1.1 million in 6M2023 to RMB1.3 million in 6M2024, primarily due to an increase in revenue generated from our slope monitoring and foundation pit monitoring services provided to property developers for their projects in private sector from RMB0.2 million in 6M2023 to RMB0.3 million in 6M2024.

Since May 2024, we had commenced providing food testing services and generated revenue of RMB2.8 million in 6M2024. Our revenue generated from food testing services was attributable from a PRC government administrative bureau customer who engaged us to conduct government-mandated sampling tests on various types of food products such as fruits, vegetables, tea leaves and eggs in 6M2024.

### **Gross Profit**

Our gross profit was RMB30.2 million, RMB11.5 million, RMB29.8 million, RMB10.8 million and RMB16.2 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. Our gross profit decreased significantly from RMB30.2 million for FY2021 to RMB11.5 million for FY2022 and increased significantly from RMB11.5 million for FY2022 to RMB29.8 million for FY2023. Our gross profit increased from RMB10.8 million in 6M2023 to RMB16.2 million in 6M2024. The fluctuations in our gross profit were generally affected by the fluctuations in our revenue during the same year.

## SUMMARY

### Profit for the Year/Period

Our profit for the year/period was RMB17.7 million, RMB2.9 million, RMB13.3 million, RMB4.3 million and RMB7.3 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. Our profit for the year decreased by 83.6% from RMB17.7 million in FY2021 to RMB2.9 million in FY2022 primarily due to (i) the decrease in our total revenue from RMB39.8 million in FY2021 to RMB20.0 million in FY2022; and (ii) the increase in our general and administrative expenses from RMB4.7 million in FY2021 to RMB6.4 million in FY2022, mainly attributable to the increases in our employee remuneration and professional fees. Our profit for the year substantially increased by 355.2% from RMB2.9 million in FY2022 to RMB13.3 million in FY2023 primarily due to the increase in our total revenue from RMB20.0 million in FY2022 to RMB41.5 million in FY2023, and partially offset by the increases in (i) our general and administrative expenses from RMB6.4 million in FY2022 to RMB10.2 million in FY2023, mainly attributable to the increases in our employee remuneration, professional fees and occurrence of Listing expenses; and (ii) our other losses from RMB13,000 in FY2022 to RMB0.9 million in FY2023. Our profit for the period increased by 71.4% from RMB4.3 million in 6M2023 to RMB7.3 million in 6M2024 primarily due to the increase in our total revenue from RMB16.3 million in 6M2023 to RMB22.8 million in 6M2024, which was partially offset by the increase in (i) our general and administrative expenses from RMB3.7 million in 6M2023 to RMB5.5 million in 6M2024, mainly attributable to the increase in professional fees and occurrence of Listing expenses; (ii) our research and development expenses from nil in 6M2023 to RMB0.3 million in 6M2024; (iii) our net finance cost from RMB0.1 million in 6M2023 to RMB0.4 million in 6M2024; and (iv) our income tax expenses from RMB1.5 million in 6M2023 to RMB2.5 million in 6M2024.

### Selected balance sheet data

The following table sets forth a summary of selected items in our balance sheet as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	44,479	44,983	41,165	44,842
Less: provision for credit loss of trade receivables	(9,068)	(10,438)	(11,840)	(11,968)
	35,411	34,545	29,325	32,874
Other receivables and prepayments	5,375	5,274	19,901	25,415
Total assets	85,734	84,410	118,830	160,331
Total liabilities	18,746	15,079	16,245	50,403
Net current assets	59,514	60,824	91,985	87,152
Net assets	66,988	69,331	102,585	109,928

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## SUMMARY

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### *Net current assets*

Our net current assets increased from RMB59.5 million as at 31 December 2021 to RMB60.8 million as at 31 December 2022, representing an increase of 2.2%. Such increase was primarily attributable to (i) a decrease in current liabilities as a result of a decrease in current income tax liabilities of RMB5.6 million; and (ii) an increase in contract fulfilment cost of RMB1.2 million, which was partially offset by (i) a decrease in cash and cash equivalents of RMB3.6 million; and (ii) a decrease in trade and other receivables and prepayments of RMB0.8 million during the year.

Our net current assets as at 31 December 2023 further increased to RMB92.0 million, representing an increase of 51.2% or RMB31.2 million from RMB60.8 million as at 31 December 2022. Such increase was mainly due to (i) an increase in trade and other receivables and prepayments of RMB10.4 million; and (ii) an increase in cash and cash equivalents of RMB26.9 million and partially offset by the increase in other payables and accruals of RMB4.2 million.

Our net current assets as at 30 June 2024 decreased to RMB87.2 million was mainly attributable to the combined effect of (i) the decrease in cash and cash equivalents of RMB16.7 million for the purpose of purchasing property, plant and equipment and paying income tax in 6M2024; (ii) an increase in trade and other receivables and prepayments of RMB9.1 million; and (iii) a decrease in current income tax liabilities of RMB2.3 million.

### *Net assets*

Our net assets increased from RMB67.0 million as at 31 December 2021 to RMB69.3 million as at 31 December 2022, representing an increase of 3.5%, primarily due to (i) the profit for the year of RMB2.9 million; (ii) the capital contribution from an equity holder of RMB1.3 million, and offset by (iii) the dividends paid to shareholders of RMB1.9 million.

Net assets further increased to RMB102.6 million as at 31 December 2023 as compared to that of RMB69.3 million as at 31 December 2022, mainly due to (i) the profit for the year of RMB13.3 million; and (ii) the capital contributions from Xinyi Xinhui to our Company of RMB20.0 million.

Our net assets further increased to RMB109.9 million as at 30 June 2024 primarily due to the profit for the period of RMB7.3 million.

## SUMMARY

### Cash Flows

The following table sets forth a summary of our statements of cash flows for the periods indicated.

	FY2021	FY2022	FY2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	8,138	(1,848)	21,942	1,640
Net cash (used in) investing activities	(882)	(995)	(4,592)	(11,929)
Net cash (used in)/generated from financing activities	<u>(2,432)</u>	<u>(782)</u>	<u>9,574</u>	<u>(6,397)</u>
Net increase/(decrease) in cash and cash equivalents	4,824	(3,625)	26,924	(16,686)
Cash and cash equivalents at beginning of the year/period	<u>31,022</u>	<u>35,846</u>	<u>32,221</u>	<u>59,145</u>
Cash and cash equivalents at end of the year/period	<u><u>35,846</u></u>	<u><u>32,221</u></u>	<u><u>59,145</u></u>	<u><u>42,459</u></u>

### *Net operating cash flows*

For FY2022, we had net cash used in operating activities of RMB1.8 million, primarily attributable to cash generated from operations of RMB4.9 million and interest received of RMB0.1 million, fully offset by the payment of income tax of RMB6.8 million. The decrease in cash generated from operations compared with FY2021 was in line with the decrease in revenue and net profit for FY2022. The movement in working capital was mainly attributable to (i) increase in contract fulfillment cost of RMB1.0 million due to the increase in ongoing services provided by our Company as at 31 December 2022; (ii) increase in prepayments and other receivables of RMB0.8 million; and (iii) increase in trade payables of RMB0.6 million mainly attributable to amount due to our subcontractors.

For FY2023, we had net cash generated from operating activities of RMB21.9 million, primarily attributable to cash generated from operations of RMB25.4 million and interest received of RMB0.3 million, and partially offset by the payment of income tax of RMB3.8 million. The movement in working capital was mainly attributable to the decrease in trade receivables of RMB3.8 million mainly attributable to the substantial settlement of our trade receivables during FY2023 after the lifting of the COVID-19 restrictions, and partially offset by the increase in trade receivable associated with our revenue growth in FY2023.

For 6M2024, we had net cash generated from operating activities of RMB1.6 million, primarily attributable to cash generated from operations of RMB6.6 million and interest received of RMB49,000, and partially offset by the payment of income tax of RMB5.0 million. The movement in working capital was mainly attributable to (i) increase in contract fulfillment costs and inventory of RMB1.2 million; and (ii) increase in trade receivables of RMB3.7 million.

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## SUMMARY

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### KEY FINANCIAL RATIO

	FY2021	FY2022	FY2023	6M2024
<b>Profitability ratios</b>				
Gross profit margin	75.9%	57.6%	71.8%	70.8%
Net profit margin	44.6%	14.6%	31.9%	32.2%
Return on equity	26.5%	4.2%	12.9%	13.4%
Return on total assets	20.7%	3.4%	11.2%	9.2%
<b>Liquidity ratios</b>				
Current ratio	5.3 times	7.5 times	7.2 times	7.6 times

For more information on our key financial ratios, see “Financial information – Key financial ratios” on page 341 of this prospectus.

### STATISTICS OF THE SHARE OFFER AND USE OF PROCEEDS

<b>Number of Offer Shares:</b>	10,179,000 H Shares (subject to Offer Size Adjustment Option)	
<b>Offer Size Adjustment Option:</b>	Up to an aggregate of 1,526,000 additional Offer Shares, representing not more than 15% of the initial number of Offer Shares	
<b>Offering structure:</b>	Public Offering:	1,018,000 H Shares, representing approximately 10% of the Offer Shares (subject to reallocation)
	Placing:	9,161,000 H Shares, representing approximately 90% of the Offer Shares (subject to reallocation and the Offer Size Adjustment Option)
<b>Offer Price range:</b>	HK\$8.6 to HK\$10.4 per Offer Share	
<b>Board lot:</b>	500 H Shares	
	<b>Based on minimum indicative Offer Price of HK\$8.6 per Offer Share</b>	<b>Based on maximum indicative Offer Price of HK\$10.4 per Offer Share</b>



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## SUMMARY

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**Market capitalisation of our Share<sup>(1)</sup>:** HK\$291.8 million HK\$352.9 million

**Unaudited pro forma adjusted net tangible assets per Share:<sup>(2)</sup>** HK\$4.95 HK\$5.46

**Use of proceeds:** We estimate that we will receive net proceeds of HK\$54.4 million (equivalent to RMB50.0 million) from the Share Offer, after deducting the underwriting fees and commissions and estimated expenses payable by us in connection with the Share Offer assuming the Offer Price of HK\$9.5 per Offer Share (the mid-point of the proposed range of the Offer Price). We intend to use the net proceeds from the Share Offer for the following purposes.

- HK\$15.0 million (equivalent to RMB13.7 million), representing 27.5% of the net proceeds, will be used for expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services
- HK\$15.1 million (equivalent to RMB13.9 million), representing 27.7% of the net proceeds, will be used for strengthening our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong
- HK\$20.3 million (equivalent to RMB18.7 million), representing 37.4% of the net proceeds, will be used for diversifying our testing and inspection services beyond construction engineering and expanding into areas including food and agricultural, transportation and fire protection
- HK\$3.0 million (equivalent to RMB2.8 million), representing 5.5% of the net proceeds, will be used for upgrading our ERP system
- the remaining balance of HK\$1.0 million (equivalent to RMB0.9 million), representing approximately 1.9% of the net proceeds, will be used for general working capital

*Notes:*

1. The calculation of market capitalisation is based on 33,929,000 Shares being the total of 23,750,000 Unlisted Shares and 10,179,000 H Shares expected to be issued immediately upon completion of the Share Offer assuming that the Offer Size Adjustment Option is not exercised.
2. The unaudited pro forma adjusted net tangible assets per share is arrived at after the adjustment referred to in “Appendix II – Unaudited Pro Forma Financial Information” and on the basis that 33,929,000 Shares are in issue assuming the Share Offer had been completed on 30 June 2024 without taking into account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option.

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## SUMMARY

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### **DIVIDEND AND DIVIDEND POLICY**

Dividend distribution to our shareholders is recognised as a liability in our financial statements in the period in which the dividends are approved by our shareholders and/or directors, where appropriate. In May 2021 and September 2021, cash dividends of RMB1,900,000 in total were declared and paid for the year ended 31 December 2020. In March 2022, a cash dividend of RMB1,900,000 was declared and paid for the year ended 31 December 2021.

According to our dividend policy adopted in August 2024, distribution of dividends shall be formulated by our Board and will be subject to shareholders' approval. A decision to declare or to pay any dividends will be made when our Company achieves annual profit and at the discretion of our Directors and will depend upon, among others, our business conditions and strategies, capital requirements and expenditure plans, financial results, future operations and earnings, characteristics of the industry, the stage of development, and any restrictions on payment of dividends, and other factors that our Directors may consider relevant. Provided that the working capital of our Company can be healthily maintained, the general principle shall be to distribute profits to our shareholders on an annual basis, wherein the payout ratio shall be no less than 20% of the current year's after-tax profits. We will continue to evaluate our dividend policy in light of our financial condition and the prevailing economic environment. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

### **EFFECT OF THE COVID-19 PANDEMIC**

The initial outbreak of COVID-19 in China during the first quarter of 2020, followed by subsequent resurgences of the virus in certain major cities throughout 2022, has resulted in the implementation of several measures to mitigate the spread of the pandemic. These measures include imposing lockdowns, suspending construction activities, implementing travel restrictions, and enforcing strict social distancing and quarantine protocols. In particular, the construction personnel in Maoming have faced the challenges of intermittent isolation periods throughout the pandemic. Various companies in Guangdong Province including Maoming periodically required employees to undergo nucleic acid testing for COVID-19 and employees infected or identified as close contacts shall be isolated, which affected their normal work operations. Both our Company and our customers experienced increased abnormal working hours and reduced normal working hours due to the aforementioned reasons. For instance, our Company had arranged several rounds of collective nucleic acid tests for our employee in FY2022, and the total number of days off due to the pandemic was 206 person-day, as compared to nil in FY2021. These necessary precautions have disrupted the regular workflow and caused delays in the progress of various construction and infrastructure projects, which led to a direct impact on our testing and inspection operations.

With the construction schedules being pushed back, our customers' demand on our construction engineering testing and inspection services had been postponed. As a result, the revenue for FY2022 has experienced a decline compared to FY2021. The reduced revenue has put additional strain on our net profit as a result of the presence of fixed costs and expenses, such as direct labour costs and depreciation of fixed assets, which remain relatively inflexible.

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## SUMMARY

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Meanwhile, measures imposed by the PRC Government in relation to the pandemic had also affected our customers' settlement progress. As a result, the trade receivables turnover day of our Company has increased significantly from 271 days in FY2021 to 639 days in FY2022. Attributable to the prolonged settlement cycle due to the pandemic, combined with the decrease in net profit, our Company recorded negative cash flows from operating activities for FY2022.

Overall, the combination of the slow settlement from customers, reduced revenue, and fixed costs and expenses has led to a challenging financial situation for our Company in FY2022, impacting various vital financial metrics and requiring prudent management and adaptation in response to the circumstances. As of the Latest Practicable Date, the impact of the COVID-19 pandemic on our operation has diminished and our Company's operation has already resumed to normal level. Our Directors are of the view that the COVID-19 pandemic will not cause material adverse impact on our financial performance and its business operation.

### **RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE**

There had been no material adverse change in our financial and trading position since the end of the Track Record Period, and there is no event since 30 June 2024 up to the date of this prospectus which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

Nonetheless, our Company expects a decrease in forecast profit for the year ending 31 December 2024 mainly due to (i) the increases in depreciation of fixed assets and right-of-use assets and interest expenses of lease liabilities in connection with our relocation plan (as detailed in "Business – Properties – Relocation plan"); (ii) the decrease in our gross profit margin in the year primarily attributable to the anticipated increases in direct labour costs and depreciation in connection with our staff recruitment and purchases of machineries in 2024 according to our business strategies and future plans (as set out in detail in "Future Plans and Use of Proceeds") while we anticipate on a conservative basis to only generate stable revenue streams from our plans in later financial periods; and (iii) the increase in our general and administrative expenses in connection with the Listing as well as professional fees and expenses anticipated to be incurred after the Listing.

### **REGULATORY FRAMEWORK**

#### **Regulatory Framework Relating to Qualification Requirements of the Testing and Inspection of Construction Engineering**

The Administrative Measures for the Quality Inspection of Construction Engineering (《建設工程質量檢測管理辦法》) promulgated by the Ministry of Construction on 28 September 2005 which was re-promulgated by the Housing and Urban-Rural Development (the "MOHURD") on 29 December 2022 and became effective on 1 March 2023, and the Notice on Issuance of Qualification Standards of Construction Engineering Quality Inspection Agencies (《住房和城鄉建設部關於印發〈建設工程質量檢測機構資質標準〉的通知》) issued and implemented by the MOHURD on 31 March 2023, stipulate the construction engineering quality inspection agencies are required to obtain the appropriate qualification certificates to engage in the quality inspection business under the regulations and set out the qualifications

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## SUMMARY

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requirements of the inspection agencies and personnel, as well as the functions and scope of supervision of the relevant regulatory authorities. Inspection agencies that have obtained qualification certificates in Guangdong province under previous qualification standards shall apply for re-assessment in accordance with the Qualification Standards of Construction Engineering Quality Inspection Agencies (《建設工程質量檢測機構資質標準》) prior to 31 October 2024 pursuant to the Notice of the General Office of the MOHURD on the Implementation of the “The Administrative Measures for the Quality Inspection of Construction Engineering” and “Qualification Standards of Construction Engineering Quality Inspection Agencies” (《住房城鄉建設部辦公廳關於實施《建設工程質量檢測管理辦法》《建設工程質量檢測機構資質標準》有關問題的通知》) issued on 26 July 2024. Neither our Directors nor our PRC Legal Advisers foresaw difficulties in obtaining six out of the nine Specialised Qualifications as described in “Business – Business Strategies – Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services.” in this prospectus, fulfilling the application requirements and meeting the aforementioned transition deadline, and the Joint Sponsors concur, after having considered the following factors: (a) our Company has reviewed and examined the relevant qualification requirements for the six Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, and found that save for the shortage of a small number of required testing equipment, we have fulfilled all other requirements (including personnel) of the six Specialised Qualifications; and (b) during an interview conducted by our PRC Legal Advisers and the PRC legal advisers of the Joint Sponsors on 12 April 2024 with an officer of Maoming City Bureau of Housing and Urban-Rural Development, the responsible officer of the bureau is of the view that there is no impediment for our Company to acquire the six Specialised Qualifications having considered the requirements of the new qualification standards and the shortage of a small number of testing equipment that we will acquire. For further details, see “Regulatory Overview – Laws and Regulations Relating to the Testing and Inspection of Construction Engineering – Qualifications” in this prospectus.

### **Regulatory Framework Relating to Overseas Listing**

On 17 February 2023, with the approval of the State Council, the CSRC promulgated the Trial Measures and relevant guidelines, which came into force on 31 March 2023. The Trial Measures comprehensively improved and reformed the existing regulatory regime for overseas offering and listing of PRC domestic companies’ securities. According to the Trial Measures, PRC domestic enterprises that seek to offer and list securities in overseas markets, both directly and indirectly, are required to fulfill the filing procedure and submit relevant information to the CSRC.

For more details, see “Regulatory Overview – Regulations Relating to Overseas Offering and Listing” in this prospectus.

Our PRC Legal Advisers are of the view that the Share Offer shall be deemed as an overseas offering and listing under the Trial Measures. Therefore, we are required to make the filing with the CSRC with respect to the Share Offer within the specified time limit. We had completed the filing procedures with the CSRC for the Share Offer on 7 March 2024.

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## SUMMARY

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### LISTING EXPENSES

The listing expenses in connection with the Share Offer are expected to be HK\$42.3 million (equivalent to RMB38.8 million), representing 43.7% of the gross proceeds from the Share Offer (based on the mid-point of the indicative Offer Price range of HK\$9.5 per Share Offer and assuming the Offer Size Adjustment Option is not exercised). During the Track Record Period, we incurred listing expenses of RMB24.0 million, of which RMB2.7 million was charged to our statements of comprehensive income during the Track Record Period, while the remaining amount of RMB21.3 million directly attributable to the issuance of H Shares will be deducted from our equity upon the completion of the Share Offer. We expect to further incur listing expenses of RMB14.8 million upon the completion of the Share Offer, out of which RMB1.9 million will be charged to the statements of comprehensive income, and RMB12.9 million, that is directly attributable to the issuance of H Shares, will be deducted from our equity.

The total listing expenses consist primarily of professional fees paid or payable to the professional parties for their services rendered in relation to the Listing and the Share Offer which are non-underwriting related expenses, including (i) fees and expenses of legal advisers and accountants of HK\$17.1 million (equivalent to RMB15.7 million); (ii) fee and expenses of HK\$4.7 million (equivalent to RMB4.3 million) for engaging IPO Consultant to provide support services, see “Financial information – Listing expense” in this prospectus for further information in relation to the IPO Consultant; and (iii) the other fees and expenses of HK\$14.4 million (equivalent to RMB13.2 million), and underwriting related expenses (including SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy) of HK\$6.1 million (equivalent to RMB5.6 million), mainly payable to the Underwriters in connection with the offering of H Shares under the Share Offer.

### MATERIAL RISK FACTORS

Our business and industry is subject to a number of risks and uncertainties. Some highlighted risks are as follows:

- Our business is subject to compliance with regulatory and industrial requirements, which may interfere with the way we conduct our business and may adversely affect our business and results of operations.
- Our business may be affected by the development of China’s property development, construction and infrastructure sectors, which are beyond our control.
- Our business operation is concentrated in Maoming, Guangdong Province, and our business, financial position and result of operation is affected by the status of development in economic conditions, government policies or business environment in this region.
- We may be unable to obtain, retain or renew required permits, licences, registrations or certificates for our business operations.

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## SUMMARY

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- We may be unable to maintain or recruit qualified professionals for our business operations.
- We are exposed to credit risks of our customers and our outstanding trade receivables.
- We operate in a highly competitive industry.
- Pricing of our services is subject to certain key factors, failure to control costs may adversely affect our profitability.
- We face the risk of capacity constraints, which could have a material adverse effect on our business, results of operations and financial condition.
- Failure of or non-compliance with our quality control measures may result in unreliable or inaccurate test results, which may in turn damage our reputation and affect the demand for our services.
- Our business may suffer if we fail to respond to changes in technical requirements under regulatory and industry standards.

As different investors may have different interpretations and standards for determining the materiality of a risk, you should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described in “Risk Factors” on page 38 of this prospectus, before making an investment in the Offer Shares.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.*

“Accountant’s Report”	the accountant’s report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus
“AFRC”	the Accounting and Financial Reporting Council of Hong Kong
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company conditionally adopted on 28 November 2023 which will come into effect upon Listing, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board” or “Board of Directors”	the board of Directors
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“CAGR”	compound annual growth rate
“Capital Market Intermediaries” or “capital market intermediary(ies)” or “CMI(s)”	the capital market intermediaries participating in the Share Offer and has the meaning ascribed thereto under the GEM Listing Rules
“CATL”	the China Agri-product Testing Laboratory (農產品質量安全檢測機構考核合格證書) issued by the Department of Agriculture and Rural Affairs of Guangdong Province (廣東省農業農村廳)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus only and except where the context requires, references in this prospectus to “China” and “the PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan
“CIC” or “Industry Consultant” or “China Insights Consultancy”	China Insights Industry Consultancy Limited

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## DEFINITIONS

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“CIC Report”	an independent industry report commissioned by us and prepared by CIC for the purpose of this prospectus
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”, “we” or “us”	Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd.* (廣東集信國控檢測認證技術服務中心股份有限公司) (formerly known as Xinyi Xince Testing and Certification Technical Service Center Co., Ltd.* (信宜信測檢測認證技術服務中心有限公司)), a joint-stock cooperative enterprise established on 28 March 2000, converted into a limited liability company on 12 July 2023 and converted into a joint stock company with limited liability on 31 October 2023
“Company Law” or “PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended, supplemented and otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the GEM Listing Rules, and unless the context requires otherwise, refers to Xinyi City CEQS Center
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets and other securities matters
“Deed of Indemnity”	the deed of indemnity dated 13 August 2024 and entered into by our Controlling Shareholder with and in favour our Company, details of which are set out in “Statutory and General Information – D. Other Information – 1. Tax and other indemnities” in Appendix VI to this prospectus



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## DEFINITIONS

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“Deed of Non-competition”	the deed of non-competition dated 13 August 2024 and entered into by our Controlling Shareholder and our Company, details of which are set out in “Relationship with the Controlling Shareholder and Non-competition Undertaking – Non-competition Undertakings” in this prospectus
“Director(s)” or “our Director(s)”	the director(s) of our Company
“EIT”	the PRC enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), as amended, supplemented or otherwise modified from time to time
“ <b>electronic application instruction(s)</b> ”	instruction(s) given by a HKSCC Participant electronically via HKSCC’s FINI system to HKSCC, being one of the methods to apply for the Offer Shares
“ESG”	environmental, social and governance
“Exchange Participant”	has the meaning ascribed to it under the GEM Listing Rules
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“FINI”	“Fast Interface for New Issuance”, an online platform operated by HKSCC that is mandatory for admission to trading and, where applicable, the collection and processing of specified information on subscription in and settlement for all new listings
“FY2021”	the year ended 31 December 2021
“FY2022”	the year ended 31 December 2022
“FY2023”	the year ended 31 December 2023
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Committee”	the GEM Listing Committee of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“General Rules of HKSCC”	the terms and conditions regulating the use of CCASS as may be amended or modified from time to time and where the context so permits, shall include the HKSCC Operational Procedures
“Guangdong AMR”	Guangdong Administration for Market Regulation (廣東省市場監督管理局)
“Guide”	the Guide for New Listing Applicants published by the Stock Exchange on 29 November 2023, which consolidated and enhanced all effective guidance letters and listing decisions related to New Listing (as defined under Chapter 1.01 of the GEM Listing Rules), as amended from time to time
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“ <b>HKSCC EIPO</b> ”	the application for the Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your designated HKSCC Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by instructing your broker or custodian who is a HKSCC Participant to give <b>electronic application instructions</b> via HKSCC’s FINI system to apply for the Offer Shares on your behalf
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HKSCC Operational Procedures”	the operational procedures of HKSCC, containing the practices, procedures and administrative or other requirements relating to HKSCC’s services and the operations and functions of CCASS, FINI or any other platform, facility or system established, operated and/or otherwise provided by or through HKSCC, as from time to time in force
“HKSCC Participant”	a participant admitted to participate in CCASS as a direct clearing participant, a general clearing participant or a custodian participant
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“H Share(s)”	ordinary shares in the share capital of our Company with a nominal value of RMB1.00, which are to be subscribed for and traded in HK dollars and are to be listed on the Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Huajin Corporate Finance”	Huajin Corporate Finance (International) Limited, a licensed corporation under the SFO permitted to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
“Huajin Securities”	Huajin Securities (International) Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities) regulated activities (as defined under the SFO)
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons as defined under the GEM Listing Rules
“Joint Bookrunners”	Huajin Securities, Yue Xiu Securities, Eddid Securities and Futures Limited, GLAM Capital Limited, Livermore Holdings Limited and Orient Securities (Hong Kong) Limited
“Joint Lead Managers”	Huajin Securities, Yue Xiu Securities, Eddid Securities and Futures Limited, GLAM Capital Limited, Livermore Holdings Limited and Orient Securities (Hong Kong) Limited
“Joint Overall Coordinators”	Huajin Securities and Yue Xiu Securities
“Joint Sponsors”	Huajin Corporate Finance and Yue Xiu Capital
“Latest Practicable Date”	16 August 2024, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of our H Shares on GEM of the Stock Exchange
“Listing Date”	the date on which dealings in the H Shares first commence on GEM of the Stock Exchange
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange

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## DEFINITIONS

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“Maoming”	a prefecture-level city located in Western Guangdong, China. It administers five county-level cities and districts, including Xinyi City, Gaozhou City, Huazhou City, Dianbai District and Maonan District
“MOHURD”	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NBS”	the National Bureau of Statistics of China (國家統計局)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the Hong Kong dollar offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%) at which the Offer Shares are to be subscribed pursuant to the Share Offer
“Offer Share(s)”	the Public Offer Shares and the Placing Shares
“Offer Size Adjustment Option”	the option expected to be granted by our Company to the Underwriters under the Underwriting Agreement, exercisable by the Joint Overall Coordinators (for itself and on behalf of Underwriters), pursuant to which our Company may be required to issue and allot up to an aggregate of 1,526,000 additional Offer Shares, representing not more than 15% of the Offer Shares initially being offered under the Share Offer, at the Offer Price to cover over-allocations (if any) in the Placing, as described in “Structure and Conditions of the Share Offer” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

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## DEFINITIONS

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“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price with professional, institutional and/or other investors in Hong Kong as described in “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	the 9,161,000 H Shares being initially offered by our Company for subscription pursuant to the Placing, subject to reallocation and the Offer Size Adjustment Option as described in “Structure and Conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing who are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the underwriting agreement relating to the Placing, which is expected to be entered into by our Company, our Controlling Shareholder, Mr. Lai Feng, Mr. Huang Fei, Ms. Mai Jiayu, Mr. Zhang Xihua, the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters on or around the Price Determination Date, as further described in “Underwriting – Placing – Placing Underwriting Agreement” in this prospectus
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government”	the central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organisations of such government or, as the context requires, any of them
“PRC Legal Advisors”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC law in connection with the Share Offer
“Price Determination Date”	the date, expected to be on or around Wednesday, 4 September 2024 but in any event not later than 12:00 noon on Wednesday, 4 September 2024, on which the Offer Price will be determined by our Company and the Joint Overall Coordinators (for itself and on behalf of the Underwriters) for the purposes of the Share Offer
“Pre-IPO Investment”	the pre-IPO investment in our Company undertaken by Xinyi Xinhui, details of which are set out in “History, Development and Corporate Structure – Pre-IPO Investment” in this prospectus

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## DEFINITIONS

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“Public Offer”	the issue and offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions stated in this prospectus as further described in “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Shares”	the 1,018,000 H Shares being initially offered by our Company for subscription pursuant to the Public Offer, subject to reallocation as described in “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer Shares whose names are set out in “Underwriting – Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 23 August 2024 relating to the Public Offer and entered into by our Company, our Controlling Shareholder, Mr. Lai Feng, Mr. Huang Fei, Ms. Mai Jiayu, Mr. Zhang Xihua, the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, as further described in “Underwriting – Underwriting Arrangements and Expenses – The Public Offer Underwriting Agreement” in this prospectus
“Renminbi” or “RMB”	the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局) or its predecessor the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Share(s)”	ordinary shares in the share capital of our Company, with a nominal value of RMB1.00 each, comprising the unlisted Shares and the H Shares
“Share Offer”	the Public Offer and the Placing
“Shareholder(s)”	holder(s) of the Share(s)
“STA”	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Supervisor(s)”	Supervisor(s) of our Company
“Track Record Period”	the period comprising FY2021, FY2022, FY2023 and 6M2024
“Trial Measures”	the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) issued by the CSRC on 17 February 2023, effective from 31 March 2023
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States”, “USA” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Unlisted Share(s)”	ordinary share(s) in the share capital of our Company with a nominal rate of RMB1.00, which are not listed on any stock exchange
“VAT”	the PRC value-added tax

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## DEFINITIONS

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“Western Guangdong”	the western region of Guangdong Province of China comprising four cities, Maoming, Yangjiang, Yunfu and Zhanjiang
“White Form eIPO”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the <b>White Form eIPO</b> Service Provider at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xinyi City Bureau of Finance”	Xinyi City Bureau of Finance (信宜市財政局)
“Xinyi City Bureau of Housing and Urban-Rural Development”	the Xinyi City Bureau of Housing and Urban-Rural Development (信宜市住房和城鄉建設局)
“Xinyi City CEQS Center”	Xinyi City Construction Engineering Quality and Safety Affairs Center (信宜市建設工程質量安全事務中心) (its predecessors were Xinyi City CEQS Station and Xinyi City CESS Station), a public institution (事業單位) of the Xinyi City People’s Government under the Xinyi City Bureau of Housing and Urban-Rural Development and our Controlling Shareholder established on 2 March 2021
“Xinyi City CEQS Station”	Xinyi City Construction Engineering Quality Supervision Station (信宜市建設工程質量監督站), one of the predecessors of Xinyi City CEQS Center
“Xinyi City CESS Station”	Xinyi City Construction Engineering Safety Supervision Station (信宜市建設工程安全監督站), one of the predecessors of Xinyi City CEQS Center
“Xinyi City People’s Government”	Xinyi City People’s Government (信宜市人民政府)
“Xinyi Xinhui”	Xinyi City Xinhui State-owned Capital Investment Group Co., Ltd. (信宜市信匯國有資本投資集團有限公司), a limited liability company established in the PRC on 24 August 2022 which is wholly-owned by Xinyi City Bureau of Finance and our substantial shareholder
“Xinyi Xinye”	Xinyi Xinye Industry and Industrial Park Investment Co., Ltd. (信宜市信業產業和工業園投資有限公司), a wholly-owned subsidiary and thus an associate of Xinyi Xinhui



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## DEFINITIONS

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“Yue Xiu Capital”	Yue Xiu Capital Limited, a licensed corporation under the SFO permitted to carry out Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
“Yue Xiu Securities”	Yue Xiu Securities Company Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities) and Type 5 (advising on future contracts) regulated activities (as defined under the SFO)
“1H2025”	the six months ending 30 June 2025
“1H2026”	the six months ending 30 June 2026
“2H2024”	the six months ending 31 December 2024
“2H2025”	the six months ending 31 December 2025
“2H2026”	the six months ending 31 December 2026
“6M2023”	the six months period ended 30 June 2023
“6M2024”	the six months period ended 30 June 2024

\* *For identification purpose only*

*Certain amounts and percentage figures included in this prospectus were subjected to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*For ease of reference, the names of the PRC established companies or entities, laws or regulations, governmental authorities, institutions, natural persons or other entities have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain technical terms used in this prospectus in connection with our Company and our business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.*

“bearing capacity”	the maximum load that a soil or foundation material can support without causing excessive settlement or failure
“categories”	the testing categories formulated and governed by the Guangdong AMR as regulated under the Inspection and Testing Agency Qualification Certificate (檢驗檢測機構資質認定證書), where the testing parameters can be classified to different testing categories
“China Inspection Body and Laboratory Mandatory Approval (CMA) (檢驗檢測機構資質認定)”	a certification and regulatory program in China that ensures the competence and reliability of inspection bodies and testing laboratories. CMA is administered by the Certification and Accreditation Administration of the People’s Republic of China (中國國家認證認可監督管理委員會)
“Comprehensive Qualification (綜合資質)”	a new qualification standard for the Construction Engineering Quality Inspection Agency Qualification Certificate as governed under the Qualification Standards of Construction Engineering Quality Inspection Agencies, existing construction engineering quality inspection agency is granted a transition period till 31 October 2024 to apply for a new qualification certificate according to such standard. Comprehensive Qualification indicates that the institution holding the Construction Engineering Quality Inspection Agency Qualification Certificate is permitted to conduct testing and inspection service on all nine categories under the Specialised Qualifications
“Construction Engineering Quality Inspection Agency Qualification Certificate (建設工程質量檢測機構資質證書)”	an administrative certificate issued by the Guangdong Provincial Department of Housing and Urban-Rural Development (廣東省住房和城鄉建設廳), under which an institution is permitted to conduct testing and inspection for construction engineering projects
“deformation”	any changes in the shape or size of an object due to an applied force or a change in temperature

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## GLOSSARY OF TECHNICAL TERMS

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“International Roughness Index”	a standardised measurement used to assess the roughness or unevenness of a road surface. The index is calculated by measuring the vertical displacement of a road surface from a reference line over a specified distance and averaging these measurements
“plate load”	a test conducted using a large steel plate to determine the bearing capacity and deformation parameters of the test subject
“Qualification Standards of Construction Engineering Quality Inspection Agencies (建設工程質量檢測機構資質標準)”	a new guideline outlining the criteria and requirements that an institution must meet in order to obtain the Construction Engineering Quality Inspection Agency Qualification Certificate, and existing construction engineering quality inspection agency is granted a transition period till 31 October 2024 to apply for a new qualification certificate according to the new guideline.
“static load”	a constant or unchanging force applied to a structure or an object
“kN”	kilonewtons
“parameters”	the specific industry characteristics, properties, or criteria that are assessed or measured during testing processes, under different categories
“Inspection and Testing Agency Qualification Certificate (檢驗檢測機構資質認定證書)”	an administrative certificate issued by the Guangdong AMR, under which an institution is permitted to use the mark of the China Inspection Body and Laboratory Mandatory Approval (CMA) when conducting its business
“Rural Revitalisation Initiative (鄉村振興)”	a comprehensive development strategy implemented by the PRC Government to improve the overall development of rural areas, centering on rural economic growth, encompassing aspects such as rural culture, governance, livelihood, and ecological environment. The improvement of rural infrastructure, such as roads and power grids, serves as the material foundation for rural economic development, which is the primary goal of the Rural Revitalisation Initiative

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## GLOSSARY OF TECHNICAL TERMS

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“Specialised Qualifications  
(專項資質)”

a new qualification standard for the Construction Engineering Quality Inspection Agency Qualification Certificate as governed under the Qualification Standards of Construction Engineering Quality Inspection Agencies, existing construction engineering quality inspection agency is granted a transition period till 31 October 2024 to apply for a new qualification certificate according to such standard. There are nine Specialised Qualifications, including (i) building materials and components, (ii) main structure and decoration, (iii) steel structure, (iv) foundation, (v) building energy-saving, (vi) building curtain walls, (vii) municipal engineering materials, (viii) road works, (ix) bridge and underground works

“Project for the High-Quality  
Development of Hundreds of  
Counties, Thousands of Towns  
and Tens of Thousands of Villages  
(百縣千鎮萬村高質量發展工程)”

a large-scale strategic initiative implemented by the Guangdong Provincial Development and Reform Commission in December 2022 to further expand the space and smooth the economic cycle and promote the development of new industries, informatisation, urbanisation and agricultural modernisation in rural areas

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “might”, “plan”, “project”, “propose”, “seek”, “should”, “target”, “will”, “would” and the negative of these words and other similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our ability to identify and successfully take advantage of new business development opportunities; and
- all other risks and uncertainties described in “Risk Factors” in this prospectus.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information, implied or expressed, in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in “Risk Factors” in this prospectus and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

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## FORWARD-LOOKING STATEMENTS

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By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, sales could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risk factors set out in “Risk Factors” in this prospectus.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

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## RISK FACTORS

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*An investment in our Shares involves various risks. You should carefully consider the following information about risks, together with the other information contained in this prospectus, including our financial statement and related notes, before you decide to purchase our Shares. If any of the circumstances or events described below actually arises or occurs, our business, results of operations, financial conditions and prospects would likely suffer. In any such case, the market price of our Shares could decline, and you may lose all or part of your investment.*

*This Prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.*

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorised as (1) risks relating to our business operation and industry; and (2) risks relating to the Share Offer and our H Shares.

### **RISKS RELATING TO OUR BUSINESS OPERATION AND INDUSTRY**

**Our business is subject to compliance with regulatory and industrial requirements, which may interfere with the way we conduct our business and may adversely affect our business and results of operations.**

Our business is subject to compliance with regulatory and industrial requirements. Both regulatory authorities and industry associations in the construction engineering testing and inspection industry have the power to issue and implement laws, regulations, policies or industrial standards governing, among others, our laboratory operations, testing and inspection procedures, service quality and pricing. In addition, local authorities in regions where our service centers located have the power to implement and enforce local laws and regulations that may affect our business operation. In addition, we are subject to the supervision by relevant regulatory authorities or industry associations, and could be subject to administrative or regulatory penalties or restrictions on our business activities if we are deemed to be non-compliant with applicable regulatory or industrial standards.

Furthermore, most of our revenue are generated from customers requesting for our services due to relevant regulatory requirements. For instance, at various stages in construction or infrastructure projects, it is essential to conduct targeted monitoring and testing for different aspects such as foundation, building structure, slope, and material quality as the projects can only proceed to the next stage if the results of these tests meet the required construction standards and regulations. For FY2021, FY2022, FY2023 and 6M2024, 99.4%, 98.9%, 99.3% and 99.7% of our revenue were derived from testing reports produced to our customers due to regulatory requirements. For details, see “Business – Our customers” in this prospectus. If there are significant changes in the regulatory and industrial requirements pertaining to various construction or infrastructure projects, it could impede our ability to deliver appropriate testing

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## RISK FACTORS

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and inspection services to our customers. Consequently, the demand for our services from customers seeking compliance with relevant regulations may fluctuate, potentially adversely impacting our business operations. Given the complexity and changes in the applicable regulatory and industrial standards, our business, results of operations and future growth may be adversely affected if we do not respond to the changes in a timely manner or fail to fully comply with any relevant regulatory or industrial standards.

**Our business may be affected by the development of China’s property development, construction and infrastructure sectors, which are beyond our control.**

We provide our construction engineering testing and inspection services mainly to property developers and construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus. The number of projects of our customers are subject to the macroeconomic conditions and fixed asset investment. In particular, 59.3%, 30.9%, 35.8% and 40.3% of our revenue for FY2021, FY2022, FY2023 and 6M2024 were generated from the property developers. We expect the property developers continue to be one of our customers type. As a result, our financial performance is correlated to the performance of the PRC real estate market, which is sensitive to economic fluctuations and relevant regulatory rules and policies. The liquidity crisis at some of the largest PRC real estate developers in recent years may also affect the growth of the real estate market. In 2022, the national real estate development investment has experienced a slowdown, with a 10% year-on-year decrease from RMB14.8 trillion in 2021 to RMB13.3 trillion in 2022. The adverse effect on the business and financial position of our customers in turn could have an adverse effect on our business, financial conditions and results of operations. We cannot guarantee that the construction and infrastructure markets in our current or future service locations can continue to grow or that market downturn will not occur.

**Our business operation is concentrated in Maoming, Guangdong Province, and our business, financial position and result of operation is affected by the status of development in economic conditions, government policies or business environment in this region.**

Our business operation is predominantly concentrated in Maoming, Guangdong Province. During the Track Record Period, majority of our revenue was generated from our testing and inspection services relating to construction and infrastructure works in Maoming. We expect that Western Guangdong, in particular Maoming, will remain to account for a significant portion of our operations in the near future. Due to such concentration, and due to the fact that the provision of construction engineering testing and inspection services is an regulated industry in the PRC, our business, financial position and result of operation is affected by the status of development in government policies or business environment in Maoming or in Western Guangdong (such as any change in the economic conditions, development prospect and pace of urbanisation, and any shift in government policies and regulations regarding the property development, construction and testing and inspection industries).



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## RISK FACTORS

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**We may be unable to obtain, retain or renew required permits, licences, registrations or certificates for our business operations.**

We are required to maintain certain permits, licences, registrations and certificates issued by relevant PRC government agencies, such as Construction Engineering Quality Inspection Agency Qualification Certificate and the Inspection and Testing Agency Qualification Certificate. Under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, a new qualification standard for the Construction Engineering Quality Inspection Agency Qualification Certificate will be introduced comprising the Comprehensive Qualification and Specialised Qualifications. Existing construction engineering quality inspection agency is granted a transition period till 31 October 2024 to apply for a new qualification certificate according to such standard. See “Regulatory Overview – Laws and regulations relating to the testing and inspection of construction engineering – Qualifications – The Construction Engineering Quality Inspection Agency Qualification Certificate (建設工程質量檢測機構資質證書)” in this prospectus for details. In the event that our Company fails to meet the above-mentioned transition deadline (and any extension thereof by the relevant administrative authority) and does not obtain the Specialised Qualifications timely, the current Construction Engineering Quality Inspection Agency Qualification Certificate held by our Company will become invalid after the transition period, and our Company will not be allowed to engage in construction engineering quality inspection operation until we successfully obtain relevant Specialised Qualifications thereafter and we will not be able to provide any construction engineering testing and inspection services to our customers and generate any revenue following the transition period until the Specialised Qualifications are obtained, which will materially and adversely affect our business operations. We cannot assure you that we will be able to renew our existing approvals, permits, licences, registrations or certificates when they expire, or that we will be able to successfully obtain, retain or renew future permits, licences, registrations or certificates in a timely manner, or at all. We cannot assure you that we will be able to adapt to any change in the regulatory and licensing regime. In addition, we cannot assure you that such permits, licences, registrations or certificates will not be revoked by the relevant authorities in the future. Failure to obtain or renew such permits, licences, registrations and certificates as planned or any inability to adopt to regulatory changes may result in our inability to provide relevant services and thereby materially and adversely affecting our business, results of operations and financial condition.

**We may be unable to maintain or recruit qualified professionals for our business operations.**

Our business relies on the expertise of our qualified professionals. As of the Latest Practicable Date, we have maintained a team of 106 employees who hold a total of 179 testing qualifications issued and approved by the Guangdong Association for Quality and Safety Testing and Appraisal of Construction Projects, enabling them to conduct proficient and reliable testing and inspection processes. Among them, 55 are qualified engineers specialising in construction engineering and three are qualified engineers specialising in food and agriculture in China, demonstrating their commitment to providing comprehensive and dependable testing and inspection services to our valued customers. These engineers possess the necessary qualifications and certifications in their respective fields, ensuring their proficiency and capability in delivering testing services of the highest quality. With their combined knowledge and experience, we are able to meet the diverse testing and inspection needs of our customers in a professional and efficient manner. In order to implement our future plans and business strategies, we also plan to hire a

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## RISK FACTORS

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number of additional qualified engineers and technicians with relevant required professional qualifications. In particular, we would expand our workforce of technical personnel in order to fulfill or comply with the regulatory requirements associated with obtaining or renewing the relevant qualifications for our provision of services relating to construction engineering testing and inspection, food and agricultural products testing, transportation construction testing and fire protection testing and inspection under our future plans. See “Business – Business strategies” and “Future Plans and Use of Proceeds” in this prospectus for details.

However, we cannot guarantee that all our testing and inspection personnel and technicians will be able to maintain the Detection and Appraisal Training Certificates, nor can we guarantee the continued presence of a specific number of qualified engineers on our team. We also cannot assure you that we can recruit sufficient number of qualified professionals to support our future growth and successfully implement our future plans and strategies. If we are unable to do so, our business, results of operations and financial condition could be materially and adversely affected.

### **We are exposed to credit risks of our customers and our outstanding trade receivables.**

Our credit risks primarily arise from trade receivables. We do not have standardised credit period for our customers prior to December 2023 and may grant credit period to customers on a case-by-case basis. Since December 2023, we have established credit term policy in order to standardise the procedures for granting credit period to our customers and we have implemented such policy since January 2024. As at the end of FY2021, FY2022, FY2023 and 6M2024, the trade receivables due from our customers amounted to RMB35.4 million, RMB34.5 million, RMB29.3 million and RMB32.9 million respectively representing 41.3%, 40.9%, 24.7% and 20.5% of our total assets, respectively. As at the end of FY2021, FY2022, FY2023 and 6M2024, the impairment loss of trade receivables amounted to RMB9.1 million, RMB10.4 million, RMB11.8 million and RMB12.0 million respectively.

Our top five trade receivables amounted to RMB22.2 million, RMB24.4 million, RMB14.1 million and RMB14.7 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, representing 49.9%, 54.2%, 34.3% and 32.7% of our total trade receivables before any provision of credit loss.

The turnover days of our trade receivables were 271 days, 639 days, 281 days and 248 days in FY2021, FY2022, FY2023 and 6M2024, respectively. In view of (i) the increasing proportion of the customers with longer settlement cycle; (ii) the impact of COVID-19 pandemic in FY2022 and (iii) the impact of the PRC property market downturn, these resulted in our prolonged trade receivables settlement cycle, particularly in FY2022. According to the CIC Report, prolonged payment cycle is a common phenomenon throughout the entire construction engineering testing and inspection industry. As our cash outflow from operating activities mainly consists of payments for labour costs, direct material, subcontracting fee and other operating expenses which are normally settled in a relatively shorter period, this creates cash flow mismatch which in turn may have an adverse impact on our liquidity position. See “Financial information – Discussion of certain items from the statements of financial position – Trade receivables” in this prospectus for further details about our trade receivables.

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## RISK FACTORS

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Our management regularly reviews the recoverability of overdue balances for trade receivables, and may provide for impairment when appropriate. As at 31 December 2021, 2022 and 2023 and 30 June 2024, RMB21.9 million, RMB30.8 million, RMB13.2 million and RMB13.5 million, representing 49.3%, 68.6%, 32.1% and 30.2% of our total trade receivables respectively, were aged over one year. As different types of customers would have different settlement cycles, for property developers and construction companies, their settlement cycle typically depends on the progress of their construction projects, while for state-owned investment companies, PRC government institutions and PRC government administrative bureaus, their settlement cycle is generally subject to the length of approval process required by government financial departments, therefore we mainly consider, among others, (i) the nature and background of the customer's business including its shareholders and sources of funding of these customers; (ii) whether there are any negative news or lawsuits of these customers that we would cast doubt on their repayment capability; and (iii) the result of our comprehensive assessment performed on these customers after considering their historical repayment records, whether there are any existing settlement plans of such customers and their construction progress based on observation from on-site visits to these customers' projects which may indicate their liquidity and repayment capability, in order to assess the financial standings and measure the credit risks of such customers.

We are exposed to credit risk in relation to the outstanding trade receivables. There can be no assurance that our trade receivables can be recovered and will be remitted by our customers to us on a timely basis and in full. If any late payment occurs, whether arising from payment practice of our customers or delay in completion of the project or default payment by our customers, we will have to make provision or write off the relevant trade receivables, which in turn may adversely affect our financial position and profitability.

### **Our business may suffer if our labour costs increase significantly.**

Direct labour costs made up a significant portion of our cost of sales, accounting for 58.2%, 66.3%, 65.5% and 61.5%, of our total cost of sales for FY2021, FY2022, FY2023 and 6M2024, respectively. The increase in our direct labour costs reflected an increase in headcounts as a result of our business expansion. During the course of provision of our foundation testing service, we would also outsource certain physically demanding works such as extracting core samples during the foundation and geotechnical drilling process to third party drilling companies, and such subcontracting fee accounted for 14.4%, 6.8%, 6.5% and 5.7% of our total cost of sales for FY2021, FY2022, FY2023 and 6M2024, respectively. Besides, our ability to attract and retain key personnel, in particular qualified testing and inspection professionals, is critical to our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them. We cannot guarantee that our profit margin will not decrease as a result of disproportionate growth in labour costs. As we expect our labour costs to continue to grow along with the general rise in the cost of living in China, our profitability may be adversely affected if we cannot pass on the increased cost to our customers. If we are compelled to increase our service fees, it may compromise our competitiveness in the market.

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## RISK FACTORS

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

According to the CIC Report, there are currently more than 100 construction engineering testing and inspection companies in Western Guangdong. A majority of these construction engineering testing and inspection companies are local companies. Some of our competitors may have services that are superior to ours or achieve greater market acceptance than ours. Some of our competitors may have better or longer operating track records, larger operations, more well-known brand names and industry reputation or greater financial resources than we do. Our competitors may also be less leveraged and may be willing to reduce profits for market share and revenues. As a result of the foregoing, our competitors may be more competitive, have better financing and be able to offer lower prices and more favorable payment terms than we can. If we cannot compete effectively with existing or future competitors, our business, results of operations and financial condition could be materially and adversely affected.

### **We depend on a limited number of customers for a substantial portion of our revenue and may not be able to successfully maintain or develop our business relationship with these customers or new customers.**

During the Track Record Period, we derived a substantial portion of our revenue from a limited number of customers. Our top five customers accounted for 37.6%, 44.4%, 38.3% and 43.6% of our revenue for FY2021, FY2022, FY2023 and 6M2024, respectively.

Our customers will enter into service agreements with us as and when specific inspection or testing services are required. We cannot assure you, however, that we will be able to maintain our business relationship with our major customers on commercially reasonable terms, or at all. If for any reason our major customers cease to acquire our services, we may be unable to find alternative customers for our testing and inspection services within a reasonable period of time, or at all, which could result in a significant decrease in our service volume and could materially and adversely affect our results of operations and financial condition. If for any reason our major customers were to become unwilling or unable to make payments for our services rendered, we may be unable to recover significant amounts of receivables and our cash flows and financial position could be adversely affected. Therefore, we are indirectly subject to the operational risks of our major customers to the extent those risks could cause them to breach their contractual obligations with us or discontinue to acquire our services.

During the Track Record Period, the percentage of our total revenue attributable to revenue generated from infrastructure and public road testing service increased from 2.2% to 2.3% from FY2021 to FY2022, increased from 2.3% to 14.1% from FY2022 to FY2023, and decreased from 12.5% to 6.2% from 6M2023 to 6M2024. Despite our efforts to expand our service offerings into customers involving in public projects, there is no guarantee of future success. If we fail to maintain or grow our revenue from existing customers or establish new customer relationships, it could have a significant and negative impact on our business, financial condition, and results of operations.

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## RISK FACTORS

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**Pricing of our services is subject to certain key factors, and failure to control costs may adversely affect our profitability.**

In FY2021, FY2022, FY2023 and 6M2024, our overall gross profit margin was 75.9%, 57.6%, 71.8% and 70.8%, respectively. We have to maintain the competitiveness of our pricing and at the same time maximise our profit margin. When determining the pricing for our services, we also take into account several key factors, including among others, the expected costs including our estimation of time cost and labour costs involved for such services. In order to achieve our target profitability on our service or to generate profit at all with our price set within the designated price range, we are, to a large extent, dependent on our ability to accurately estimate and control these costs. However, the actual time taken and costs incurred in completing our service process may be adversely affected by many factors which may be beyond our control such as delay in the construction phases or stages that require our testing or inspection services, changes in service scope or conditions, unforeseen technical constraints or circumstances and change in our customers' requests. Any of these can result in delays in completion of our service process or unexpected extra costs. There is no assurance that the actual amount of time and costs would not exceed our estimation. Any material inaccurate estimation in the time and costs involved in for our services may cause the gross profit realised from a contract to be lower than our originally estimated amounts, and in turn adversely affect our profit margin and results of operations.

In addition, in order to acquire and uphold the necessary qualifications for our Company to offer various types of testing services, we may be obligated by the relevant authorities to employ and retain a specific number of employees or testing personnel as a prerequisite for maintaining those qualifications. This requirement could potentially impact our profitability, especially if our current workload does not necessitate the required workforce size. In particular, we recorded negative gross profit margin of -53.3% for our infrastructure and public roads testing services in FY2022 due to the employment of additional testing personnel in order for our Company to enhance the relevant qualifications. In 2021, we began offering infrastructure and public roads testing services with limited qualifications, as we were in the early stages of expanding our capabilities in such testing services. The negative gross profit margin generated during that period was a result of our ongoing efforts to obtain additional qualifications and expand our service offerings in the infrastructure and public roads testing sector. Our historical gross profit margin may not be entirely indicative of our future profitability or financial performance.

**Our revenue is generated from non-recurring orders, and the amount of revenue derived from such orders depends on the type and volume of service orders we can secure from our customers, which may vary from period to period.**

Our revenue is primarily derived from non-recurring orders. The provision of relevant testing and inspection services by our Company encompasses different stages of a construction or infrastructure project. The stages and testing or inspection subject that we are involved in are typically not recurring in nature, unless additional testing or inspection is required on the same subject based on the testing or inspection results. Therefore, we typically engage with our customers on an order-by-order basis, which means there is no guarantee of securing new business from our existing customers. The type and number of orders we can secure may vary substantially from period to period. Failure to secure service orders from existing customers or establish relationships with new customers could have a negative impact on our business, financial condition, and operating results.

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## RISK FACTORS

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**We recorded negative cash flows from operating activities during the Track Record Period, which may have an adverse effect on our business, financial condition, results of operations and prospects.**

We recorded net cash used in operating activities of RMB1.8 million for FY2022, primarily attributable to cash generated from operations of RMB4.9 million and interest received of RMB0.1 million, fully offset by the payment of income tax of RMB6.8 million. For further details, see “Financial Information – Liquidity and capital resources – Cash flows” in this prospectus. Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. While we believe we have sufficient working capital to fund our current operations, we may, however, experience net cash outflows from our operating activities in the future. If we are unable to maintain adequate working capital, we may default in our payment obligations and may not be able to meet our capital expenditure commitments or pursue our growth strategies, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

**We face the risk of capacity constraints, which could have a material adverse effect on our business, results of operations and financial condition.**

We compete primarily on our ability to provide accurate and timely test results and reliable monitoring services. We typically agree to complete preparation of the testing reports within 10 days upon completion of our testing or inspection process under normal circumstances. Any unforeseen increase in the volume of customers could pose challenges on our employees and systems, as they may face difficulties in handling the higher workload and demands, leading to unacceptable turn-around times. In addition, as the number of our customers and samples increases, our services and system may not be able to scale accordingly. We may also not be able to hire additional qualified laboratorial technicians to handle increased volumes. Any failure to handle higher volume of requests and maintain the quality of our services could lead to the loss of customers and have a material adverse effect on our business, results of operations and financial condition.

**We are dependent on third-party suppliers for testing consumables and subcontractors for outsourcing physically demanding works during the course of provision of our foundation testing service. This reliance exposes us to the risk of concentration due to our heavy dependence on our major suppliers or subcontractors.**

Our suppliers mainly include companies and manufacturers for provision of testing consumables for conducting our testing services. During the course of provision of our foundation testing service, we also outsource certain physically demanding works such as extracting core samples during the foundation and geotechnical drilling process for the core drilling and standard penetration testing method to third party drilling companies as our subcontractors specialising in these types of labour works.

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## RISK FACTORS

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Our suppliers may not be able to continue to provide testing consumables in sufficient quantities, of suitable quality or at an acceptable price to satisfy our operation needs. Any interruptions to or decline in the quantity or quality of our supply of testing consumables could materially disrupt our provision of services and adversely affect our business. Subcontracting costs may also be subject to fluctuations which are attributable to a number of factors such as labour cost, number of subcontractors available in the market, and events beyond our control, such as natural disasters, infectious diseases and other inclement factors.

For FY2021, FY2022, FY2023 and 6M2024, our purchases from our top five suppliers or subcontractors accounted for 90.5%, 80.0%, 61.9% and 78.1% of our total purchases, respectively. We cannot assure you that these suppliers or subcontractors will continue to supply testing consumables or provide subcontracting services at prices and on terms and conditions acceptable to us. Our reliance on our top five suppliers or subcontractors may also expose us to the risk of unexpected price increases for purchases, or shortage in supply. We cannot assure that we will be able to pass on our purchase costs to our customers in the future, which may have a material adverse effect on our profitability and results of our operations.

**Failure of or non-compliance with our quality control measures may result in unreliable or inaccurate test results, which may in turn damage our reputation and affect the demand for our services.**

Quality control is one of our core values and vital to our success and reputation. We have established stringent quality control measures to ensure that our test or inspection results are reliable and accurate. We require our operational staff to strictly comply with requisite regulatory or industrial standards, and adhere to internal technical standards that provide detailed guidance to our day-to-day business practice. Failure of our quality control system may result in unreliable or inaccurate test or inspection results. For example, the use of incorrect inspection methodology, the occurrence of human errors due to time constraint or otherwise, or the loss or mix-up of testing samples may cause inaccurate and unreliable test results. In addition, adulteration of samples may result in false results. The occurrence of these incidents may seriously damage our reputation, lead to the loss of business, and made us liable for the economic loss that our customers may suffer.

**Producing test results which are inaccurate may expose us to contractual or legal liabilities.**

The accuracy and reliability of our test results as a construction engineering testing and inspection company are critical for ensuring the safety, quality, and compliance of construction and infrastructure projects. Inaccurate or unreliable test results can have detrimental effects on us, our customers, relevant contractors, and end-users involved in these projects.

If we produce inaccurate test results, it would constitute a failure to fulfill our contractual obligations to provide satisfactory and accurate test results to our customers. This could result in potential breach of contract claims and we may be liable for any economic losses suffered by our customers. As holders of the Inspection and Testing Agency Qualification Certificate issued by the Guangdong AMR



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## RISK FACTORS

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and the Construction Engineering Quality Inspection Agency Qualification Certificate issued by the Guangdong Provincial Department of Housing and Urban-Rural Development, we are expected to perform testing and inspection services with a high level of expertise and care. Failure to adhere to industry standards and deliver accurate test results could lead to potential liability for professional negligence and the risk of certificate revocation.

In addition, construction and infrastructure projects are subject to various regulatory requirements and standards. If our test result is inaccurate and lead to non-compliance with these regulations, we may face legal consequences and be held liable for any resulting liabilities.

As at 31 December 2021, 2022, 2023 and 30 June 2024, there were no provision nor contingent liabilities recognised related to our testing services. The occurrence of such liabilities could adversely impact our reputation, business operations, and financial results.

### **Unsatisfactory performance and/or unavailability of our subcontractors may adversely affect our operations and profitability**

During the Track Record Period, we engaged a number of subcontractors to carry out the drilling process for certain foundation testing services, the subcontracting fee account for 14.4%, 6.8%, 6.5% and 5.7% of our total cost of sales for FY2021, FY2022, FY2023 and 6M2024, respectively. See “Business – Our suppliers and subcontractors – Subcontractors” in this prospectus for details of subcontracting. While we will closely monitor the works of our subcontractors, there could be no assurance that we will be able to control the quality, safety and environmental protection standards of the works to be performed by our subcontractors to the same extent as the works are performed by our own employees at all times. Any under-performance or non-performance of our subcontractors could lead to failure by the subcontractors to meet our quality, safety and environmental protection standards, which, in turn, may result in our liability to third parties and will have a material adverse effect on our business, results of operations, financial condition and reputation. Meanwhile, we may not be able to find replacement of the under-performing subcontractors on terms acceptable to us and are able to perform. Any failure to retain suitable subcontractor at reasonable cost or seek replacements of our existing subcontractors on favourable terms, or at all, may have a material adverse effect on our business, financial condition, results of operations and prospects.

### **We may fail to protect our facilities, which could have a material adverse effect on our business, results of operations and financial condition.**

Our key assets are our laboratories and our testing equipment. Our operations are therefore dependent in part upon our ability to protect the laboratorial operations against physical damage from explosions, fire, floods, hurricanes, earthquakes, power loss, telecommunications failures, break-ins and similar events. The occurrence of any of these events could result loss of properties and interruptions, delays or cessations in service to customers, which could have a material adverse effect on our business, results of operations and financial condition.



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## **RISK FACTORS**

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**Our business may suffer if we fail to respond to changes in technical requirements under regulatory and industrial standards.**

Our industry is subject to changes in technical requirements under regulatory and industrial standards. Our success will depend, among other things, on our ability to acquire or license new and improved testing equipment. We will need to purchase qualified equipment in order to keep ourselves abreast with technological advances or regulatory or industrial developments in the construction engineering testing and inspection industry. We may not be able to negotiate acceptable terms with suppliers of new or updated technologies and equipment for construction engineering testing and inspection. In such event, we may lose business to our competitors who are able to offer them more reliable and advanced testing and inspection services, and our business and financial positions will be materially and adversely affected.

**Our reputation may be adversely affected by forged certificates.**

We have included anti-counterfeiting features (such as QR codes which link to our online platform) to help recipients of our reports to ascertain their authenticity. However, we cannot assure you that we can successfully prevent third parties from forging test or inspection reports that were alleged to be issued by us. The use of such forged test or inspection reports in construction works may create disputes and even liabilities, which could lead to unsatisfactory experience of the parties concerned, damage our reputation, and may in turn cause a loss of business and additional cost to combat such malpractice (including legal cost to protect our brand name and defend ourselves in any third party claims). If we fail to detect any potential forgery practice in a timely manner, or if our preventive measures are not as effective as expected, our operations may be disrupted, our reputation may be harmed, and our business may be materially and adversely affected.

**Any adverse publicity in the market may materially and adversely affect our business.**

Our continued success is dependent upon our ability to maintain our credibility and reputation in the market as an independent and trustworthy provider of construction engineering testing and inspection services. We cannot guarantee that we will be free from adverse publicity which could have a negative effect upon our credibility and reputation among our customers. For instance, any alleged error or mistake in our testing and inspection works may damage our reputation. We cannot guarantee that our association with any potential adverse publicity events will not have an adverse effect upon public opinion and a consequential impact on our business.

**Our business depends on the continued service of our senior executives, and our business may be severely disrupted if we lose their services.**

Our business success and future development are attributable to the expertise and experience of our senior management team. In particular, Mr. Lai Feng, our chairman and general manager is critical to our business with his leadership, expertise and industry experience and have been instrumental in the development of our business operations. We cannot assure you that we will be able to continue retain the service of the senior executives, and particularly, Mr. Lai. If we lose our senior executives, we might not be able to replace them in a timely manner or at all. In addition, we cannot assure you that they will not

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## RISK FACTORS

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join a competitor or form a competing business. If any of our senior executives joins a competitor or forms a competing company, our business may be adversely affected. We may be unable to attract or retain replacement personnel required to achieve our business objectives, and failure to do so could severely disrupt our business and prospects.

**Failure to comply with China’s anti-bribery laws may damage our reputation and materially and adversely affect our business, financial conditions and results of operations.**

We cannot assure you that our internal policies and procedures will detect or prevent all anti-bribery violations, if any were committed by our employees, in a timely manner, or that the implementation of these policies and procedures will be correctly followed by our employees, which may significantly undercut the effectiveness of our anti-bribery measures. Further, as the PRC Government continues to increase its enforcement efforts to crack down bribery and corruption, our continuing compliance with anti-bribery laws may increase our compliance costs and expose us to potential criminal or administrative sanction risks for any of such non-compliance. If our internal measures are proved to be inadequate, we may be held liable for the anti-bribery violations committed by our employees, and be subject to investigations, sanctions or fines, damage. Our business, financial condition and results of operations could be adversely affected as a result.

**Our expansion plans or future acquisitions may entail certain risks and challenges.**

As at the Latest Practicable Date, we were moving our operations into a new headquarters in the New Building under our relocation plan in Xinyi City, Maoming to support our business growth. We expect that all of our operations shall be transited to the New Building and the relocation shall be completed in the third quarter of 2024. For details, see “Business – Properties – Relocation plan” in this prospectus. We may also expand into businesses and services which are complementary to our construction engineering testing and inspection business and expand into other areas of the testing and inspection industry, such as food and agricultural products testing, transportation construction testing and fire protection. For details, see “Business – Business strategies” in this prospectus. Our expansion plans or future acquisitions may expose us to potential risks and challenges, including:

- requisite government approval procedures;
- the availability of skilled labour and service orders to support the expansion;
- our potential inability to maintain quality control in our new facilities or acquired targets;
- the integration of new operations, services and personnel;
- unforeseen or hidden liabilities, including the target’s indebtedness and financial condition;
- the diversion of resources and management’s attention from our existing business and technologies;

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## RISK FACTORS

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- our potential inability to generate sufficient revenue to offset new costs;
- our potential liability to our landlords for terminating the leases without consent;
- the potential loss of or harm to relationships with both employees and customers resulting from our integration of new businesses; or
- an increase in depreciation charges as a result of our significant investment in machinery and equipment.

As a result of the foregoing risks and challenges, we may not be able to complete the relocation of our entire operations into our new headquarters in the New Building under our relocation plan as expected, and we may be forced to seek alternative sites for our expansion. Our new service facilities, if completed, or our acquired targets may not fully integrate with our existing facilities and generate sufficient revenue. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**We may encounter difficulties in managing our growth or developing appropriate internal organisational structures, internal control environment and risk monitoring and management systems in line with our growth, which could negatively affect our business, results of operations, and financial condition.**

Our growth has placed, and is expected to place, a significant strain on our managerial, operational and financial resources. Accordingly, we are required to develop and implement appropriate structures for internal organisation and information flow, an effective internal control environment and risk monitoring and management systems in line with our growth, as well as to hire and integrate qualified employees into our organisation, which will cost significant management resources. We may incur substantial costs and expend substantial resources in connection with any such growth or in order to respond to more challenging market conditions due to, among other things, changing regulatory and industrial standards. We also will need to continue to expand, train, manage and motivate our workforce as well as manage our relationships with existing customers. All of these endeavours will require substantial management resources and the incurrence of additional costs and expenditures. We cannot assure you that we will be able to effectively manage our growth.

In addition, the disclosure and other ongoing obligations associated with becoming a public company will increase the challenges to our finance and accounting team. We cannot assure you that our existing internal control and risk monitoring and management systems will be adequate. Therefore, if we fail to appropriately develop and implement structures for internal organisation and information flow, an effective environment and a risk monitoring and management system, we may not be able to identify unfavourable business trends, administrative oversights or other risks that could materially and adversely affect our business, results of operations and financial condition.

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## RISK FACTORS

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**We are subject to certain operational risks and hazards such as natural disasters, industrial accidents and occupational hazards, as well as other safety-related incidents.**

We are subject to numerous operational risks and hazards beyond our control that may cause significant business interruptions, personal injuries, property or environmental damage. We are exposed to common operational risks including natural disasters and severe weather conditions such as earthquakes and storms, industrial accidents such as vehicle collisions, explosions and fires, unexpected maintenance or technical problems and key equipment malfunction, and occupational hazards to our employees. Such incidents may interrupt our operations and cause damage and injuries to our properties and staff. Should any of these risks occurs and we fail to take necessary responsive measures in a timely manner, our business may be temporarily interrupted or suspended, which could lead to increased labour costs, reputational damage and financial losses. Furthermore, any mismanagement, improper handling or violation of our operational procedure in the course of our service could result in accidents involving serious damage to our employees and property. If we fail to exercise sufficient caution on safety matters, our business operations and financial positions will be materially and adversely affected.

**Our insurance coverage may not be sufficient to cover all losses and we may incur substantial costs as a result of a severe business liability or disruption or other unexpected events.**

We maintain automobile insurance and personal injury insurance for our operations. We do not maintain insurance coverage for non-performance of contracts for our services and other risks associated with our business, including business disruption, business liability or similar business insurance products, which our Directors believe is consistent with the industry practice in China. We have determined that the risks of disruption or liability from our business, the cost of obtaining insurance coverage for these risks and the difficulties associated with obtaining such insurance on commercially reasonable terms make it impractical for us to have such insurance. Therefore, our insurance may not cover all potential risks associated with our operations. In particular, we do not maintain insurance coverage for any business liability, disruption, litigation or property insurance coverage for our operations in China and would have to bear the costs and expenses associated with any such events out of our own resources if any of that occurs. Nor do we maintain insurance coverage for any professional liability that arises from inaccurate or unreliable test results. Should a customer claim damages due to our acts of negligence arising out of our provision of services, we would have to bear the full cost of defense and potentially the resulting damages under the claim. If such costs and expenses exceed the levels which we expect, there could be a material adverse effect on our business, results of operations and financial condition.

**Failure in our information technology systems could significantly increase testing turn-around time and disrupt our operations.**

Our testing and inspection operations depend, in part, on the continued performance of our information technology systems that connect our on-site testing and inspection equipment and computers to the system in our headquarters. Our information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptions. Sustained system failures or interruption of our systems in one or more of our service centers could disrupt our ability to process

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## RISK FACTORS

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laboratorial requisitions, perform testing, and provide test results in a timely manner. In addition, tracking devices and monitors powered by our information technology systems play an indispensable part in our quality control procedures. Therefore, failure of our information technology systems could adversely affect our business, results of operations and financial condition.

**We may not be able to obtain additional capital at acceptable terms or at all.**

We believe our current cash, cash equivalents and cash flow from operations will be sufficient to meet our anticipated cash needs including for working capital and capital expenditures. However, we may require additional cash resources due to evolved business conditions or other future developments. If our current cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity, equity-linked or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in additional dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and may result in operating and financing covenants that would restrict our operations and liquidity. We may also fail to obtain sufficient credit facility, or at all, since our asset-light business model to a large extent limits the value of collateral we can offer to a creditor.

In addition, our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of companies like us;
- conditions of the capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- regulatory rules and policies on the construction engineering testing and inspection industry in China;
- economic, social and other conditions in China; and
- regulatory rules and policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure to raise additional funds on commercially reasonable terms could have a material adverse effect on our liquidity and financial condition.

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## RISK FACTORS

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### **Our operations and business plans may be adversely affected by health crisis and other outbreak**

Our business could be affected by force majeure events, outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus, or H1N1 influenza, the Ebola virus and COVID-19 and its variants, or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. Moreover, the world has experienced more frequent natural disasters such as earthquakes, floods and droughts in the past few years.

Any occurrence of natural disasters, epidemics and other outbreaks that are beyond our control may be expected to affect the economy, restrict the level of business activities in the affected areas, directly impact our operations, including straining facilities and employees, exposing employees to personal risks, temporarily closing office spaces, imposing additional health or safety measures upon office spaces, or exposure to potential liabilities for actions taken or not taken. Any such future occurrences, or the measures taken by the relevant government authorities in response, may adversely affect the economy and our business.

### **We face risks relating to negotiation of new lease term for the properties we lease and potential procedural and documentary defect concerning Dabei Line Land.**

As at the Latest Practicable Date, we were moving into a new headquarters in the New Building under our relocation plan in Xinyi City, Maoming to support our business growth. For details, see “Business – Properties – Relocation plan” in this prospectus. At the end of each lease term of the New Building, we may not be able to negotiate an extension of the lease and may therefore be forced to relocate to a different location, or the landlords may significantly increase the rent if we continue to utilise the leased premises. These risks and limitations could disrupt our operations and adversely affect our profitability. We may not be able to obtain new leases at desirable locations on acceptable terms to accommodate our future growth, which could materially and adversely affect our business.

In addition, we have potential procedural and documentary defect concerning Dabei Line Land and the buildings thereon, which we leased and used as our laboratory unit prior to the relocation to the New Building. The lessor of Dabei Line Land had not provided us with evidence of their valid and enforceable land use rights, and the relevant title documents or evidence of their relevant rights or authority to lease such properties as at the Latest Practicable Date. Our Company has constructed certain temporary constructions on the Dabei Line Land primarily used for testing laboratories and warehouses. On 11 July 2014, our Company obtained the Construction Project Planning Permit (Permit No. Jianzi [2014] Lin 006) for part of the temporary constructions of a floor area of 306 m<sup>2</sup>. The permit was valid for two years and our Company did not apply for an extension. For the building of the remaining portions of the temporary constructions, including laboratories and warehouses, our Company did not obtain the relevant Construction Project Planning Permit. The temporary constructions have remained in place without being dismantled since their initial construction up to the Latest Practicable Date. Although we have already relocated the operations of our laboratory units on the Dabei Line Land to the New Building, should disputes arise relating to the title encumbrances and the non-compliance issue regarding the temporary

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## RISK FACTORS

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constructions to Dabei Line Land, we may be subject to the risks of administrative penalties and may encounter disruption in continuing to use the Dabei Line Land before we move into the New Building under the relocation plan.

For details of these leased properties, see “Business – Properties – Potential procedural and documentary defect relating to Dabei Line Land” in this prospectus.

**We may not be able to protect our intellectual property rights and expenses incurred in protecting our intellectual property rights may adversely affect our business.**

We regard our brand, trade names, trademarks, proprietary technology, know-how and other intellectual property as critical to our success. The success of our business depends substantially upon our continued ability to use our brand, trade names, trademarks, proprietary technology and know-how to increase brand awareness and to further develop our brand. We cannot assure you that third parties will not gain unauthorised access to our proprietary technology or know-how. The unauthorised use of any of the foregoing intellectual property used in our business operations could diminish the value of our brand and its market acceptance, competitive advantages or goodwill.

**We are subject to changes in economic and social conditions and government policies in the PRC, which may have an effect on our business, financial condition, results of operations and prospect.**

Our major businesses, assets, operations are located in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a significant degree, subject to the economic, social and legal conditions in the PRC. The PRC governmental authorities regulates the economy and industries by imposing industrial policies and regulating the PRC’s macro economy through fiscal and monetary policies.

The overall growth of the PRC economy has been significant over the past few decades, and the PRC governmental authorities has implemented various measures to encourage economic growth and guide the allocation of resources. The changes in macroeconomic measures and monetary policies may affect demand for our services and therefore materially affect our business, financial position and results of operations.

**Payment of dividend is subject to requirements under applicable PRC laws.**

Under PRC law, dividend can only be paid out of allocable profit of a PRC company. Allocable profit is our profit as determined under PRC GAAP, less any recovery of accumulated losses and appropriations to statutory and other statutory funds we are required to make. As a result, we may not have sufficient or any allocable profit that allows us to make dividend distributions to the Shareholders, especially during the periods for which our financial statements indicate that our operations have been unprofitable. Any allocable profit not distributed in a given year is retained and available for distribution in subsequent years.



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## RISK FACTORS

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### **Renewal of and changes in the PRC legal system could adversely affect us.**

As we conduct all of our business operations in the PRC, we are principally governed by PRC laws, rules and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Interpretation and enforcement of the PRC laws and regulations, including those regulating our industry and foreign investment, may be subject to changes in policies and economic and social environment. Our Company has to meet the policies requirements issued by relevant regulatory authorities from time to time, and obtain approvals and complete filings in accordance with the relevant regulatory authorities' interpretation and enforcement of such policies. If there are any future changes in applicable laws, regulations, administrative interpretations or regulatory documents, more stringent requirements could be imposed on the industries we are currently engaged in. Compliance with such new requirements could impose additional costs or otherwise have an adverse effect on our industry. In addition, if we fail to meet such new rules and requirements, we may be ordered by the relevant PRC regulatory authorities to suspend or terminate relevant businesses, or pay fines. Alternatively, these changes may also relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. As a result, our business, financial conditions and results of operations could be adversely affected.

### **You may have limited resources in effecting service of legal process and enforcing judgments against us and our management.**

We are a company incorporated under the laws of the PRC and all of our business, assets and operations are located in China. In addition, the majority of our Directors, Supervisors and executive officers reside in China, and substantially all of the assets of such Directors, Supervisors and executive officers are located in China. As a result, it may not be feasible for investors to effect services of process upon us, or our Directors, supervisors or senior management who reside in China. Judgments obtained in a Hong Kong court may be enforced in the PRC, provided that certain conditions are satisfied. But China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of some other jurisdictions such as the United States, the United Kingdom, Japan and Australia. As a result, investors may have limited resources when they seek recognition and enforcement of foreign judgments in the PRC.

### **Non-PRC Resident Holders of H Shares may be subject to PRC taxations.**

Non-PRC resident individual holders of H Shares whose names appear on the register of members of our H Shares are subject to PRC individual income tax on dividends received from us.

Pursuant to the Notice on Questions Concerning the Collection of Individual Income Tax following the repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) issued by the SAT on 28 June 2011, non-PRC resident individual shareholders of a domestic non-foreign-invested enterprise whose shares are listed in Hong Kong may be entitled to preferential tax treatments in accordance with applicable tax treaties between the countries in which they are tax resident and the PRC as well as the tax arrangements between



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## RISK FACTORS

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Mainland China and Hong Kong (Macau). Dividend income of individual shareholders who are residents of countries that have not entered into taxation treaties with the PRC is generally subject to income tax at the rate of 20%. However, domestic non-foreign-invested enterprises whose shares are listed in Hong Kong generally may withhold individual income tax at the rate of 10% when distributing dividends with respect to such listed shares without prior application to the PRC tax authorities. In addition, according to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and the Implementation Provisions of the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例), non-PRC resident individuals are subject to individual income tax at a rate of 20% on gains realised upon sale of equity interests of a PRC resident enterprise. There are no specific PRC laws or regulations imposing individual income tax on non-PRC resident individuals of gains realised upon sale of shares of a PRC resident enterprise listed on an overseas stock exchange. To our knowledge, in practice the PRC tax authorities have not sought to collect individual income tax from non-PRC resident individuals for gains realised upon sale of equity interests of a PRC resident enterprise listed on an overseas stock exchange. If such tax is collected in the future, the investment value of such H Shares held by the individual holders may be materially and adversely affected.

In addition, pursuant to the EIT Law and its implementation rules, income generated from the PRC (including gains derived from the disposal of equity interests in PRC resident enterprise and PRC sourced dividends) by non-PRC resident enterprises is generally subject to EIT at a rate of 10%, subject to the provisions of any applicable special arrangements or treaties. Pursuant to the Notice on the Issues Concerning Withholding Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise H Share Holders (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) promulgated by the SAT on 6 November 2008, dividends paid to non-PRC resident enterprise H Shareholders that are derived from profits generated since 1 January 2008 are subject to the withholding of EIT at a rate of 10%. Non-PRC resident enterprise H Shareholders that are entitled to preferential tax treatments pursuant to any tax treaty or arrangement may apply to the relevant tax authorities for refund of the excess amount withheld. See “Taxation and Foreign Exchange – The PRC Taxation” in Appendix III to this prospectus for further details.

### **RISKS RELATING TO THE SHARE OFFER AND OUR H SHARES**

**There is no existing public market for our H Shares and their liquidity and market price may fluctuate.**

Prior to the Share Offer, there has not been a public market for our H Shares. We have applied for the listing of and dealing in our H Shares on GEM. However, even if approved, we cannot assure you that an active and liquid public trading market for our H Shares will develop following the Share Offer, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our H Shares may be caused by factors beyond our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the liquidity and market price of our H Shares will not fluctuate.

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## RISK FACTORS

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The Offer Price was the result of negotiations among us and the Joint Overall Coordinators (for themselves and on behalf of the other Underwriters) and may not be indicative of prices that will prevail in the trading market after the Share Offer. Therefore, our Shareholders may not be able to sell their H Shares at prices equal to or greater than the price paid for their H Shares purchased in the Share Offer.

**Our Controlling Shareholder may exert substantial influence over our operation and may not act in the best interests of our public Shareholders.**

Immediately following completion of the Share Offer (and assuming that the Offer Size Adjustment Option is not exercised at all), Xinyi City CEQS Center will control approximately 56% of the total share capital of our Company. Accordingly, Xinyi City CEQS Center will remain as our Controlling Shareholder after the completion of the Share Offer. Therefore, they will be able to exercise significant influence over all matters of our Company requiring shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Company that would otherwise benefit our Shareholders. The interests of the Controlling Shareholder may not always align with the other Shareholders. If the interests of the Controlling Shareholder conflict with the interests of our Company or the other Shareholders, or if the Controlling Shareholder chooses to cause our business to pursue strategic objectives that conflict with the interests of our Company or the other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

In addition, Xinyi City CEQS Center is a public institution under the Xinyi City Bureau of Housing and Urban-Rural Development, which is principally responsible for the supervision and management of building construction and infrastructure projects, supervision and inspection of the quality of construction works and construction safety, issuance of project quality supervision report, safety evaluation letter and safety supervision report; educating and provision of training to parties involved in the construction projects to establish and improve the construction safety system. As such, Xinyi City CEQS Center constitutes a PRC Governmental Body under the GEM Listing Rules. As a result, our Board's decision making process and our business and operation decisions may be subject to governmental review, approval or other governmental procedures, which could be time-consuming and make our business decisions inefficient or hysteric. Any future changes in regulations and policies for construction industry may adversely affect our business operation and results of operation and may not be in line with the interests of our other Shareholders and our Company as a whole. As a result, the interests of our Controlling Shareholder may not be in line with the interests of our other Shareholders and our Company as a whole.

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## **RISK FACTORS**

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**Future sales or issuances or perceived sales or issuances of our Shares or conversion of our Unlisted Shares into H Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital.**

The market price of our H Shares could decline as a result of future sales or issuances of a substantial number of our H Shares or other securities in the public market, or the perception that such sales or issuances may occur. Moreover, such future sales or issuances or perceived sales or issuances may also adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a favorable time and price.

The PRC Company Law provides that the Shares issued by our Company prior to the Listing Date shall not be transferred within a period of one year from the date on which trading in our H Shares commences on GEM. We cannot assure you that the current Shareholders will not be in breach of such statutory restriction and dispose of any Shares they own now or may own in the future.

Our Unlisted Shares can be converted into H Shares, provided that such conversion and the trading of H Shares so converted have been duly completed pursuant to our requisite internal approval process and the approval from the relevant PRC regulatory authorities. In addition, such conversion and trading must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council, as well as the regulations, requirements and procedures of GEM. If a significant number of our Unlisted Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially and adversely affect the prevailing market price of our H Shares.

**There can be no assurance if and when we will pay dividends in the future.**

Distribution of dividends shall be formulated by our Board and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our distributable profits, business conditions and strategies, capital requirements and expenditure plans, financial results, future operations and earnings, characteristics of the industry, the stage of development, and any restrictions on payment of dividends, and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. See "Financial Information – Dividend and dividend policy" in this prospectus for further details.

**The trading price and volume of our H Shares may be volatile, which could result in substantial loss to our investors**

The trading price of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of our H Shares, changes in securities analysts' (if any) estimates of our financial performance, investors' perceptions of our Company and the general investment environment, developments in laws, regulations and taxation systems which affect our operations, and general market conditions of the securities markets in Hong Kong. In particular, the

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## RISK FACTORS

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trading price performance of our competitors whose securities are listed on the Stock Exchange may affect trading price of our H Shares. These broad market and industry factors may significantly affect the market price and volatility of our H Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our H Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow, success or failure of our efforts in implementing business and growth strategies and involvement in material litigation as well as recruitment or departure of key personnel, could cause the market price of our H Shares to change unexpectedly. Any of these factors may result in large and sudden changes in the volume and trading price of our H Shares.

**Should the Offer Price be higher than the net tangible book value per Share, subject to pricing, you may experience an immediate dilution in the book value of the Offer Shares you purchased in the Share Offer and may experience further dilution if we issue additional Shares in the future.**

The Offer Price of the Offer Shares may be higher than the net tangible book value per Share immediately prior to the Share Offer. As a result, you and other purchasers of the Offer Shares in the Share Offer may experience an immediate dilution to a pro forma net tangible asset value of HK\$5.46 per Share, based on the maximum Offer Price of HK\$10.4 per H Share.

**Forward-looking statements contained in this prospectus are subject to risks and uncertainties.**

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should”, “could,” “would,” “continue,” and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded a representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the GEM Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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**We cannot guarantee the accuracy of certain facts and statistics contained in this prospectus.**

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Information from official government sources has not been independently verified by us or any of the Joint Sponsors, the Joint Overall Coordinators, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

**You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Share Offer.**

There has been, prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Share Offer, press, media, and/or research analyst coverage regarding us, our business, our industry and the Share Offer. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our H Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the H Shares, the Share Offer, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

**There is no assurance that the H Shares will remain listed on GEM**

Although it is currently intended that the H Shares will remain listed on GEM, there is no guarantee of the continued listing of the H Shares. Among other factors, our Company may not continue to satisfy the listing requirements of GEM. Holders of H Shares would not be able to sell their H Shares through trading on GEM if the H Shares are no longer listed on GEM.

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

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In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the GEM Listing Rules:

### **JOINT COMPANY SECRETARIES**

Rule 11.07(2) of the GEM Listing Rules provides that an issuer must appoint a company secretary who satisfies Rule 5.14 of the GEM Listing Rules. Rule 5.14 of the GEM Listing Rules provides that an issuer must appoint as its company secretary an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable: (i) a member of The Hong Kong Chartered Governance Institute; (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing “relevant experience”, the Stock Exchange will consider the individual’s: (i) length of employment with the issuer and other listed companies and the roles he or she played; (ii) familiarity with the GEM Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (WUMP) Ordinance and the Takeovers Code; (iii) relevant training taken and/or to be taken in addition to the minimum requirement of taking not less than 15 hours of relevant professional training in each financial year under Rule 5.15 of the GEM Listing Rules; and (iv) professional qualifications in other jurisdictions.

We have appointed Ms. Cheung Lai Ha and Mr. Liu Dongxue, our chief financial officer, as joint company secretaries to jointly discharge the duties and responsibilities as our joint company secretaries with reference to their past experience, qualifications and working experience.

Mr. Liu joined our Company in November 2023 and has gained a good understanding of the internal administration and business operation of our Company. By virtue of Mr. Liu’s past work experience and understanding of our Company, our Company believes that Mr. Liu is capable of discharging his duties as a joint company secretary of our Company and is a suitable person to act as a joint company secretary of our Company.

However, Mr. Liu does not possess full qualifications as required under Rule 5.14 of the GEM Listing Rules. As such, we have appointed Ms. Cheung as one of our joint company secretaries and to provide joint company secretary support and assistance to Mr. Liu to enable Mr. Liu to acquire the relevant experience as required under Rule 5.14 of the GEM Listing Rules and to duly discharge the functions of a company secretary. Mr. Liu will be assisted and will enjoy the resources and expertise of Ms. Cheung as a joint company secretary.

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

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Ms. Cheung, being an associate member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom, satisfies the requirements under Rules 5.14 and 11.07(2) of the GEM Listing Rules. Further biographical details of Ms. Cheung are set out in “Directors, Supervisors and Senior Management” in this prospectus.

Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 5.14 and 11.07(2) of the GEM Listing Rules and the following arrangements have been made to satisfy those requirements:

- (a) we will continue to engage Ms. Cheung as a joint company secretary for a minimum period of three years commencing from the Listing Date. We believe that Mr. Liu will acquire the relevant qualifications or experience required under Rules 5.14 and 11.07(2) of the GEM Listing Rules to act as our secretary with the guidance and assistance of Ms. Cheung. During her engagement period, Ms. Cheung will work closely with Mr. Liu and ensure that she will be available at all times to provide assistance to Mr. Liu for discharging his duty as a company secretary, including but not limited to communicating regularly with Mr. Liu on matters relating to corporate governance, the GEM Listing Rules, as well as the applicable Hong Kong laws and regulations which are relevant to us. We will further ensure that Mr. Liu will receive the relevant trainings and support to enable him to be familiar with the GEM Listing Rules and the responsibilities of a company secretary as required under the GEM Listing Rules;
- (b) pursuant to Rule 5.15 of the GEM Listing Rules, each of Ms. Cheung and Mr. Liu will attend in each financial year no less than 15 hours of relevant professional training courses to familiarise themselves with the requirements of the GEM Listing Rules and other Hong Kong regulatory requirements;
- (c) we will also appoint Yue Xiu Capital Limited as compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules, which will act as our additional channel of communication with the Stock Exchange, and provide professional guidance and advice to us and our joint company secretaries as to compliance with the GEM Listing Rules and all other applicable laws and regulations;
- (d) before expiry of the three-year period, we will re-evaluate Mr. Liu’s experience in order to determine whether he satisfies the requirements as stipulated under Rules 5.14 and 11.07(2) of the GEM Listing Rules;
- (e) if Ms. Cheung ceases to provide assistance to Mr. Liu, the waiver will be revoked by the Stock Exchange with immediate effect;

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

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- (f) before the end of the three-year period as mentioned above, we shall demonstrate and seek the confirmation from the Stock Exchange that Mr. Liu, having had the benefit of the assistance of Ms. Cheung for three years, would have acquired the relevant experience within the meaning of Rule 5.14 of the GEM Listing Rules so that a further waiver would not be necessary; and
- (g) the waiver will be revoked if there are material breaches of the GEM Listing Rules by our Company.

### CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions, which would constitute continuing connected transactions subject to reporting, annual review, and announcement requirements (i.e. partially exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules) after the Listing. Details about such transactions together with the application for a waiver from strict compliance with the relevant announcement requirement under Chapter 20 of the GEM Listing Rules are set out in “Continuing Connected Transactions” in this prospectus.



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

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

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

### **CSRC FILING**

Our filing procedures with the CSRC for the submission of the application to list our H Shares on GEM and for the Share Offer were completed on 7 March 2024. In completing such filing, the CSRC accepts no responsibility for the value of or income from the investment in our H Shares, nor for the authenticity, accuracy or completeness of any content in this prospectus or in other filing materials. No other approvals from the CSRC are required to be obtained for the listing of the H Shares on the Stock Exchange.

### **THIS PUBLIC OFFER AND THE PROSPECTUS**

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus contains the terms and conditions of the Public Offer. See “How to Apply for Public Offer Shares” in this prospectus for details of the procedures for applying for the Offer Shares.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and, if given or made, such information or representations must not be relied on as having been authorised by us, the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our H Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

### **STRUCTURE OF THE SHARE OFFER AND UNDERWRITING**

See “Structure and Conditions of the Share Offer” in this prospectus for details of the structure and conditions of the Share Offer, including its conditions and the arrangements relating to the Offer Size Adjustment Option.

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

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This prospectus is published solely in connection with the Share Offer which is sponsored by the Joint Sponsors and managed by the Joint Overall Coordinators. The Offer Shares will be fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreements (including but not limited to the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company agreeing on the Offer Price). For further information about the Underwriters and underwriting arrangements, see “Underwriting” in this prospectus.

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

Each person acquiring the Offer Shares under the Public Offer will be required to confirm, and is deemed by his acquisition of Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

### **APPLICATION FOR LISTING OF THE H SHARE ON THE STOCK EXCHANGE**

Our Company has applied to the GEM Listing Committee for the granting of the listing of and permission to deal in the H Shares to be issued pursuant to the Share Offer (including the additional H Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option). Dealings in the H Shares on the Stock Exchange are expected to commence on Friday, 6 September 2024.

Save as disclosed in “Share Capital” in this prospectus, no part of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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

Subject to the Stock Exchange granting the listing of, and permission to deal in, our H Shares on the Stock Exchange and we complying with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

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

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Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All necessary arrangements have been made for the H Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

### **PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES**

The procedures for applying for Public Offer Shares are set out in “How to Apply for Public Offer Shares” in this prospectus.

### **H SHARE REGISTER AND STAMP DUTY**

All H Shares issued by us pursuant to applications made in the Public Offer will be registered on our H Share register to be maintained by our H Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on our H Share register in Hong Kong will be subject to Hong Kong stamp duty. See Appendix III to this prospectus for further details.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the H Shares. None of us, the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the H Shares.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us, for ourselves and for the benefit of each Shareholder, and we agree with each Shareholder, to observe and comply with the Company Law and the Articles of Association;

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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- (ii) agrees with us, for ourselves and for the benefit of each Shareholder and each of our Directors, Supervisors, managers and other senior officers, and we, acting for ourselves and on behalf of each Shareholder and each of our Directors, Supervisors, managers and senior officers, agree with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and that the arbitration tribunal may conduct hearings in open sessions and to publish its award, which shall be final and conclusive. See Appendix V to this prospectus for further details;
- (iii) agrees with us, for ourselves and for the benefit of each Shareholder that the H Shares are freely transferable by their holders; and
- (iv) authorises us to enter into a contract on his behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his obligations to our Shareholders as stipulated in the Articles of Association.

### LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, government authorities, institutions, natural persons or other entities have been included in this prospectus in both the Chinese and English languages, and in the event of any inconsistency, the Chinese versions shall prevail.

### CONVERSION AND EXCHANGE RATE

For illustration purpose only, this prospectus contains translations of certain RMB amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of RMB into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK\$1.08897 in this prospectus.

No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all.

### ROUNDING

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

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*For further information on our Directors, Supervisors and senior management, see “Directors, Supervisors and Senior Management” of this prospectus.*

### DIRECTORS

#### Executive Directors

Name	Residential Address	Nationality
Lai Feng (賴鋒)	1204 Kunhe Pavilion Block H, Yucheng Mingyuan 6 Huanshan Road Xinyi City, Maoming Guangdong Province, China	Chinese
Huang Fei (黃飛)	Room A1502 Tenglong Pavilion Qinghua Park Xinyi City, Maoming Guangdong Province, China	Chinese
Mai Jiayu (麥家瑜)	Room A1701 Block 8 Tianyu Shijia Xinyi City, Maoming Guangdong Province, China	Chinese
Zhang Xihua (張喜華)	36 Meinan East Road Dongzhen Street Xinyi City, Maoming Guangdong Province, China	Chinese

#### Non-executive Directors

Name	Residential Address	Nationality
Zou Chan (鄒嬋)	22 Chengnan Science Park Second Street Dongzhen Street Xinyi City, Maoming Guangdong Province, China	Chinese
Chen Guangfu (陳光富)	Room 1101, Unit 1 Block 11 North District Tianyu Flower City Xinyi City, Maoming Guangdong Province, China	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE SHARE OFFER**

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**Independent non-executive Directors**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Liu Hongge (劉紅哥)	Room 1402, Unit 2, Block 17 Phase I, Zhonghai Wanjin Xian 5 Xianghe Street, Huayang Street Shuangliu District, Chengdu Sichuan, China	Chinese
Deng Dian (鄧點)	Flat C, 56/F, Block 1 The Merton 38 New Praya Kennedy Town Kennedy Town, Hong Kong	Chinese
Luo Qiling (羅啟靈)	Flat 3AC, Block A5 Phase II, New World Yishan Garden 1968 Wutong Road Tiandong Community Haishan Street, Yantian District, Shenzhen Guangdong Province, China	Chinese

**SUPERVISORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Wu Weiyuan (吳威源)	Room 401, Block 3B 39 Renmin Road Xinyi City, Maoming Guangdong Province, China	Chinese
Chen Shende (陳深德)	Room 1101 Block 1, Yudu Villa Xinyi City, Maoming Guangdong Province, China	Chinese
Chen Haibin (陳海濱)	Room 501, Block 7 Yudu New Town North Yingbin Avenue Xinyi City, Maoming Guangdong Province, China	Chinese

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE SHARE OFFER

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Zhou Kelin (周科霖)	Room 703, Block 14 Xingda Yujingcheng District Dongzhen Street Xinyi City, Maoming Guangdong Province, China	Chinese
Zhang Zhihang (張志航)	Room 2002, Block 18 Xingda Yujingcheng District Dongzhen Street Xinyi City, Maoming Guangdong Province, China	Chinese

For details with respect to our Directors and Supervisors, see “Directors, Supervisors and Senior Management” in this prospectus.

### **PARTIES INVOLVED IN THE SHARE OFFER**

#### **Joint Sponsors**

#### **Huajin Corporate Finance (International) Limited**

Suite 1101, 11/F  
Champion Tower  
3 Garden Road  
Central, Hong Kong

#### **Yue Xiu Capital Limited**

Rooms Nos. 4917–4937  
49/F, Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong

#### **Joint Overall Coordinators**

#### **Huajin Securities (International) Limited**

Suite 1101, 11/F  
Champion Tower  
3 Garden Road  
Central, Hong Kong

#### **Yue Xiu Securities Company Limited**

Rooms Nos. 4917–4937  
49/F, Sun Hung Kai Centre  
No. 30 Harbour Road  
Wanchai, Hong Kong

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE SHARE OFFER

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**Joint Bookrunners and Joint Lead  
Managers**

**Huajin Securities (International) Limited**

Suite 1101, 11/F  
Champion Tower  
3 Garden Road  
Central, Hong Kong

**Yue Xiu Securities Company Limited**

Rooms Nos. 4917–4937  
49/F, Sun Hung Kai Centre  
No. 30 Harbour Road  
Wanchai, Hong Kong

**Eddid Securities and Futures Limited**

21/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**GLAM Capital Limited**

13/F, Wing Sing Commercial Centre  
12–16 Wing Lok Street  
Sheung Wan  
Hong Kong

**Livermore Holdings Limited**

Unit 1214A, 12/F  
Tower II Cheung Sha Wan Plaza  
833 Cheung Sha Wan Road  
Kowloon  
Hong Kong

**Orient Securities (Hong Kong) Limited**

28th and 29th Floor  
100 Queen's Road Central  
Hong Kong

**Legal Advisers to our Company**

*As to Hong Kong law*

**Loeb & Loeb LLP**

2206–19, Jardine House  
1 Connaught Place  
Central, Hong Kong



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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE SHARE OFFER

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*As to PRC law*

**Jingtian & Gongcheng**

34th Floor, Tower 3  
China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing, China

**Legal Advisers to the Joint Sponsors  
and the Underwriters**

*As to Hong Kong law*

**Eric Chow & Co.**

**in Association with Commerce & Finance Law Offices**

3401, Alexandra House  
18 Chater Road, Central  
Hong Kong

*As to PRC law*

**Commerce & Finance Law Offices**

12–14th Floor  
China World Office 2  
No. 1 Jianguomenwai Avenue  
Beijing, China

**Auditor and Reporting Accountant**

**PricewaterhouseCoopers**

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

22/F, Prince's Building  
Central, Hong Kong

**Industry Consultant**

**China Insights Industry Consultancy Limited**

10/F, Tower B  
Jing'an International Center  
No. 88 Puji Road, Jing'an District  
Shanghai, China

**Receiving Bank**

**China Construction Bank (Asia) Corporation Limited**

26th Floor, China Construction Bank Tower  
3 Connaught Road Central  
Central, Hong Kong

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## CORPORATE INFORMATION

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**Registered office and headquarters** 1/F, Building A  
Construction Bureau Compound  
Xinyi City, Maoming  
Guangdong Province, China

**Principal place of business in Hong Kong under Part 16 of the Companies Ordinance** 46/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong

**Company's website** [www.xyjiance.cn](http://www.xyjiance.cn)

*(information contained in this website does not form part of this prospectus)*

**Joint company secretaries** **Cheung Lai Ha** (張麗霞)  
*(an associate member of both the Hong Kong Chartered Governance Institute and the Chartered Governance Institute)*  
46F, Hopewell Centre  
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Wan Chai  
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**Liu Dongxue** (劉冬雪)  
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Maoming  
Guangdong Province, China

**Authorised representatives** **Lai Feng** (賴鋒)  
1204 Kunhe Pavilion  
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6 Huanshan Road  
Xinyi City, Maoming  
Guangdong Province, China

**Cheung Lai Ha** (張麗霞)  
*(an associate member of both the Hong Kong Chartered Governance Institute and the Chartered Governance Institute)*  
46F, Hopewell Centre  
183 Queen' Road East  
Wan Chai  
Hong Kong

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## CORPORATE INFORMATION

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<b>Compliance adviser</b>	<b>Yue Xiu Capital Limited</b> Rooms Nos. 4917–4937 49/F, Sun Hung Kai Centre 30 Harbour Road Wanchai, Hong Kong
<b>Audit committee</b>	Liu Hongge (劉紅哥) ( <i>Chairlady</i> ) Luo Qiling (羅啟靈) Deng Dian (鄧點)
<b>Remuneration committee</b>	Liu Hongge (劉紅哥) ( <i>Chairlady</i> ) Luo Qiling (羅啟靈) Deng Dian (鄧點)
<b>Nomination committee</b>	Lai Feng (賴鋒) ( <i>Chairman</i> ) Luo Qiling (羅啟靈) Liu Hongge (劉紅哥)
<b>H Share Registrar</b>	<b>Computershare Hong Kong Investor Services Limited</b> Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wan Chai, Hong Kong
<b>Principal bankers</b>	<b>China Construction Bank Corporation</b> <b>(Maoming Xinyi Branch)</b> No. 2 Xinshang Road Xinyi City, Maoming Guangdong Province, China

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## INDUSTRY OVERVIEW

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*The information and statistics regarding the testing and inspection industry contained in this section and others in this prospectus have been extracted from the CIC Report prepared by CIC, an independent third-party industry consultancy firm commissioned by us. We believe that the sources of such information are appropriate, and reasonable care has been taken in extracting and reproducing the information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The Directors believe that there has been no adverse change in the market since the completion of the CIC Report that may qualify, contradict, or impact the information set out in this section. Unless otherwise indicated, the market and industry information and data in this section have been extracted from the CIC Report.*

### OVERVIEW OF THE INDEPENDENT TESTING AND INSPECTION INDUSTRY IN CHINA

#### Overview of the independent T&I industry in China

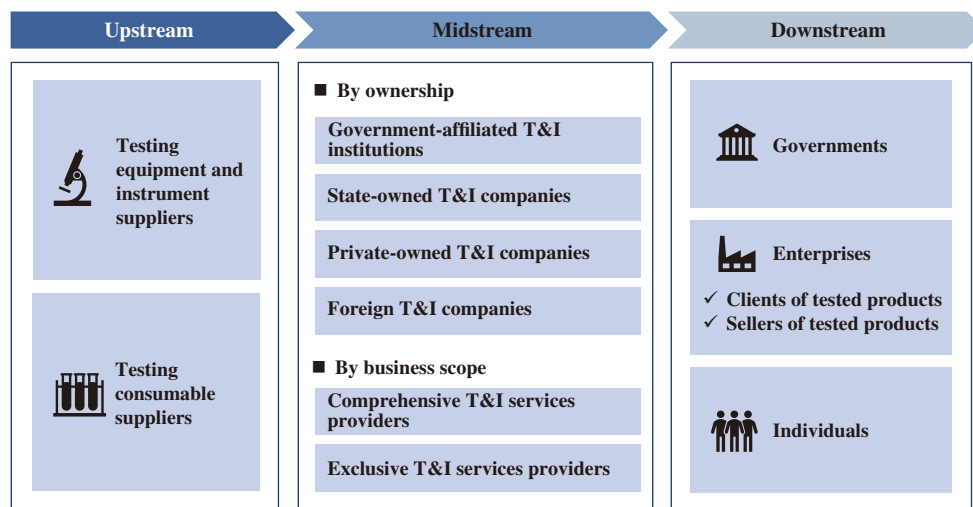
The testing and inspection (T&I) industry provides services related to testing and inspecting products, systems, and processes to ensure they meet baseline quality, safety, regulatory, and performance standards. The T&I industry includes 1) in-house laboratories, which mainly meet a corporation's internal quality control needs, and 2) independent T&I service providers, which provide external T&I services. Therefore, from the narrow perspective of revenue, China's T&I industry and China's independent T&I industry constitute the same market. China's independent T&I industry includes service providers providing external services in different sectors, including construction engineering T&I, motor vehicle inspection and equipment T&I, environmental T&I, industrial T&I, life science T&I, food and agriculture T&I, fire protection T&I and other T&I. According to State Administration for Market Regulation ("SAMR"), independent T&I service providers can be divided into government-affiliated T&I institutions, state-owned T&I companies, privately-owned T&I companies, and foreign T&I companies.

These historical developments reflect the evolving regulatory landscape and the expansion of China's T&I market, led by government authorities and private sector growth. After the issue of Implementation Opinions on the Integration of Inspection, Testing, and Certification Institutions (關於整合檢驗檢測認證機構的實施意見) in 2014 and Strengthening Quality Certification System Construction to Promote Comprehensive Quality Management (關於加強質量認證體系建設促進全面質量管理的意見) in 2018, China's independent T&I industry has entered into a sustainable development stage, during which integration efforts were pursued in three main directions: reforming government-affiliated T&I institutions into state-owned T&I companies; detaching T&I service providers from administrative departments; and promoting cross-departmental, cross-industry, and cross-level integration. In recent years, supervisory departments, such as SAMR, Ministry of Commerce of the People's Republic of China, and the State Council of the People's Republic of China, have issued favorable policies and regulations, such as breaking government monopolies and industry barriers, promoting market-oriented development of the industry, enhancing the industry oversight and governance, along with planning the 14th Five-Year Plan for the future development of China's independent T&I industry.

# INDUSTRY OVERVIEW

The flow chart below illustrates the industry chain of the independent T&I industry in China.

## Industrial chain of the independent T&I industry in China



Source: SAMR, China Insights Consultancy

Notes:

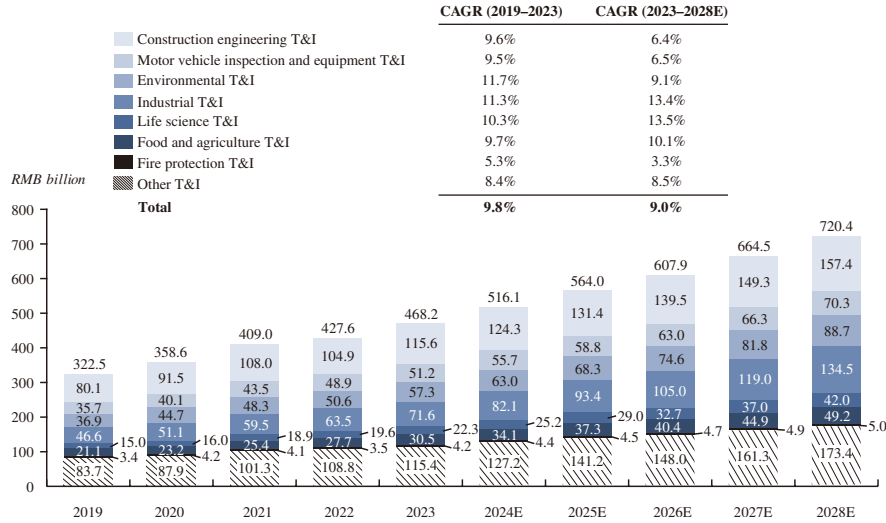
- (1) Government-affiliated T&I institutions are established by the government, which are in charge of T&I for the government and the market on a national or regional level. Their primary role is regulatory and supervisory, focusing on ensuring that products, services, and processes meet established safety, quality, and environmental standards. While they may conduct T&I activities, their main purpose is to uphold regulations and standards rather than to make a profit.
- (2) State-owned T&I companies are companies that provide T&I services that are fully or partially controlled by the state, most of which are conversions from government-affiliated T & I institutions after corporate restructuring. The primary objective of these companies is more commercially driven.
- (3) Comprehensive T&I service providers provide T&I services to a wide range of industries; while exclusive T&I service providers specialize in specific sectors, e.g. construction engineering or motor vehicle inspection.

## The market size of the independent T&I industry in China

The total market size of the independent T&I industry in China is expected to increase from RMB468.2 billion in 2023 to RMB720.4 billion in 2028, at a CAGR of 9.0%. The overall economic development trend in China, and frequency and intensity of T&I service are the leading drivers of developing the independent T&I industry. Environmental T&I, industrial T&I, food and agriculture T&I, and life science T&I are industrial sectors with the highest growth potential within the market. The development of these subdivisions is primarily due to more pronounced government supervision of environment protection, food safety, and the healthcare industry. Enhanced regulatory compliance requirements, necessitate the need for independent T&I services to help businesses in meeting evolving standards and avoiding penalties and providing comprehensive assessments in order to meet the changing legal and regulatory standards.

# INDUSTRY OVERVIEW

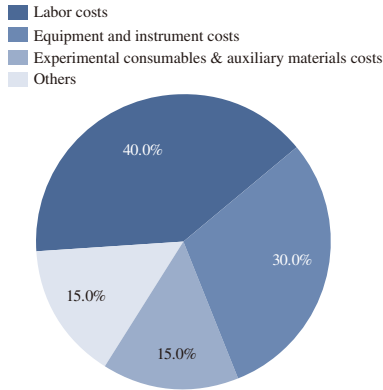
## Market size of the independent T&I industry in China, by industry sector, 2019–2028E



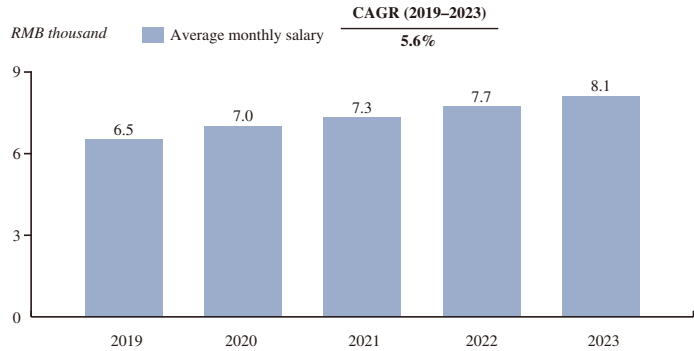
Source: National Bureau of Statistics of China, SAMR, China Insights Consultancy

The major cost components of China’s independent T&I industry are labor costs, and equipment and instrument costs, which represented 40% and 30%, respectively, in 2023. Due to the overall T&I market development and increasing living costs in China, the labor costs have increased over the past five years. The average monthly salary of key employees in China’s independent T&I industry has consistently increased, reaching RMB8.1 thousand in 2023, representing a CAGR of 5.6% from 2019 to 2023.

### Cost analysis of China’s independent T&I industry, 2023



### The average monthly salary of a key employee in the China’s independent T&I industry, 2019–2023



Source: NBS, China Insights Consultancy

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## INDUSTRY OVERVIEW

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### Market drivers of the independent T&I industry in China

- **Construction potential in lower tier cities:** Construction potential remains largely untapped in Tier 3 and below cities, as urban areas have not yet reached a saturation point. The demand for T&I services generated by government-led construction projects, such as municipal services, water conservancy projects, tourism projects, etc., in lower-tier cities and rural areas is expected to primarily flow into Tier 3 and below cities due to their larger geographical distribution.
- **Increased investment in infrastructure:** Considering the downturn in commercial real estate amid China's economic landscape, private building T&I is expected to underperform, with a projected CAGR of -1.1% over the next five years. Meanwhile, during the 14th Five-Year Plan, China intensified infrastructure investments. This strategic move aims at enhancing urban development, supporting local economies, and fostering a positive economic trajectory. The increased investment in infrastructure will propel the development of municipal facility T&I, transportation T&I, water conservancy T&I, and public building T&I, with forecasted CAGRs of 10.6%, 10.1%, 9.6%, and 7.9% from 2023 to 2028, respectively.
- **Transformation and upgrades of the downstream industry:** The independent T&I industry in China is seeing robust growth due to the ongoing transformation and upgrades in downstream industries. As downstream sectors, such as manufacturing, food, agriculture production, and mining, adopt advanced technologies, the need for updated T&I services develops in tandem. This growth ensures that newly developed products, materials, and processes meet stringent quality, safety, and regulatory standards. Downstream companies are increasingly using independent T&I service providers to validate the integrity of their innovations, maintain product quality, and enhance competitiveness in both domestic and international markets.
- **The emergence of new markets and industrial sectors:** China's economic growth and urbanization have led to the emergence of new markets and industrial sectors, each with unique demands for T&I services. For example, industries such as renewable energy, electric vehicles, and biotechnology are experiencing rapid expansion. These sectors introduce novel technologies, materials, and products that require thorough evaluation and certification. Independent T&I service providers are well-positioned to capitalize on these opportunities, offering specialized expertise to support the growth of these emerging markets while ensuring compliance with evolving regulations.
- **Increasing concerns about product quality and safety:** Rising concerns about food safety, environmental pollution, and substandard products have heightened public awareness and government scrutiny, driving the demand for independent T&I services in China. According to SAMR, by the end of 2023, 7,034.9 thousand batches of food and food-related products were sampled and inspected nationwide, by national and local level SAMR, increased by 22.7% compared to that of 2019, displaying a marked improvement in volume of food inspection. According to the Ministry of Ecology and Environment, during the 14th Five-Year Plan period, the number of national air quality monitoring sites will increase from 1,436 to approximately 2,000, while the number of national surface water monitoring sites will increase from 2,050 to around 4,000. As such, businesses are under increased pressure to demonstrate their offerings' quality, safety, and compliance.

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## INDUSTRY OVERVIEW

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- **Higher regulatory compliance in downstream business:** The Chinese government has implemented more stringent policies and regulations across various industries. These regulations have led to rising demand for independent T&I services. Businesses are now mandated to meet stricter compliance requirements, which can result in severe penalties. Independent T&I agencies fill a vital role in helping enterprises navigate this complex regulatory landscape by providing comprehensive assessments meeting the evolving legal and regulatory standards, which, in turn, fuels the industry's growth.

### OVERVIEW OF THE INDEPENDENT TESTING AND INSPECTION INDUSTRY IN WESTERN GUANGDONG

#### Overview of the independent T&I industry in Western Guangdong

Guangdong Province is divided into four regions – Western Guangdong, Eastern Guangdong, Northern Guangdong, and the Pearl River Delta – based on economic, cultural, and population factors. Guangdong province boasts the largest number of independent T&I service providers, and its overall revenue ranks first nationwide, making it the foremost province in China's T&I industry.

The city scope is determined by service range and project requirements, covering Western Guangdong, including four cities – Yunfu, Yangjiang, Maoming, and Zhanjiang. These cities are classified as tier 3 and below cities by the National Bureau of Statistics. In the T&I industry, timely service provision and the need for proximity in service distance are crucial, especially in tier 3 and below cities with a strong demand for same-day sample transportation. For example, in food and agricultural product T&I, explicit requirements exist for well-timed sample submission. In construction engineering T&I, service providers need to factor in transportation costs for equipment. Generally, the service radius is approximately 200 kilometers. For independent T&I service providers in Xinyi, the Western Guangdong region thus falls within a reasonable service range.

Western Guangdong demonstrates consistent GDP growth, rising from RMB853.1 billion in 2019 to RMB1,057.0 billion in 2023, with a CAGR of 5.5%. Projections indicate that the GDP of these cities in Western Guangdong will achieve RMB1,347.7 billion in 2028, with a CAGR of 5.0%. As the industrial structure in this region undergoes transformation, the share of the secondary industry in the GDP of cities in this region is predicted to increase from 35.9% to 39.7% from 2023 to 2028. The secondary industry in China refers to mining (excluding auxiliary mining activities), manufacturing (excluding metal product manufacturing and machinery and equipment repair), electricity, heat, gas, and water production and supply, as well as construction. The secondary industry in the Western Guangdong region is expected to achieve a CAGR of 7.1% from 2023 to 2028, significantly surpassing the 6.0% growth rate of the secondary industry in the Guangdong during the same period. As the economic structure in the Western Guangdong region undergoes transformation, the growth of the secondary industry, represented by mining, manufacturing and construction, has brought about increased demand and market opportunities for the T&I industry.

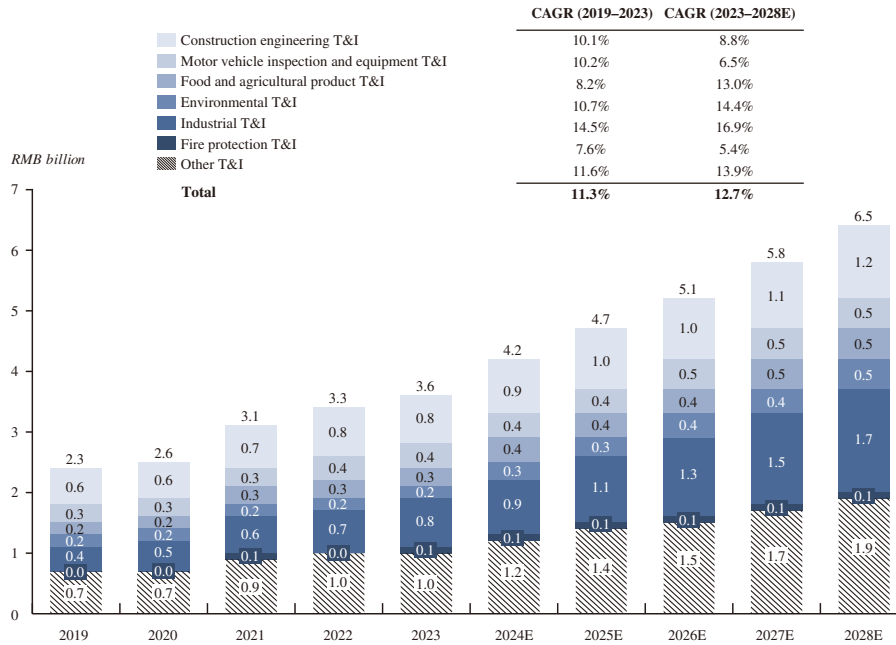


# INDUSTRY OVERVIEW

## The market size of the independent T&I industry in Western Guangdong

The independent T&I industry in Western Guangdong has maintained a steady growth trajectory, from RMB2.3 billion in 2019 to RMB3.6 billion in 2023, with a CAGR of 11.3%. The independent T&I industry in this region is anticipated to reach RMB6.5 billion by 2028, with a CAGR of 12.7%. The development of the T&I industry in tier 3 and below cities has consequently led to the discovery of new sectors within the T&I industry domain, in addition to the continuous growth of existing industries such as industrial T&I, food and agricultural product T&I, as well as environmental T&I.

**Market size of the independent T&I industry in Western Guangdong, by industry sector, 2019–2028E**

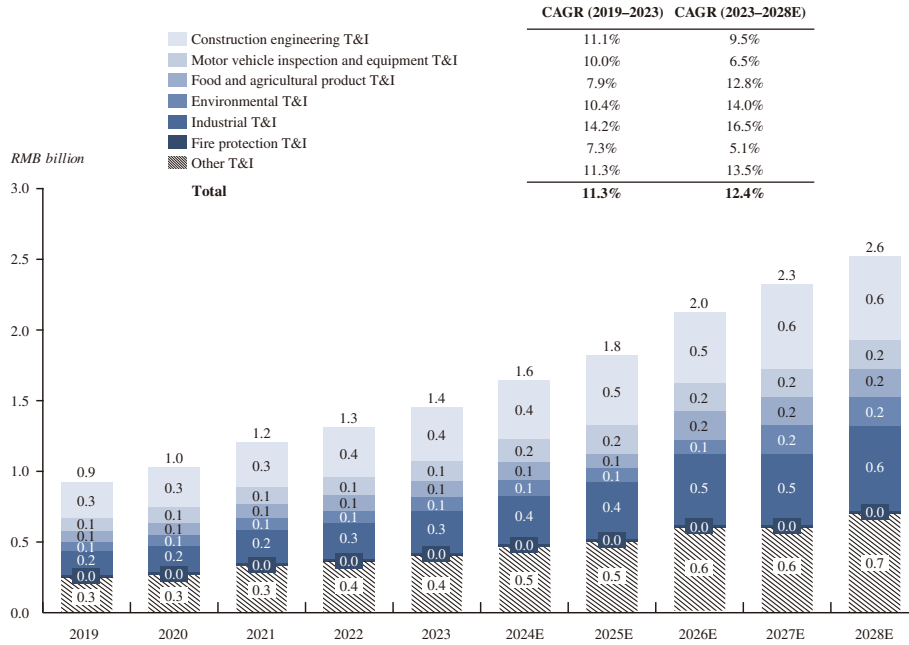


Source: NBS, China Insights Consultancy

## INDUSTRY OVERVIEW

The independent T&I industry in Maoming has demonstrated sustained growth, rising from RMB0.9 billion in 2019 to RMB1.4 billion in 2023, achieving a CAGR of 11.3%. This positive trend is expected to persist, with the industry projected to reach RMB2.6 billion by 2028, maintaining a CAGR of 12.4%. This development aligns with the overall trend in the T&I market in Western Guangdong.

### Market size of independent T&I industry in Maoming, in terms of revenue, 2019–2028E



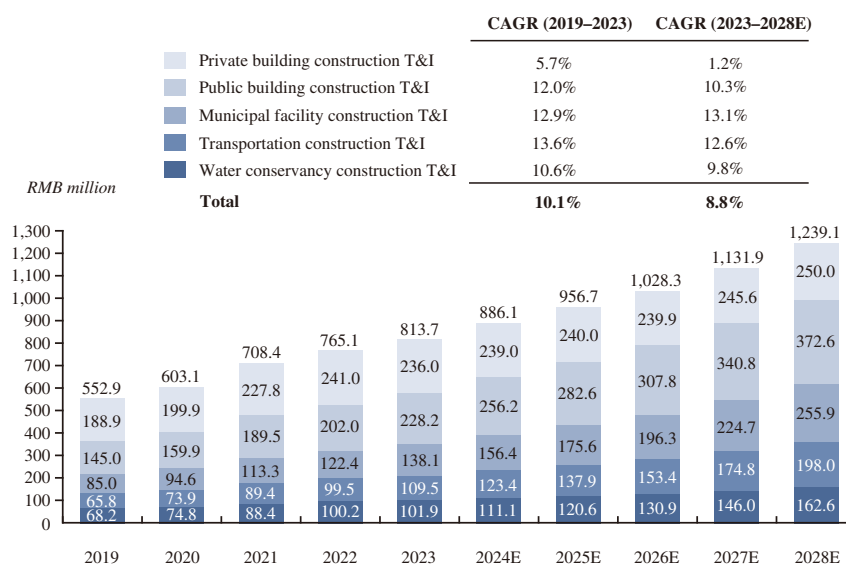
Source: NBS, China Insights Consultancy

The construction engineering T&I industry hold the largest share in the T&I industry in Western Guangdong. In 2023, the construction engineering T&I activities in Western Guangdong reached RMB813.7 million and are anticipated to reach RMB1,239.1 million by 2028, exhibiting a CAGR of 8.8% from 2023 to 2028. This underscores the significant and growing importance of construction engineering T&I in the T&I industry of Western Guangdong.

## INDUSTRY OVERVIEW

Considering the current challenges facing China’s commercial construction sector, the Western Guangdong region is expected to undergo a significant impact. The market share of private building T&I is projected to decline gradually from 34.2% in 2019 to 20.2% by 2028, reflecting an anticipated reduction in investment to RMB250.0 million by 2028. Concurrently, a sustained focus on infrastructure development in Western Guangdong is expected to drive growth in public building construction, municipal facility construction, transportation construction and water conservancy construction. Forecasted CAGRs for these sectors are 10.3%, 13.1%, 12.6%, and 9.8%, respectively, from 2023 to 2028.

### Market size of the construction engineering T&I industry in Western Guangdong, by industry sector, 2019–2028E



Source: NBS, China Insights Consultancy

Notes:

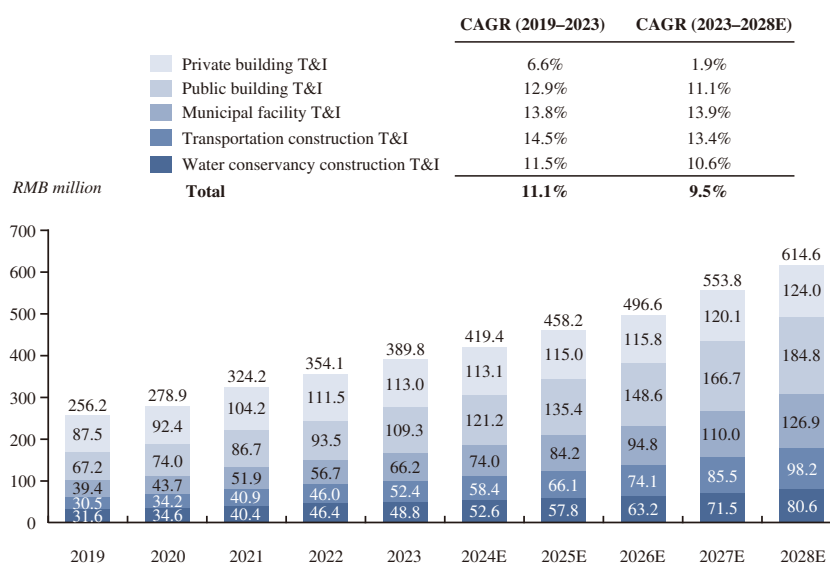
- (1) Private building construction T&I refers to testing and inspection of structures intended for either private or commercial use.
- (2) Public building construction T&I refers to testing and inspection of government-owned or publicly used structures, including schools and hospitals.
- (3) Municipal facility construction T&I refers to testing and inspection of urban infrastructure projects, including city roads, water supply and drainage pipelines.
- (4) Transportation construction T&I refers to testing and inspection of road infrastructure and construction structures, including expressways, national and provincial roads.
- (5) Water conservancy construction T&I refers to testing and inspection of water conservancy projects such as reservoirs and irrigation systems.

## INDUSTRY OVERVIEW

Among the above five segments of independent construction engineering T&I industry, our Company’s testing and inspection services during the Track Record Period covers private building construction T&I, public building construction T&I, and municipal facility construction T&I.

Construction engineering T&I is a crucial component of Maoming T&I industry. In 2023, the market size of construction engineering T&I in Maoming amounted to RMB389.8 million and is projected to reach RMB614.6 million by 2028, demonstrating a CAGR of 9.5% from 2023 to 2028. Among these, private building T&I holds the largest share in 2023, but it is expected to experience a decline with a CAGR of 1.9% from 2023 to 2028. On the other hand, municipal facility T&I is poised for the fastest growth over the next five years, reaching an impressive growth rate of 13.9%.

### Market size of construction engineering T&I industry in Maoming, in terms of revenue, 2019–2028E



Source: NBS, China Insights Consultancy

### Market drivers of the independent T&I industry in Western Guangdong

- Development of sustained economy and infrastructure:** The sustained economic growth and significant infrastructure development in the Western Guangdong regions have created robust demand for independent T&I services. This demand stems from key regional industries, including manufacturing, construction, energy, and fire protection. As these industries continue to evolve, and with the potential for the emergence of new sectors in the future, the need for reliable and impartial testing services becomes increasingly vital to ensure quality, safety, and compliance with regulations. The growth of these core industries and the potential development of new T&I sectors drive the consistent demand for independent T&I services, making them a principal component of the regional economic ecosystem.

## INDUSTRY OVERVIEW

- Expanding the service radius:** Expanding the service radius is a pivotal driver behind the growth of the independent T&I industry in Western Guangdong. As the region experiences substantial economic development and industrial diversification, T&I services demands have outgrown localized boundaries. This expansion enables them to provide timely and efficient services to clients operating in various locations within Western Guangdong. By broadening their service radius, these service providers serve the burgeoning regional industries and help elevate the overall quality, safety, and compliance standards across the expanded geographic footprint. This service, in turn, fosters economic growth and development in the region.
- Enhancing service standards and technological capabilities:** The ongoing improvement in testing service standards and technical capabilities of local independent T&I service providers is a critical driver in the T&I industry. Continuous upgrades in service standards allow local T&I service providers to provide more accurate, reliable services, fostering client trust. Additionally, adopting advanced technological capabilities, such as sophisticated instrumentation and data analytics, elevates overall service quality and increases competitiveness. Actively upgrading professional expertise enables these service providers to swiftly adapt to industry changes, staying responsive to emerging trends and providing solutions.

### Government policies and regulations supporting development of the T&I industry in China, Western Guangdong and Maoming

Government policies play a pivotal role in propelling the development of the T&I industry. The emphasis on regulatory compliance, achieved through the formulation, enforcement, and adherence to regulations governing safety and quality standards, fosters industry trust, elevates service standards, and ensures consumer protection.

Release Date	Issuing Department	Policy Name	Main Content
July 2022	SAMR	Circular on Issuing the Plan for the Development of Certification, Accreditation, Inspection and Testing during the 14th Five-Year Plan Period (《市場監管總局關於印發〈“十四五”認證認可檢驗檢測發展規劃〉的通知》)	Aims to developing goals, tasks and safeguard measures for the certification, accreditation, inspection and testing industry during the 14th Five-Year Plan Period (2021–2025), among others, promoting the inspection, testing and accreditation capacities.
May 2022	General Office of the CPC Central Committee, General Office of the State Council	“Opinions on Promoting Urbanisation with County Seats as Important Carriers” (《關於推進以縣城為重要載體的城鎮化建設的意見》)	Aims to enhance the quality and efficiency of county-level urban infrastructure.
December 2013	Ministry of Housing and Urban-Rural Development	Regulations on Completion Acceptance Inspection of Building and Municipal Infrastructure Projects (《房屋建築及市政基礎設施工程驗收規定》)	Specifies the conditions for the completion acceptance of projects, including the entry test reports for the main building materials, architectural components, and equipment used in the project, as well as data on engineering quality inspections and functional tests.

## INDUSTRY OVERVIEW

Release Date	Issuing Department	Policy Name	Main Content
December 2022	Guangdong Provincial Party Committee	The “Project for the High-Quality Development of Hundreds of Counties, Thousands of Towns and Tens of Thousands of Villages” (《百縣千鎮萬村高質量發展工程》)	Aims at promoting urbanization in counties as a key focal point. This includes the development of municipal public facilities in counties, as well as improvements to rural infrastructures such as rural roads and water supply systems.
September 2021	General Office of the People’s Government of Guangdong Province	Notice on issuing the 14th Five-Year Plan for Water Conservancy Development of Guangdong Province (《廣東省人民政府辦公廳關於印發廣東省水利發展“十四五”規劃的通知》)	Investing significantly in Guangdong Province with a budget of RMB405 billion, to vigorously advance water network construction spanning across four cities – Yunfu, Yangjiang, Maoming, and Zhanjiang.
February 2022	General Office of the People’s Government of Maoming City	Notice from the Office of the Maoming Municipal People’s Government on the Issuance of the “14th Five-Year Plan for Market Supervision Modernization in Maoming” (《茂名市人民政府辦公室關於印發〈茂名市市場監管現代化“十四五”規劃〉的通知》)	Main tasks include building a new market supervision mechanism adapting to high-quality development and establishing a strict and efficient safety supervision system in the field of people’s livelihood.

### Market threats and challenges of the independent T&I industry in Western Guangdong

- Substantial investments for testing equipment and capital:** The T&I industry in Western Guangdong faces financial challenges, particularly for smaller service providers, due to the financial burden associated with acquiring and maintaining advanced testing equipment. This industry demands substantial upfront investments for testing equipment and capital, leading to significant financial pressure on businesses.
- Challenges in nurturing specialized talent:** The T&I industry in Western Guangdong faces challenges in addressing a potential skills gap, leading to difficulties in finding and retaining specialized talents. To overcome this, service providers may need to make significant investments in training programs aimed at developing and retaining skilled professionals. However, such training initiatives contribute to overall operational costs.
- Competition from leading enterprises:** Industry leaders in the T&I industry may hold a dominant position, posing challenges for smaller or newer players to establish themselves. Large enterprises in the T&I industry in first-and second-tier cities will exert significant competitive pressure on the development of T&I industry in third-tier and below cities.

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## INDUSTRY OVERVIEW

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### COMPETITIVE LANDSCAPE ANALYSIS OF THE INDEPENDENT TESTING AND INSPECTION INDUSTRY IN CHINA

#### Competitive landscape of the Independent T&I industry in China

The independent T&I service providers in China are categorized as follows:

- Government-affiliated T&I institutions.
- State-owned T&I companies.
- Privately-owned T&I companies.
- Foreign T&I companies.

Our Company is recognized as a state-owned T&I company among the independent T&I service providers in China.

All the independent T&I service providers offer similar services and target the same market segments, they might compete against each other. This competition is typically due to overlaps in the types of services provided, target customers, or operational scopes. Among all independent T&I service providers, the state-owned T&I companies are typically formed through the transformation of government-affiliated T&I institutions and inherent competitive advantages such as strong credit endorsements, localized T&I capabilities, and diversified T&I services. Consequently, the state-owned T&I companies maintain a competitive market position in the independent T&I market, especially in the independent construction engineering T&I market.

As of the end of 2023, China had over fifty thousand independent T&I service providers, with over 70% of them exclusively providing services within their respective provinces or regions, demonstrating a strong emphasis on localization. Meanwhile, China's independent T&I industry market is characterized by high fragmentation and a significant long-tail effect, as the top ten independent T&I service providers occupied below 10% of the market share in 2023. A substantial contingent of the independent T&I service providers in China are classified as small and micro-sized enterprises, employing less than one hundred people, comprising over 95% of the total independent T&I service providers.

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## INDUSTRY OVERVIEW

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### Competitive landscape of the independent T&I industry in Western Guangdong

The independent T&I service providers are mainly localized small and micro-sized enterprises operating within limited geographic areas, contributing to a distinct fragmentation trend. The top five independent T&I service providers in Western Guangdong held a 9.4% market share of revenue in 2023. As of 31 December 2023, our Company ranked as the fifth largest player among the independent T&I service providers in Western Guangdong in terms of revenue, with a market share of 1.2%.

#### Ranking of the top five independent T&I service providers in Western Guangdong in terms of revenue, 2023

Rank	Company name	Revenue (RMB million)	Market share (%)
1	Company A	92.4	2.6%
2	Company B	74.2	2.1%
3	Company C	66.7	1.9%
4	Company D	60.0	1.7%
5	Our Company	41.5	1.2%
	Top five	334.8	9.4%
	Total	3,562.6	100.0%

*Notes:*

- (1) Company A is a government-affiliated T&I institution founded in 2005 and has four directly affiliated T&I institutes in Western Guangdong. It is responsible for the T&I services of various special equipment in the Western Guangdong region, including pressure vessels, boilers, lifting machinery, passenger ropeways, and amusement rides.
- (2) Company B is a government-affiliated T&I institution founded in 2003. It provides T&I services for a variety of products, including food and agricultural products, light industry, machinery, chemical industry, environment, and building materials.
- (3) Company C is a government-affiliated T&I institution founded in 2003. It provides T&I services for a variety of products, including food, chemicals, electrical, and building materials.
- (4) Company D is a government-affiliated T&I institution founded in 1983. It provides T&I services for foundation construction, main construction, indoor environment, municipal roads, lightning protection detection, etc.
- (5) Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

*Source: Government Public Information Platform, China Insights Consultancy*



## INDUSTRY OVERVIEW

In Western Guangdong, the five leading independent T&I service providers in the construction engineering sector collectively secured a 24.1% revenue market share in 2023. Among these, our Company achieved the second-highest ranking, with a market share of 5.1%.

### Ranking of the top five independent T&I service providers of construction engineering in Western Guangdong in terms of revenue, 2023

Rank	Company name	Revenue (RMB million)	Market share (%)
1	Company D	60.0	7.4%
2	Our Company	41.5	5.1%
3	Company E	34.6	4.3%
4	Company F	33.0	4.1%
5	Company G	27.0	3.3%
	Top five	196.1	24.1%
	Total	813.7	100.0%

*Notes:*

- (1) Company E is a private company founded in 2017, it primarily conducts T&I services in areas related to foundation engineering, main structural engineering, road and bridge engineering, building energy-saving engineering, indoor environmental quality, and building settlement observation.
- (2) Company F is a private company founded in 2017, it primarily conducts T&I services for foundation engineering, architectural structures, roads and bridges, rail transit, building materials, building physics, building equipment, building energy saving, building diagnostics, building environment, and fire protection in construction.
- (3) Company G is a private company founded in 2017, it primarily conducts T&I services for housing construction, public municipal, highway bridges, railway light rail, water conservancy ports, hydropower heating and ventilation.
- (4) Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

*Source: Government Public Information Platform, China Insights Consultancy*

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## INDUSTRY OVERVIEW

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In Maoming, the top five service providers collectively held a 40.8% market share of revenue generated from independent construction engineering T&I services in 2023. As a state-owned T&I company, our Company ranked second among all independent T&I service providers of construction engineering in Maoming, with a market share of 10.6% in 2023.

### Ranking of the top five independent T&I service providers of construction engineering in Maoming in terms of revenue, 2023

Rank	Company name	Revenue (RMB million)	Market share (%)
1	Company D	60.0	15.4%
2	Our Company	41.5	10.6%
3	Company F	25.6	6.6%
4	Company H	17.0	4.4%
5	Company I	15.0	3.8%
	Top five	159.1	40.8%
	Total	389.8	100.0%

Notes:

- (1) Company H is a private company founded in 2017, it primarily undertakes T&I services related to public highways, public bridges, traffic facilities, hydraulic engineering, municipal facility construction, and residential construction.
- (2) Company I is a private company founded in 2012, it primarily undertakes T&I services related to public highways, public bridges, municipal projects, and housing construction engineering.
- (3) Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Source: Government Public Information Platform, China Insights Consultancy

### Key success factors of the independent T&I service providers in Western Guangdong

- **Regional advantages under the limitation of service radius:** The independent T&I industry is characterized by its regional nature, with clients typically choosing nearby service providers. Under the limitation of service radius, independent T&I service providers that deploy locally can form close relationships with local enterprises and government departments and integrate local resources, demonstrating a pronounced regional advantage.
- **Excellent institutional credibility and service capabilities:** The credibility and service quality of an independent T&I service provider directly determine its market acceptance. Clients often source service providers with high local brand recognition and strong service capabilities. Only by gaining widespread recognition from all sectors of society can independent T&I service providers attract and retain clients, thereby achieving sustained and stable growth.

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## INDUSTRY OVERVIEW

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- **Instantaneous response time to client needs:** Infrastructure construction plays a pivotal role as a key pillar industry in tier 3 and below cities. Typically, the timelines for infrastructure construction engineering are tight, making the response speed of independent T&I service providers important, as it directly impacts the efficiency of the engineering works. When clients select T&I service providers, they often consider their geographical location for quicker access to services.
- **Diversified product and service offerings:** Western Guangdong has a diversified industrial landscape, with some cities excelling in infrastructure construction and others having a developed agricultural product industry. This variety has led to demands for diverse T&I services, such as construction engineering and construction materials T&I, food T&I, and environmental T&I. Thus, the ability to offer a more varied range of products and services becomes one of the key success factors.

### Entry barriers of the independent T&I service providers in Western Guangdong

- **Qualification barriers:** An independent T&I service provider must first undergo an evaluation by a quality and technical supervision department at or above the provincial level and be approved by the China Inspection Body and Laboratory Mandatory Approval (CMA) (檢驗檢測機構資質認定). To engage in construction engineering T&I, it is also necessary to obtain the Construction Engineering Quality Inspection Agency Qualification Certificate (建設工程質量檢測機構資質證書). The laboratory must also comply with relevant standards to receive accreditation from China National Accreditation Service for Conformity Assessment (CNAS). Besides, independent T&I service providers in Western Guangdong are also required to be accredited by the Guangdong Certification and Accreditation Association Membership (廣東省認證認可協會會員單位). Additionally, local governments have formulated detailed market access rules based on specific circumstances.
- **Difficulty in establishing brand and credibility:** Brand influence and market credibility are paramount for developing independent T&I service providers. Independent T&I service providers have cultivated the local market over the years, creating a particular brand reliance among clients. Establishing a solid brand image and market trustworthiness is unfeasible in the short term, and existing service providers in Western Guangdong have already accumulated substantial experience. New entrants thus face significant competitive pressures.
- **Required testing equipment and capital investment:** Considering that specific test samples have timeliness requirements, independent T&I service providers must establish their laboratories in Western Guangdong equipped with the necessary testing equipment and instruments to ensure their service. Building a comprehensive laboratory, procuring the requisite instrumentation, and expanding operations across regions all necessitate significant capital investment.
- **Demand for specialized talent reservoir:** Being a technology-intensive industry, the independent T&I industry integrates numerous disciplines and spans various specialties, requiring many high-quality professional technical talents. Compared with Tier 1 cities like Beijing and Shanghai, Western Guangdong still suffers from a skills gap in talent reserves. For independent T&I service providers, especially new entrants, attracting and retaining these scarce professional talents poses a significant challenge.

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## INDUSTRY OVERVIEW

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### SOURCES OF INFORMATION

This section contains information extracted from the CIC Report, independently prepared by CIC, which we have commissioned for this prospectus. We expect to pay CIC a total of RMB400,000 for the CIC Report and our use thereof. CIC is a consulting company established in Hong Kong that provides industry consulting services, commercial due diligence, and strategic consulting services for various industries.

CIC undertook primary and secondary research using various resources to construct this report. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analyzing data from publicly available sources, including the National Bureau of Statistics, Administration of Quality Supervision, Inspection and Quarantine of the PRC, and the China National Accreditation Service for Conformity Assessment. The information and data collected by CIC have been analyzed, assessed, and validated using CIC's in-house analysis models and techniques. The methodology used by CIC is based on information gathered from multiple levels, which allows for such information to be cross-referenced for reliability and accuracy.

CIC prepared its report on the following basis and assumptions for historical data and projections:

- (i) The overall social, economic, and political environment globally will remain stable during the forecast period;
- (ii) Related key industry drivers stated in the CIC Report are likely to propel continued growth in the independent testing and inspection industry throughout the forecast period; and
- (iii) There will be no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

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## REGULATORY OVERVIEW

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This section summarises the most significant laws, regulations, and rules that affect and govern our current major business activities and operation in the PRC.

### LAWS AND REGULATIONS RELATING TO THE TESTING AND INSPECTION OF CONSTRUCTION ENGINEERING

#### Administration of Construction Engineering Quality

According to the Construction Law of the People's Republic of China (《中華人民共和國建築法》) (the “**Construction Law**”) and the Administrative Regulations on Construction Project Quality (《建設工程質量管理條例》) promulgated by the State Council on 30 January 2000 and last amended on 23 April 2019, the owners of construction engineering, survey contractors, design contractors, construction contractors and project supervision contractors shall be responsible for the quality of such construction engineering. Where, under the contractual stipulations, the construction project owner is required to purchase building materials, components, fittings and equipment, it shall ensure that such building materials, components, fittings and equipment conform to the design documents and contractual requirements. The specifications, models, performance and other technical indicators of building materials, components, fittings and equipment chosen by any design contractor shall be indicated in design documents and quality requirements therefor shall conform to standards specified by the State. A construction contractor shall, according to project design requirements, construction technical standards and contractual stipulations, check building materials, components, fittings, equipment and commodity concrete and shall make a written record for such check, which shall be signed by a person specially designated for the task. Any building materials, components, fittings, equipment or commodity concrete that have not been checked or fail to pass such check shall not be used. For test-blocks, test-pieces and other materials related to structural safety, construction personnel shall take samples on the site and have them tested by a quality testing entity with the appropriate qualification grade.

Under the Construction Law promulgated by the SCNPC on 1 November 1997 and last amended on 23 April 2019, no construction unit shall, with whatever reasons, ask the building design unit or building construction enterprise to lower the project quality in project design or construction operations in violation of the laws, administrative regulations and quality and safety standards of construction projects. The survey and design units of a construction project shall be responsible for the quality of their survey and design. Such technical indexes as the specifications, types and characteristics of building materials, building structural pieces and parts and equipment selected in the design documents shall be annotated and their quality requirements shall conform to the standards prescribed by the state. The building construction enterprise must proceed with the construction in accordance with the project design drawings and construction technical standards and shall not do shoddy work and use inferior materials. The building construction enterprise must carry out inspections over the building materials, building structural pieces and parts and equipment in accordance with the requirements of the project design, construction technical standards and agreement in the contract and shall not use those that fail to pass the inspection.

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## REGULATORY OVERVIEW

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Pursuant to the Regulations on the Implementation of Witness Sampling and Submission for Inspection for the House Building Engineering and the Engineering of the Municipal Infrastructure Engineering (《房屋建築工程和市政基礎設施工程實行見證取樣和送檢的規定》) promulgated by the Ministry of Construction on 26 September 2000 and effective on the same date, the total percentage of test-blocks, test-pieces and other materials related to structural safety subject to witness sampling and submission for inspection shall be no less than 30% of the required sampling quantity under relevant technical standards. Certain test-blocks, test-pieces and materials must follow the witness sampling and submission for inspection procedures which include, among others, concrete test-blocks used for load-bearing structures, masonry mortar test-blocks used for load-bearing walls, rebar and connector test-pieces used for load-bearing structures, brick and concrete small blocks used for used for load-bearing walls, cement used for producing concrete and masonry mortar, admixture used in concrete for load-bearing structures, and waterproof materials used for roof, bathroom and underground. In the process of construction, the witnessing personnel should witness the sampling and submission for inspection on the construction site according to the plan thereof. The sampling personnel should mark and seal the samples or their packaging. The marking and sealing should indicate the project name, sampling location, sampling date, sample name and sample quantity, and be signed by the witnessing personnel and the sampling personnel. The witnessing personnel should create witnessing records and include them in the construction technical files. The witnessing personnel and the sampling personnel shall be responsible for the representativeness and authenticity of the samples. When submitting witness sampling test-blocks, test-pieces and other materials for inspection, the submitting entity shall fill out an entrustment form, which shall be signed by the witnessing personnel and the submitting personnel. The inspection entity shall check the identification and sealing of the entrustment form and samples, and confirm that everything is in order before proceeding with the inspection.

### **Qualifications**

As an inspection and testing agency, we are generally required to obtain an Inspection and Testing Agency Qualification Certificate, which is issued and supervised by relevant department for market regulation. Apart from the Inspection and Testing Agency Qualification Certificate, when carrying out inspection activities on quality of construction engineering, which include inspection on items involving the structural safety and main function of construction engineering, construction materials, structures and fixtures, and equipment at the construction site, the quality of the engineering substantive body and etc., we are also required to obtain a Construction Engineering Quality Inspection Agency Qualification Certificate that is issued and supervised by relevant department of housing and urban-rural development. Additional certificates may be required for us in the event that we intend to engage in inspection activities for other specific fields that are stipulated by relevant PRC laws and regulations.

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## REGULATORY OVERVIEW

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### *Inspection and Testing Agency Qualification Certificate (檢驗檢測機構資質認定證書)*

The Metrology Law of the PRC (《中華人民共和國計量法》) promulgated by the SCNPC on 6 September 1985 which came into effect on 1 July 1986 and last amended on 26 October 2018, stipulate that a product quality inspection agency which is to provide notarial data on the quality of products for the society must have passed the examination of its capability and reliability of metrological verification and testing conducted by the metrological administrative department of the people's government at or above the provincial level.

Under the Administrative Measures for the Qualification Accreditation of Inspection and Testing Agencies (《檢驗檢測機構資質認定管理辦法》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 9 April 2015 and amended on 2 April 2021 by the SAMR, inspection and testing agencies refer to the professional technical organisations established by law that conduct inspection and testing on products or specific objects as prescribed by laws and regulations with instruments and equipment, environmental facilities and other technical conditions and professional skills in accordance with the relevant standards or technical specifications. The SAMR shall be responsible for the qualification accreditation of inspection and testing agencies nationwide and the unified management, organisation, implementation as well as comprehensive coordination relating to qualification accreditation of inspection and testing agencies. The provincial-level departments for market regulation shall be responsible for the qualification accreditation of inspection and testing agencies within their respective jurisdictions. For the qualification accreditation of the inspection and testing agencies established by the relevant departments of the State Council and the relevant industrial authorities in accordance with the law, the SAMR shall be responsible for the organisation and implementation; for the qualification accreditation of other inspection and testing agencies, the provincial-level departments for market regulation within the relevant administrative regions shall be responsible for the organisation and implementation. An inspection and testing agency applying for qualification accreditation shall meet the following conditions: (a) being a legal person or other organisation legally established and able to bear corresponding legal responsibilities; (b) having inspection and testing technical personnel and managerial personnel suitable for its engagement in inspection and testing activities; (c) having fixed work places, with working environment meeting the requirements of inspection and testing; (d) having inspection and testing equipment and facilities necessary for the inspection and testing activities; (e) having the management system which is under effective operation to ensure that the inspection and testing activities are conducted in an independent, fair, scientific, and honest manner; and (f) meeting the special requirements as stipulated by the relevant laws, regulations, standards and technical specifications. The qualification accreditation certification shall be valid for six years. Where it is necessary to renew the term of validity of qualification accreditation certificate, the relevant holder shall file an application three months before the expiration of the said term.

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## REGULATORY OVERVIEW

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### *Criteria for Qualification Accreditation of Inspection and Testing Agencies*

The Rules for the Review of the Qualification Accreditation of Inspection and Testing Agencies (《檢驗檢測機構資質認定評審準則》) promulgated and implemented by the Certification and Accreditation Administration of the People's Republic of China on 31 May 2016, further clarify the contents, requirements, methods and procedures of the technical review of qualification accreditation. On 30 May 2023, the SAMR published the new Rules for the Review of the Qualification Accreditation of Inspection and Testing Agencies, which came into force as of 1 December 2023 and replaced the current rules. The new Rules for the Review of the Qualification Accreditation of Inspection and Testing Agencies apply to new initial application, expansion application and renewal application for Inspection and Testing Agency Qualification Certificates as from its effective date, and do not affect the validity of existing certificates held by inspection and testing agencies. According to the new Rules for the Review of the Qualification Accreditation of Inspection and Testing Agencies, three technical review methods apply to the qualification accreditation of inspection and testing agencies, namely on-site review, written review, and remote review, depending on the specific conditions of the qualification accreditation application. The on-site review method is applicable to the initial review, expansion review, re-examination, renewal review (in the case of a change in actual capacity), and the change review that affects its compliance with the qualification conditions and requirements. The written review method is applicable to the reexamination and renewal review of inspection and testing agencies that have obtained the license on expansion or change of a small number of parameters within the technical capacity of qualification accreditation (without affecting their compliance with the qualification accreditation conditions and requirements) and that have not committed any illegal acts in the previous licensing period, are not included in the list of dishonest agencies and have no substantial changes in the application items. Remote review is optional in cases, among others, where the on-site review becomes impossible due to force majeure (epidemic situation, safety or travel restrictions, etc.); or where the inspection and testing agency has multiple locations for the same testing activities, all of which operate the same management system, and the electronic records and data of all other locations can be checked at any one location. The technical review of qualification accreditation of inspection and testing agencies evaluates various aspects of the agencies to determine whether they conform to the qualification accreditation requirements, which principally include the following:

Items	Qualification Accreditation Requirements
The subject	An inspection and testing agency shall be a legal person or another organization that is formed according to the law and is able to assume corresponding legal liability, specific requirements including: (a) an inspection and testing agency or its organization shall have a clear legal status, and assume legal liability for the inspection and testing data and results issued by it. An inspection and testing agency that does not have the status of an independent legal person shall be authorized by its legal entity; (b) an inspection and testing agency shall, in a public manner, make a self-commitment to its compliance with legal requirements, independent and impartial employment, fulfillment of social responsibilities, and strict adherence to good faith; (c) an inspection and testing agency shall be independent of the relevant stakeholders involved in inspection and testing data and results issued by it, and be free from impact of any factor that may interfere with its technical judgment, to ensure that the inspection and testing data and results are fair, accurate and traceable; (d) an inspection and testing agency and its staff members shall have the obligation to keep confidential the state secrets and trade secrets known in the course of inspection and testing activities, and develop and implement corresponding confidentiality measures.



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## REGULATORY OVERVIEW

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Items	Qualification Accreditation Requirements
Personnel	<p>An inspection and testing agency shall have inspection and testing technicians and management personnel suitable for its inspection and testing activities, including: (a) the establishment of labor relations between an inspection and testing agency and its employees shall comply with the relevant provisions of the Labor Law of the PRC and the Labor Contract Law of the PRC. Where there are separate provisions in laws and administrative regulations on the practicing qualification of inspection and testing personnel or job forbidden, such provisions shall apply; (b) the educational level, professional and technical background and work experience, qualifications and technical capabilities of employees of an inspection and testing agency shall meet the work needs; and (c) the authorized signatory of an inspection and testing report shall have a relevant intermediate professional and technical title or above or equivalent ability, and satisfy the relevant requirements for technical capacity.</p>
Site Environment	<p>An inspection and testing agency shall have a fixed workplace, and its working environment shall satisfy the inspection and testing requirements, including: (a) an inspection and testing agency has inspection and testing premises that satisfy the requirements of standards or technical specifications, including fixed, temporary, movable or multiple premises; and (b) the inspection and testing work environment and safety conditions satisfy the requirements for inspection and testing activities.</p>
Equipment and Facilities	<p>An inspection and testing agency shall have necessary inspection and testing equipment and facilities for carrying out inspection and testing activities, including: (a) an inspection and testing agency shall be equipped with equipment and facilities with independent use rights and performance satisfying the work requirements; (b) an inspection and testing agency shall verify, calibrate or inspect the equipment that has an impact on the accuracy or validity of the inspection and testing data and results (including auxiliary measuring equipment used for measuring environmental conditions) to ensure that the data and results satisfy the requirements for metrological traceability; and (c) if an inspection and testing agency uses standard substances, the requirements for metrological traceability shall be satisfied.</p>

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## REGULATORY OVERVIEW

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Items	Qualification Accreditation Requirements
Management System	<p>An inspection and testing agency shall establish a management system to ensure the independence, fairness, science and integrity of its inspection and testing activities, and ensure that the management system may be effectively, controllably and stably implemented, and continuously meet the qualification accreditation conditions and satisfy the relevant requirements for inspection and testing agencies, including: (a) an inspection and testing agency shall develop sound management system documents, including policies, systems, plans, procedures and operation instructions, among others, in accordance with the provisions of laws, regulations and standards (including but not limited to national standards, industrial standards and international standards). The management system established by an inspection and testing agency shall be adaptable to its actual circumstances and be operated effectively; (b) an inspection and testing agency shall carry out effective contract review according to the law. Any deviation from or change in the relevant requirements, tenders or contracts shall be agreed upon by the clients and the relevant personnel shall be notified; (c) the services and supplies selected and purchased by an inspection and testing agency shall meet the needs of the inspection and testing work; (d) an inspection and testing agency may correctly use effective methods to carry out inspection and testing activities. Inspection and testing methods include standard methods and non-standard methods, and the standard methods shall be used in priority. Verification shall be used before standard methods are used; and before non-standard methods are used, the method shall be verified after confirmation; (e) when there is a measurement uncertainty requirement for the compliance of the inspection and testing standards, technical specifications or declarations with the prescribed requirements, an inspection and testing agency shall report the measurement uncertainty; (f) an inspection and testing report issued by an inspection and testing agency shall be objective and true, effective in methods, complete in data, complete in information, clear in conclusions, clear in statements and use legal measurement units; (g) an inspection and testing agency shall set forth provisions on management of quality records and technical records, including identification, storage, protection, archiving, retention and disposal of records. The recorded information shall be sufficient, clear and complete. The retention period of original inspection and testing records and reports shall not be less than six years; (h) an inspection and testing agency shall, when using computer information systems to carry out inspection and testing, data transmission or management of inspection and testing data and relevant information, have measures to ensure safety, integrity and correctness; and (i) an inspection and testing agency shall carry out effective data and results quality control activities, and quality control activities are compatible with the inspection and testing work. Data and result quality control activities include internal quality control activities and external quality control activities. Internal quality control activities include, but are not limited to personnel comparison, equipment comparison, sample re-testing, blind sample assessment, etc. External quality control activities include, but are not limited to, capability verification, inter-laboratory comparison, etc.</p>

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## REGULATORY OVERVIEW

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Pursuant to the Administrative Measures for the Qualification Accreditation of Inspection and Testing Agencies and the new Rules for the Review of the Qualification Accreditation of Inspection and Testing Agencies, to renew its Inspection and Testing Agency Qualification Certificate, an inspection and testing agency shall submit a renewal application at least three months before its expiry. The accreditation department shall, on the basis of the application matter, credit information, classified supervision, and other situations of the inspection and testing agency, conduct technical review by written review or on-site review (or remote review) and make a decision on whether to grant renewal or not. For inspection and testing agencies that have no acts in violation of the laws, regulations, and rules on market regulation during the previous licensing period, the accreditation department may adopt the written review method, and extend the validity period of the qualification certificates of agencies that satisfy the requirements. During the review of the renewal application, the accreditation department will review and determine whether the specific aspects of the agencies conform to the qualification accreditation requirements with reference to the qualification accreditation requirements as set out above.

### ***The Construction Engineering Quality Inspection Agency Qualification Certificate (建設工程質量檢測機構資質證書)***

The Administrative Measures for the Quality Inspection of Construction Engineering (《建設工程質量檢測管理辦法》) (the “**2005 Administrative Measures**”) promulgated by the Ministry of Construction on 28 September 2005 which was re-promulgated by the Housing and Urban-Rural Development (the “**MOHURD**”) on 29 December 2022 and became effective on 1 March 2023 (the “**2023 Administrative Measures**”), and the Notice on Issuance of Qualification Standards of Construction Engineering Quality Inspection Agencies (《住房和城鄉建設部關於印發〈建設工程質量檢測機構資質標準〉的通知》) issued and implemented by the MOHURD on 31 March 2023, stipulate the construction engineering quality inspection agencies are required to obtain the appropriate qualification certificates to engage in the quality inspection business under the regulations and set out qualification requirements of the inspection agencies, as well as the functions and scope of supervision of the relevant regulatory authorities.

#### *2005 Administrative Measures*

Prior to 31 March 2023, inspection and testing agencies should comply with the aforesaid regulations and apply for relevant qualifications to engage in the quality inspection of construction engineering. Under the 2005 Administrative Measures, inspection institutions must obtain the relevant qualification certificate in accordance with the measures before engaging in any of the following quality inspection activities: (a) special inspection, which include the inspection of foundation engineering projects, the on-the-spot inspection of main structure projects, the inspection for building curtain wall projects, and the inspection of steel structure projects; (b) evidential inspection, which include the examination of the physical mechanics performance of cement, the examination of the mechanics property of the concrete steel (including the welding and mechanical connection), the routine examination of sand and stone, the examination of the strength of the concrete and mortar, the simple earthwork inspection, the examination of the concrete adulterating agent, the examination of the pre-stressed steel strand and the anchor fixture, and the examination of the pitch and pitch mixture. The qualifications of inspection institutions are classified into the qualification of special inspection agencies and the qualification of evidential inspection agencies according to the content of the quality inspection activities as undertaken.

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## REGULATORY OVERVIEW

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### *2023 Administrative Measures*

According to the 2023 Administrative Measures, qualifications for construction engineering quality inspection agencies are categorised into two groups, namely, comprehensive qualification and specialised qualification. The Qualification Standards of Construction Engineering Quality Inspection Agencies (《建設工程質量檢測機構資質標準》) set forth detailed provisions on the application requirements for the above-mentioned qualifications. The comprehensive qualification refers to the qualification consisting of all specialised qualifications. Construction engineering quality inspection agencies with the comprehensive qualification are permitted to engage in quality inspection services under all nine specialised qualifications with those testing parameters they obtained. There are nine specialised qualifications, including (i) building materials and components, (ii) main structure and decoration, (iii) steel structure, (iv) foundation, (v) building energy-saving, (vi) building curtain wall, (vii) municipal engineering materials, (viii) road works, (ix) bridge and underground works. The qualifications of testing agencies are regardless of grade. Construction engineering quality inspection agencies shall obtain qualifications and may carry out corresponding business in accordance with the scope of their qualification, namely comprehensive qualification or specialised qualifications. Specific requirements in relation to standards for the two categories have been made in the Qualification Standards of the Construction Engineering Quality Inspection Agencies. Requirements in relation to reputation, key personnel, testing equipment and premises, and/or management ability of the applicant may be fulfilled in order to apply for certain qualification category. The validity period of the qualification certificate (including both comprehensive qualification and specialised qualification) for construction engineering quality inspection agencies shall be five years. In the event that an inspection agency needs to extend the validity period of its qualification certificate, it shall file an application for the extension of the validity period with the qualification granting authority 30 working days before the expiry of the validity period. If the inspection agency meets the relevant qualification standards and has not committed any of the following act within the validity period of its qualification certificate, the validity period may be extended for another five years: (a) carrying out quality inspection of a construction project beyond the scope licensed by its qualification; (b) transferring or illegally subcontracting its construction engineering quality inspection services; (c) altering, reselling, leasing, lending, or otherwise illegally transferring its qualification certificate; (d) carrying out an inspection in violation of the compulsory standards for project construction; (e) using the testing personnel, instruments, or equipment that fails to satisfy the requirements for conducting the quality inspection of the construction project; or (f) issuing any false inspection data or inspection report.

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## REGULATORY OVERVIEW

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A summary of relevant qualification requirements for the comprehensive qualification, the specialised qualifications and the existing qualification of construction engineering quality inspection agency are set out as follows:

	<b>The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures</b>	<b>The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>	<b>The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>
Qualification Categories	<p>The qualification of construction engineering quality inspection agency is classified into the qualification of special inspection agencies and the qualification of evidential inspection agencies. Special inspection agencies may carry out special inspection activities such as inspection of foundation engineering projects, the on-the-spot inspection of main structure projects, inspection for building curtain wall projects and inspection of steel structure projects. By contrast, evidential inspection agencies may carry out evidential inspection activities such as examination of physical mechanics performance of cement, examination of the mechanics property of concrete steel (including welding and mechanical connection), routine examination of sand and stone, examination of strength of concrete and mortar, simple earthwork inspection, examination of concrete adulterating agent, examination of pre-stressed steel strand and anchor fixture, and examination of pitch and pitch mixture. As at the Latest Practicable Date, our Company has obtained both the qualification of special inspection agency for inspection of foundation engineering projects, the on-the-spot inspection of main structure projects, and the qualification of evidential inspection agency for the above-mentioned evidential inspection activities except for examination of pre-stressed steel strand and anchor fixture. Our Directors believe the scope of construction engineering quality inspection services provided by us will not be subject to any material change under the 2023 Administrative Measures because the services covered by our current qualifications, including the qualification of special inspection agency for inspection of foundation engineering projects, the on-the-spot inspection of main structure projects, and the qualification of evidential inspection, are substantially covered by the specialised qualification of foundation, main structure and decoration, building materials and components, and municipal engineering materials.</p>	<p>The qualification of construction engineering quality inspection agency is divided into two categories which are comprehensive qualification and specialised qualification. Comprehensive qualification refers to the qualification of the inspection agencies that includes all specialised qualifications. Specialised qualifications comprise nine specialised qualifications of inspection agencies include (i) building materials and components, (ii) main structure and decoration, (iii) steel structure, (iv) foundation, (v) building energy-saving, (vi) building curtain wall, (vii) municipal engineering materials, (viii) road works, (ix) bridges and underground works. While certain specialised qualifications could be deemed as reclassification of qualification of construction engineering quality inspection agency under the 2005 Administrative Measures including building materials, main structure, steel structure, foundation and building curtain wall, the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies introduce in some new specialised qualifications, for instances, building energy-saving, municipal engineering materials, road works, bridges and underground works.</p>	

## REGULATORY OVERVIEW

	<b>The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures</b>	<b>The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>	<b>The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>
Requirements on Registered Capital	The registered capital of a special inspection agency shall be no less than RMB1 million and the registered capital of an evidential sample inspection agency shall be no less than RMB0.8 million.	N/A	N/A
Requirements on Metrological Accreditation	The relevant item corresponding to the inspection qualification as applied shall pass the metrological accreditation.	N/A	N/A
Requirements on Experiences and Reputation	The inspection agency shall have experiences in quality inspection, construction, supervision or design.	(a) The inspection agency shall be an enterprise, or a public institution with independent legal personality, or a partnership established in accordance with the law; (b) the agency shall have not less than three years of experience in quality inspection if it applies for each of the following six specialised qualifications including the main structure and decoration, steel structure, foundation, building curtain wall, road works, bridges and underground works, and there is no requirement as to the quality inspection experience for the application of the remaining three specialised qualifications including building materials and components, building energy-saving and municipal engineering materials; (c) the agency shall have all the necessary inspection parameters for the specialised qualification applied for; and (d) the agency shall have a good reputation in society, and did not involve in any general engineering quality and safety accident or accident of higher degree in the past three years.	(a) The inspection agency shall be an enterprise, or a public institution with independent legal personality, or a partnership established in accordance with the law, which has not less than 15 years of experience in quality inspection; (b) the agency shall possess five specialised qualifications including building materials and components (or municipal engineering materials), main structure and decoration, building energy-saving, steel structure and foundation, and any other two out of the remaining four specialised qualifications; (c) the agency shall have all the necessary testing parameters of the nine specialised qualifications, which means an agency may apply for the comprehensive qualification even if it only possesses seven specialised qualification certificates as mentioned above as long as it meets all the necessary testing parameters of the nine specialised qualifications; and (d) the agency shall have a good reputation in society, and did not involve in any general engineering quality and safety accident or accident of higher degree in the past three years.

## REGULATORY OVERVIEW

	<b>The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures</b>	<b>The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>	<b>The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>
<b>Requirements on Personnel</b>	<p>The inspection agency shall have no less than 10 technical professionals who have received the relevant trainings for inspection techniques or have no fewer than six technical professionals if located in a remote county (or district). In fact, an employee may apply for and hold different types of inspection qualifications.</p> <p>A special inspection agency shall also meet the following requirements:</p> <p>(a) for category of the inspection of foundation engineering projects, it shall have no less than four technical professionals with senior or intermediate professional title who have engaged in the inspection of engineering piles for more than three years, and one of them shall have the qualification of a certified geotechnical engineer;</p> <p>(b) for category of the inspection of main structure projects, it shall have no less than four technical professionals with senior or intermediate professional title who have engaged in the inspection of structure projects for more than three years, and one of them shall have the qualification of certified structural engineer Grade II; and</p>	<p>(a) The technical person in charge shall have senior or above technical title in engineering, the person in charge of quality shall have intermediate or above technical title in engineering, and both shall have more than five years of quality inspection experience; and (b) the number of principal personnel shall satisfy the specified requirements listed in the manning table for principal personnel in the appendix of the Qualification Standards of Construction Engineering Quality Inspection Agencies. In fact, an employee may apply for and hold different types of inspection qualifications. The specific requirements for each specialised qualification are set out as follows:</p> <p>(i) for the specialised qualification of the building materials and components, the agency shall have no less than 20 technicians, among which four or more shall have intermediate and above technical titles in engineering with more than three years' experience in quality inspection;</p> <p>(ii) for the specialised qualification of the main structure and decoration, the agency shall have no less than one registered structural engineer Grade II with more than two years' experience in quality inspection and shall have no less than 15 technicians, among which four or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection;</p>	<p>(a) The technical person in charge shall have a senior technical title (正高級技術職稱) in engineering, the person in charge of quality shall have a senior technical title in engineering and above, and both shall have more than 8 years of quality inspection experience; (b) the inspection agency shall have no less than four registered structural engineers (of which, no less than two registered structural engineers Grade I), and no less than two registered civil engineers (geotechnical), both shall have more than two years of quality inspection experience; and (c) the agency shall have no less than 150 technicians, among which 60 or more shall have intermediate and above technical titles in engineering with more than three years' experience in quality inspection and 30 or more shall have senior and above technical titles in engineering. In fact, an employee may apply for and hold different types of inspection qualifications.</p>

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## REGULATORY OVERVIEW

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**The Qualification of Construction  
Engineering Quality  
Inspection Agency under the  
2005 Administrative Measures**

**The Specialised Qualifications  
under the 2023 Administrative  
Measures and the Qualification  
Standards of Construction  
Engineering Quality  
Inspection Agencies**

**The Comprehensive Qualifications  
under the 2023 Administrative  
Measures and the Qualification  
Standards of Construction  
Engineering Quality  
Inspection Agencies**

- (c) for category of the inspection of building curtain wall projects, it shall have no less than four technical professionals with senior or intermediate professional title who have engaged in the inspection of building curtain walls for more than three years;
- (d) for category of the inspection of steel structure projects, it shall have no less than four technical professionals with senior or intermediate professional title who have engaged in the inspection of mechanical connection of steel structure as well as of deformation of steel net rack for more than three years, and one of them shall have the qualification of a certified structural engineer Grade II; and
- (e) An evidential sample inspection agency shall also have no less than three technical professionals with senior or intermediate professional title who have engaged in the practice of inspection for more than three years, or no less than two professionals if it is located in a remote county (or district).
- (iii) for the specialised qualification of the steel structure, the agency shall have no less than one registered structural engineer Grade II with more than two years' experience in quality inspection and shall have no less than 15 technicians, among which four or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection;
- (iv) for the specialised qualification of the foundation, the agency shall have no less than one registered civil engineer (geotechnical) with more than two years' experience in quality inspection, and shall have no less than 15 technicians, among which four or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection;



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## REGULATORY OVERVIEW

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**The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures**

**The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies**

**The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies**

- (v) for the specialised qualification of the building energy-saving, the agency shall have no less than 20 technicians, among which four or more shall have intermediate and above technical titles in engineering with more than three years' experience in quality inspection;
- (vi) for the specialised qualification of the building curtain wall, the agency shall have no less than 15 technicians, among which four or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection;
- (vii) for the specialised qualification of municipal engineering materials, the agency shall have no less than 20 technicians, among which four or more shall have intermediate and above technical titles in engineering with more than three years' experience in quality inspection;
- (viii) for the specialised qualification of the road works, the agency shall have no less than 15 technicians, among which four or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection;

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## REGULATORY OVERVIEW

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**The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures**

**The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies**

**The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies**

(ix) for the specialised qualification of the bridges and underground works, the agency shall have no less than one registered structural engineer Grade I and one registered civil engineer (geotechnical) with more than two years' experience in quality inspection, and shall have no less than 15 technicians, among which four or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection.

In order to fulfill the above-mentioned personnel requirements, we plan to recruit additional inspection personnel and registered engineers, see "Future Plans and Use of Proceeds – Implementation Plans" in this prospectus for details.

Requirements on Inspection Equipment and Place

The inspection agency shall have the apparatus, equipment and working place that meet the requirements for undertaking inspection practice; in particular, in case of the use of metrological instruments that are subject to the compulsory inspection, the said metrological instruments shall have passed the compulsory inspection before any application.

(a) The quality inspection equipment and facilities of the inspection agency shall be basically complete, and the function, range, and accuracy of inspection instruments and equipment, supporting equipment and facilities shall meet all the necessary testing parameters requirements for the specialised qualification applied for; and (b) the agency shall have fixed workplace and quality inspection sites that meet the needs of work.

(a) The inspection agency shall have complete quality inspection equipment and facilities, and the function, range, and accuracy of inspection instruments and equipment, supporting equipment and facilities shall meet all the necessary testing parameters requirements of the nine specialised qualification; and (b) the agency shall have fixed workplace and quality inspection sites that meet the needs of work.

# REGULATORY OVERVIEW

	<b>The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures</b>	<b>The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>	<b>The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>
Requirements on Management Standard	The inspection agency shall have a sound system of technical administration and quality guaranty.	(a) The inspection agency shall have a sound organizational structure and quality management system, and sound technical, archival and other management systems; and (b) the agency shall have information management system, and the whole process of quality inspection activities can be traced.	(a) The inspection agency shall have a sound organizational structure and quality management system, and meet the General Requirements for the Competence of Inspection and Calibration Laboratories (GB/T 27025-2019); and (b) the agency shall have a sound information management system, and the whole process of quality inspection activities such as inspection business acceptance, inspection data collection, inspection information uploading, inspection report issuance, inspection archive management can be traced.
Validity and Renewal	<p>The valid term of the qualification certificate is three years. Upon the expiration of the valid term of the qualification certificate, where any renewal is required, the relevant inspection agency shall, within 30 working days before the expiration of the qualification certificate, apply for handling the formalities for renewal.</p> <p>Where an inspection agency has none of the following illegal acts within the valid term of its qualification certificate, upon the expiration of the qualification certificate, an examination may be exempted upon the agreement of the original examination and approval organ:</p> <p>(a) engaging in any inspection activity beyond the scope of its qualification certificate;</p>	<p>The valid term of the qualification certificate is five years. Upon the expiration of the valid term of the qualification certificate, where any renewal is required, the relevant inspection agency shall, within 30 working days before the expiration of the qualification certificate, apply to the qualification licensing authority for handling the formalities for renewal.</p> <p>For inspection agencies that meet the qualification standards and do not have the following behaviors during the validity period of the qualification certificate, the validity period of the qualification can be extended for five years upon approval of the qualification licensing authority:</p> <p>(a) engaging in construction quality inspection activities beyond the scope of the qualification certificate;</p>	

## REGULATORY OVERVIEW

<b>The Qualification of Construction Engineering Quality Inspection Agency under the 2005 Administrative Measures</b>	<b>The Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>	<b>The Comprehensive Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies</b>
<p>(b) contract transfer of any inspection business;</p> <p>(c) altering, reselling, renting, lending its qualification certificate or unlawfully transferring its qualification certificate by any other means;</p> <p>(d) failing to carry out a testing according to the relevant compulsory standards of the state for project construction, and causing any quality safety accident or augmentation of any loss as incurred from an accident; or</p> <p>(e) forging any inspection data, or producing any fraud inspection report or drawing any fraud expert conclusion.</p>	<p>(b) contract transfer of or illegal subcontracting construction engineering quality inspection business;</p> <p>(c) altering, reselling, renting, lending its qualification certificate or unlawfully transferring its qualification certificate by any other means;</p> <p>(d) violating the mandatory standards for engineering construction to carry out inspection;</p> <p>(e) using inspectors or instruments and equipment that cannot meet the requirements of the construction engineering quality inspection activities carried out; or</p> <p>(f) issuing false inspection data or inspection reports.</p>	

In the event of renewal, the valid term of the qualification certificate shall be extended for three years. Where an inspection agency has conducted relevant illegal acts within the valid term of its qualification certificate, the original examination and approval organ shall not approve its renewal.

Pursuant to the Notice on the Transition of New and Old Qualification Standards of Construction Engineering Quality Inspection Agencies (《住房和城乡建设部办公厅關於做好建設工程質量檢測機構新舊資質標準過渡工作的通知》) issued by the General Office of the MOHURD on 18 April 2023 and the Notice on Clarifying Matters Relating to the Qualification Approval of Construction Engineering Quality Inspection Agencies (《廣東省住房和城乡建设廳關於明確建設工程質量檢測機構資質審批有關事項的通知》) issued by the Guangdong Provincial Department of Housing and Urban-Rural Development on 19 May 2023 where the validity period of the qualification certificate of construction engineering quality inspection institutions issued by Guangdong province under previous qualification standards expires during the period from 1 March 2023 to 31 July 2024, it shall be uniformly extended to 31 July 2024. Inspection agencies that have obtained qualification certificates in Guangdong province under previous qualification standards shall apply for re-assessment in accordance with the above-mentioned Qualification Standards of Construction Engineering Quality Inspection Agencies prior to 31 July 2024, and new

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## REGULATORY OVERVIEW

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qualification certificates obtained upon assessment shall be valid for five years. Where an inspection institution fails to go through the formalities for re-assessment within the prescribed time limit, its original qualification certificate shall become invalid. On 12 August 2024, the Guangdong Provincial Department of Housing and Urban-Rural Development issued the Notice on Further Clarifying Matters Relating to the Qualification Approval of Construction Engineering Quality Inspection Agencies (《進一步明確建設工程質量檢測機構資質審批有關事項的通知》), pursuant to which if the validity period of the qualification certificate of construction engineering quality inspection institutions issued by Guangdong province under previous qualification standards expires on or after 31 July 2024, it shall be uniformly extended to 31 October 2024. Pursuant to the Notice of the General Office of the MOHURD on the Implementation of “the Administrative Measures for the Quality Inspection of Construction Engineering” and “the Qualification Standards of Construction Engineering Quality Inspection Agencies” (《住房城鄉建設部辦公廳關於實施〈建設工程質量檢測管理辦法〉〈建設工程質量檢測機構資質標準〉有關問題的通知》) issued on 26 July 2024, to ensure a smooth transition of new and old qualifications for construction engineering quality inspection, the transition period between old and new qualifications has been extended to 31 October 2024. Provincial housing and urban-rural development authorities shall formulate local implementation rules based on local conditions.

As of the Latest Practicable Date, the implementation rules in Guangdong Province regarding the new qualification standards of construction engineering quality inspection agencies published by the MOHURD in 2023 (the “**Implementation Rules**”), which are expected to set out detailed application and review procedures, documentation requirements and other detailed guidance on the assessment of the new qualification, has not been officially released, and therefore the application process for obtaining the new qualification under the 2023 Administrative Measures and the new qualification standards of construction engineering quality inspection agencies published by the MOHURD has not yet been made available in Guangdong Province.

In view of the following factors, neither our Directors nor our PRC Legal Advisers foresaw difficulties in obtaining six out of the nine specialised qualifications as described in “Business – Business Strategies – Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services.” in this prospectus, fulfilling the application requirements and meeting the above-mentioned transition deadline, (a) our Company has reviewed and examined the relevant qualification requirements for the six specialised qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, and found that save for the shortage of a small number of required testing equipment that are readily available in the market, we have fulfilled all other requirements (including personnel) of the six specialised qualifications; and (b) during an interview conducted by our PRC Legal Advisers and the PRC legal advisers of the Joint Sponsors on 12 April 2024 with an officer of Maoming City Bureau of Housing and Urban-Rural Development, which, according to our PRC Legal Advisers, is a competent officer of the competent administrative governmental authority entrusted to approve the construction engineering quality inspection agency qualifications in Maoming and responsible for the qualification application review work for specialised qualifications of our Company under the draft implementation rules of Guangdong Province regarding the new qualification

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## REGULATORY OVERVIEW

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standards of construction engineering quality inspection agencies circulated in December 2023 for public comment and not yet promulgated, after reviewing our Company's evaluation of the fulfilment of relevant qualification requirements for the six specialised qualifications and in consideration of the relevant qualification standards, the responsible officer of the bureau is of the view that there is no impediment for our Company to acquire the six specialised qualifications having considered the requirements of the new qualification standards and the shortage of a small number of testing equipment that we will acquire. Further, during an interview with two officers of Guangdong Provincial Department of Housing and Urban-Rural Development, which are competent officers of the superior administrative authority of construction engineering quality inspection agencies in Guangdong Province according to our PRC Legal Advisers, conducted by our PRC Legal Advisers, the PRC legal advisers of the Joint Sponsors, and Maoming City Bureau of Housing and Urban-Rural Development, on 28 May 2024, the officers interviewed confirmed that according to the Circular of Guangdong Provincial Department of Housing and Urban-Rural Development on Issuing the Work Plan on Entrusting the Implementation of Review and Approval of Construction Engineering Quality Inspection Agency Qualifications (《廣東省住房和城鄉建設廳關於印發委託實施建設工程質量檢測機構資質審批工作方案的通知》) and other relevant laws and regulations, Guangdong Provincial Department of Housing and Urban-Rural Development has entrusted the housing and urban-rural development department of prefecture-level city or above, including Maoming City Bureau of Housing and Urban-Rural Development, to be responsible for the review and approval of the licensing of construction engineering quality inspection agency qualifications, unless the MOHURD promulgates rules to disallow such entrustment in the future; and the housing and urban-rural development department of prefecture-level city or above is entitled to approve and grant the qualifications without further consent from Guangdong Provincial Department of Housing and Urban-Rural Development. Moreover, it was advised that since the MOHURD has not released relevant implementation regulation, the Implementation Rules in Guangdong Province has not been finalised. As advised by the interviewed officers of Guangdong Provincial Department of Housing and Urban-Rural Development, given that the Implementation Rules have not been released, the current qualification certificate held by our Company will remain valid after 31 July 2024 and our Company is allowed to carry out construction engineering quality inspection businesses in its current way, and Guangdong Provincial Department of Housing and Urban-Rural Development will formulate relevant policies to address the situation, so as to ensure that there would be sufficient time for enterprises to apply for new qualification certificates and administrative authorities to review the application under the new qualification standard. Based on the foregoing, our PRC Legal Advisers are of the view that the above confirmation given by the officer of Maoming City Bureau of Housing and Urban-Rural Development is unlikely to be challenged or revoked by the superior administrative authority of housing and urban-rural development.

In the event that our Company fails to meet the above-mentioned transition deadline and does not obtain the specialised qualifications timely, the current Construction Engineering Quality Inspection Agency Qualification Certificate held by our Company will become invalid after the transition period, then our Company will not be allowed to engage in construction engineering quality inspection operation until it successfully obtains relevant specialised qualifications thereafter, which could cause material adverse impact on our financial performance and business operation.

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## REGULATORY OVERVIEW

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### Administration of Construction Engineering Quality Inspection

Under the Administrative Measures for the Qualification Accreditation of Inspection and Testing Agencies, the inspection and testing agencies shall, within the scope of inspection and testing capabilities as specified in the qualification accreditation certificates, issue inspection and testing data or results in accordance with the procedures and requirements as specified in the relevant standards or technical specifications.

The Opinions of the State Council on Strengthening the Development of the Quality Certification System and Promoting All-round Quality Management (《國務院關於加強質量認證體系建設促進全面質量管理的意見》) issued and implemented by the State Council on 17 January 2018, proposes a whole-process accountability mechanism for inspection practitioners, the implementation of public commitments and information disclosure system for inspection institutions, the establishment of integrity files of practitioners, and the improvement of the system of imposing punishments against acts in bad faith, such as permanent exit and lifetime ban mechanisms.

The Measures for the Supervision and Administration of Inspection and Testing Institutions (《檢驗檢測機構監督管理辦法》) promulgated by the SAMR on 8 April 2021 which came into effect on 1 June 2021, puts forward more stringent requirements for the primary responsibilities, code of conduct, and legal liability of inspection and testing institutions.

Pursuant to the Construction Law and the Administrative Regulations on Construction Engineering Quality of Guangdong Province (《廣東省建設工程質量管理條例》) promulgated by the Standing Committee of Guangdong Provincial People's Congress on 11 November 1996 which came into effect on 1 January 1997 and last amended on 23 November 2023, inspection institutions shall carry out inspections on construction engineering quality in accordance with the law and undertake the corresponding quality obligations.

Pursuant to the Administrative Measures for the Quality Inspection of Construction Engineering, inspection institutions shall conduct construction engineering quality inspection in accordance with laws, regulations, and standards, and shall be responsible for the authenticity and accuracy of the inspection data and inspection reports. Relevant personnel shall possess the appropriate knowledge and professional ability in the quality inspection of construction engineering. In addition, inspection institutions shall not: (i) engage in any inspection activity beyond the qualified scope; (ii) recontract or illegally subcontract any construction engineering quality inspection business; (iii) alter, scalp, lease, or lend the qualification certificate or illegally transfer the qualification certificate by any other means; (iv) fail to carry out inspection according to the relevant compulsory standards of construction engineering; (v) use inspection personnel or equipment that cannot meet the requirements of the quality inspection of construction engineering; (vi) issue any false inspection data or report.



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## REGULATORY OVERVIEW

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On 29 July 2022, the SAMR issued the Circular on Issuing the Plan for the Development of Certification, Accreditation, Inspection and Testing during the 14th Five-Year Plan Period (《市場監管總局關於印發〈“十四五”認證認可檢驗檢測發展規劃〉的通知》), which set out the development goals, tasks and safeguard measures for the certification, accreditation, inspection and testing industry during the 14th Five-Year Plan Period (2021–2025), among others, promoting the inspection, testing and accreditation capacities in the field of fundamental raw materials including steel, non-ferrous metals, petrochemicals, light industry, textiles, and building materials, accelerating the construction of a certification, accreditation, inspection and testing system which is uniformly managed, jointly implemented, authoritative, credible and universally recognized, encouraging regional cooperation for the provision of inspection, testing and accreditation services, improving the food and agricultural products accreditation, inspection and testing system, advancing the market reform for inspection, testing and accreditation institutions and encouraging the introduction of foreign entities into domestic inspection, testing and accreditation market.

### LAWS AND REGULATIONS GOVERNING THE FOOD TESTING

According to the Food Safety Law of the PRC (《中華人民共和國食品安全法》) (the “**Food Safety Law**”) promulgated by the SCNPC on 28 February 2009 and last amended on 29 April 2021, food production and trading enterprises shall establish and improve the food safety management system, conduct inspections on food. Meanwhile, food production enterprises shall establish an inspection recording system for outgoing food, inspect the product certificates and safety conditions of outgoing food, and honestly record the names, specifications, and other contents related to the food and keep relevant certificates. Producers of food, food additives and food-related products shall inspect self-produced food, food additives and food-related products in accordance with food safety standards and shall only deliver or sell those that pass the inspection. In the course of purchasing food, food traders shall examine suppliers’ licenses, inspection certificates of outgoing products or other certificates.

Food production enterprises may either conduct inspection on self-produced food on their own or engage food inspection agencies that conform to relevant laws and regulations to conduct such inspection. Food industry associations, consumers’ associations and other organizations as well as consumers shall engage food inspection agencies conforming to relevant laws and regulations to conduct food inspection when necessary. In the course of food safety supervision and administration, the food safety administrations of the people’s governments at the county level or above may adopt the rapid testing method provided by the State to conduct random testing on the food.

According to the Food Safety Law and the Administrative Measures for the Qualification Accreditation of Inspection and Testing Agencies (《檢驗檢測機構資質認定管理辦法》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 9 April 2015 and amended on 2 April 2021 by the SAMR, unless otherwise provided in the law, food inspection agencies shall engage in food inspection activities only after being qualified in accordance with national provisions on certification and accreditation. For the qualification accreditation of the inspection and testing agencies established by the relevant departments of the State Council and the relevant industrial authorities in accordance with the law, the SAMR shall be responsible for the organization and implementation; for



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## REGULATORY OVERVIEW

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the qualification accreditation of other inspection and testing agencies, the provincial-level departments for market regulation within the relevant administrative regions shall be responsible for the organization and implementation. An inspection and testing agency applying for qualification accreditation shall meet the following conditions: (a) being a legal person or other organization legally established and able to bear corresponding legal responsibilities; (b) having inspection and testing technical personnel and managerial personnel suitable for its engagement in inspection and testing activities; (c) having fixed work places, with working environment meeting the requirements of inspection and testing; (d) having inspection and testing equipment and facilities necessary for the inspection and testing activities; (e) having the management system which is under effective operation to ensure that the inspection and testing activities are conducted in an independent, fair, scientific, and honest manner; and (f) meeting the special requirements as stipulated by the relevant laws, regulations, standards and technical specifications. The qualification accreditation certification shall be valid for six years. Where it is necessary to renew the term of validity of qualification accreditation certificate, the relevant holder shall file an application three months before the expiration of the said term.

Pursuant to the Administrative Measures for Food Safety Sampling Inspections (食品安全抽樣檢驗管理辦法) promulgated by the SAMR on 8 August 2019 and amended on 29 September 2022 which became effective on 1 November 2022, Administrations for market regulation shall enter into entrustment agreements with the technical agencies that undertake the food safety sampling and inspection tasks (the “**Inspection Agencies**”) to clarify the rights and obligations of both parties. Inspection Agencies can be engaged in inspections only after obtaining qualifications in accordance with the relevant laws and regulations. The inspection shall respect science and be carried out in accordance with professional ethics to ensure the objectivity and impartiality of inspection data and conclusions provided, no false inspection reports are allowed. Samples involved in food safety sampling inspections shall be preserved by Inspection Agencies. When receiving samples, Inspection Agencies shall check and record whether the appearance, state and seals of the samples are damaged and whether there are other conditions that may affect the inspection conclusion, verify the samples against the sampling documents, and store the labeled samples for inspection and backup samples for re-inspection separately as required. For samples that do not meet the sampling standard, Inspection Agencies shall refuse to accept such samples and explain the reasons in writing, and report the situation to the administrations for market regulation that organize or implement the food safety sampling inspections in a timely manner. In food safety supervisory sampling inspections, inspection items and inspection methods stipulated by food safety standards shall be adopted. Where there are no such standards, temporary limited values, temporary inspection methods or supplementary inspection methods prescribed in laws and regulations shall be adopted. The food safety sampling inspection is subject to the inspection agency and inspector responsibility system. A food safety inspection report issued by an Inspection Agency shall bear the official seal of the agency and be signed or sealed by the inspector. The Inspection Agency and the inspector are responsible for the food safety inspection report they issue. An Inspection Agency shall issue an inspection report within 20 working days upon receipt of the samples. Where the administration of market regulation and the inspection agency reach an agreement, such agreement shall apply. Where the conclusion of food safety supervisory sampling inspection is qualified, the relevant Inspection Agency shall properly keep the backup samples for re-inspection for three months as of the date on which the inspection conclusion was made. If the

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## REGULATORY OVERVIEW

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remaining shelf life of the backup samples for re-inspection is less than three months, such samples shall be kept until the end of their shelf life. Where the conclusion of the inspection is unqualified, the relevant Inspection Agency shall properly keep the backup samples for re-inspection for six months as of the date on which the inspection conclusion was made. If the remaining shelf life of the backup samples for re-inspection is less than six months, such samples shall be kept until the end of their shelf life. Where the conclusion of food safety supervisory sampling inspection is qualified, the inspection agency shall, within seven working days from the date on which the inspection conclusion was made, submit the inspection conclusion to the administration for market regulation that carried out or commissioned the agency to carry out the sampling inspection. Where the conclusion of the sampling inspection is unqualified, the inspection agency shall, within two working days from the date on which the inspection conclusion was made, report the conclusion to the administration for market regulation that carried out or commissioned the agency to carry out the sampling inspection.

On 30 December 2016, the State Food and Drug Administration published the Circular on Issuing the Notice of Working Rules on Food Inspection (關於印發食品檢驗工作規範的通知), which sets out detailed work requirements on food inspection for inspection agencies, including, among others, detailed requirements on sampling, sample management, testing, reports, quality management, and supervision.

### **LAWS AND REGULATIONS GOVERNING THE AGRICULTURAL TESTING, TRANSPORTATION CONSTRUCTION TESTING AND FIRE PROTECTION TESTING**

As part of our business strategy, we plan to expand our testing and inspection service offerings into new areas including agricultural products testing, transportation construction testing and fire protection testing and inspection. When stepping into these new areas in the future, our Company will be subject to regulatory laws and regulations regarding testing services in relation to agricultural products, transportation construction and fire protection. Below are some key framework regulatory rules and licensing requirements in respect of agricultural testing, transportation construction testing and fire protection testing.

#### **Agricultural Testing**

The Law of the PRC on Agricultural Product Quality and Safety (《中華人民共和國農產品質量安全法》) (the “**Agricultural Product Quality and Safety Law**”) promulgated by the SCNPC on 29 April 2006 which came into effect on 1 November 2006 and last amended on 2 September 2022, stipulate that the agricultural products sold shall meet the quality and safety standards of agricultural products. Enterprises engaged in the production of agricultural products and specialized farmers’ cooperatives shall, according to the requirements of quality and safety control, conduct testing on the quality and safety of agricultural products by themselves or by entrusting testing agencies to do so; and upon testing, the agricultural products failing to meet the quality and safety standards of agricultural products shall be subject to control measures timely and shall not be sold. Agricultural technology promotion institutions and other institutions shall provide agricultural product testing technical services for farmers and other agricultural product producers and distributors.

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## REGULATORY OVERVIEW

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According to the Agricultural Product Quality and Safety Law, an agricultural product wholesale market shall establish or entrust an inspection agency for agricultural product quality and safety, to conduct a random check and test on the quality and safety of the agricultural products to be sold in the market. Upon detection of any inconformity with the agricultural product quality and safety standards, the seller(s) concerned shall be required to immediately stop the sale, and report to the local department for market regulation, department for agriculture and rural affairs and other departments. The competent departments for agriculture and rural affairs of the people's governments at or above the county level shall conduct regular or random inspection on agricultural product, and may engage an inspection agency for agricultural product quality and safety that meet the requirements of relevant regulations.

Under the Agricultural Product Quality and Safety Law and the Assessment Measures for Agricultural Product Quality and Safety Testing Agencies (《農產品質量安全檢測機構考核辦法》) (the “**Assessment Measures**”) issued by the Ministry of Agriculture of the PRC on 12 December 2007 and last revised on 30 November 2017, agencies engaged in the testing of agricultural product quality and safety shall possess the appropriate conditions and competencies for performing tests, and be qualified if they pass the examination by the competent departments for agriculture and rural affairs of the people's governments at or above the provincial level or by the departments authorized by them. Agencies engaged in the testing of agricultural product quality and safety shall be accredited according to law and meet the relevant laws and regulations on management and technical personnel, testing facilities and equipment, quality management and assurance system, work funds stability and other requirements. Agencies engaged in the testing of agricultural product quality and safety shall be staffed with appropriate management and technical personnel for its testing activities. Technicians engaged in agricultural product quality and safety testing shall possess a secondary school degree or above in relevant majors, pass the examination of their agencies, and hold relevant certificates before starting work. Agencies engaged in the testing of agricultural product quality and safety shall have no less than 5 technicians, at least 40% of which shall have intermediate or higher technical titles or equivalent abilities. The technical person in charge, the person in charge of quality and the authorized signatory shall have intermediate or higher technical titles or equivalent abilities and have engaged in relevant work in relation to agricultural product quality and safety for more than 5 years. If they are doctoral graduates, they shall have engaged in inspection and testing work in relevant major for at least one year; if they are graduated postgraduates, they shall have engaged in inspection and testing work in relevant major for at least three years; if they are university graduates, they shall have engaged in inspection and testing work in relevant major for at least five years; if they are college graduates, they are deemed to have equivalent abilities if they have engaged in inspection and testing work in relevant major for at least eight years. Agencies engaged in the testing of agricultural product quality and safety shall be equipped with appropriate instruments and equipment for their agricultural product quality and safety testing activities with an instrument and equipment possession rate of 98% and all instrument and equipment well functioned. The agencies shall also establish quality management and guarantee system and have relatively stable funding sources.

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## REGULATORY OVERVIEW

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Where an agency engaged in the testing of agricultural product quality and safety pass the examination, assessment authorities shall issue the Certificate of Qualification for Agricultural Product Quality and Safety Testing Agencies of the PRC. The aforesaid qualification certification shall be valid for six years. Those who continue to engage in the quality and safety testing of agricultural products after the expiration of the certificate shall apply for a new qualification certification three months before the expiration of the validity period.

### **Transportation Construction Testing**

Pursuant to the Provisions on Quality Supervision and Administration of Highway and Waterway Engineering (《公路水運工程質量監督管理規定》) promulgated by the Ministry of Transport of the PRC (the “MOT”) on 4 September 2017 which came into effect on 1 December 2017, construction and supervision units shall set up temporary testing laboratories on site in accordance with the contract, carry out testing activities within the approved test and inspection parameters in strict accordance with engineering and technical standards, testing norms and procedures, and shall be responsible for the authenticity, objectivity and accuracy of the test, the test data and the test reports issued by the temporary testing laboratories set up by themselves. Before the handover and acceptance of a highway or waterway transport project, the construction unit shall organize the inspection of the quality of the project, issue a quality inspection report on the handover and acceptance, and submit it to the construction engineering quality supervision institutions entrusted by the transport authorities. Such institutions shall review the materials submitted by the construction unit, carry out confirmatory testing of the project quality, and issue the project handover quality verification opinions which shall include the rectification of quality problems found in the supervision and management process and the results of project quality verification testing. If the construction engineering quality supervision institution entrusted by the transport authorities has the corresponding testing capacity, it may test the project quality by itself, otherwise, a third-party testing and inspection institution with the corresponding qualification shall be entrusted. Where a testing and inspection institution is entrusted to conduct the inspection, the requirements of relevant laws and regulations on government procurement shall be complied with.

Under the Administrative Measures for the Quality Inspection of Highway and Waterway Engineering (《公路水運工程質量檢測管理辦法》) promulgated by the MOT on 22 August 2023 which came into effect on 1 October 2023, highway and waterway engineering quality inspection agencies shall engage in business activities within the scope permitted by their respective qualifications as approved by the competent regulatory authorities. Qualifications for inspection agencies are divided into two groups namely highway engineering qualification and waterway engineering qualification. The highway engineering qualification comprises Class A qualification, Class B qualification, Class C qualification, specialized qualification for traffic engineering, and specialized qualification for bridge and tunnel engineering. The waterway engineering qualification is divided into two categories, namely material qualification and structural qualification. The material qualification is further divided into three classes, namely, Class A, Class B, and Class C, while the structural qualification is further divided into Class A and Class B. An inspection and testing agency applying for qualification shall meet the following conditions: (a) being a legal person legally established; (b) having a certain number of personnel with

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## REGULATORY OVERVIEW

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professional technical capabilities of highway and waterway engineering testing and inspection; (c) having inspection and testing equipment and facilities necessary for the inspection and testing activities; (d) having fixed workplaces, with working environment meeting the requirements of inspection and testing; (e) having a quality assurance system in effective operation. The qualification certificate of the inspection institution shall be valid for five years. Where it is necessary to renew the term of validity of the qualification certificate, the relevant holder shall file an application 90 working days before the expiration of the said term. The Qualification and Grade Conditions for Highway and Waterway Engineering Quality Inspection Agencies 《公路水運工程質量檢測機構資質等級條件》 and the Procedures for Technical Review by Experts on Qualification Approval for Highway and Waterway Engineering Quality Inspection Agencies 《公路水運工程質量檢測機構資質審批專家技術評審工作程序》 promulgated by the MOT on 7 October 2023 set out detailed licensing requirements and approval procedures for highway and waterway engineering quality inspection agencies.

The Administrative Measures for the Qualification of Quality Inspection agencies for Highway and Waterway Engineering (Draft for Comments) (《公路水運工程質量檢測機構資質管理辦法(徵求意見稿)》) and its supporting documents promulgated by the MOT on 13 September 2022, which have not come into force yet, propose to set out requirements and procedures for the licensing of quality inspection agencies for highway and waterway engineering, including without limitation to, stipulate that the provincial-level departments for transport shall be responsible for the administrative licensing of the specialized qualification for bridge and tunnel engineering and require that key personnel of the inspection institution (such as technical director, quality director, and personnel responsible for reviewing and approving test reports, etc.) should hold the professional qualification certificate of highway and waterway engineering testing and inspecting engineer.

### Fire Protection Testing

Pursuant to the Fire Protection Law of the PRC (《中華人民共和國消防法》) (the “**Fire Protection Law**”), promulgated by the SCNPC on 29 April 1998 and last amended on 29 April 2021, entities such as government departments, public organizations, enterprises and institutions shall conduct a comprehensive inspection of fire prevention facilities in buildings at least once a year to ensure that such facilities remain in good condition and functional. Relevant inspection records shall be complete and accurate and shall be kept for future reference.

According to the Fire Protection Law and the Measures for the Implementation of the Fire Protection Law of the PRC in Guangdong Province (《廣東省實施〈中華人民共和國消防法〉辦法》) (the “**Measures in Guangdong**”) promulgated by the Standing Committee of the Guangdong Provincial People’s Congress on 22 December 1999 and last amended on 29 March 2022, agencies providing fire protection technical services, such as maintenance and testing of fire protection facilities and fire safety evaluation shall pursuant to laws, administrative regulations, national standards, industrial standards and practice codes, accept entrusted assignments to provide technical services for fire protection and shall be responsible for the quality of such services, and shall be subject to the supervision and management of the department of fire protection of the public security organ.

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## REGULATORY OVERVIEW

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Pursuant to the Fire Protection Law and the Measures in Guangdong, agencies providing fire protection technical services and relevant practitioners shall obtain corresponding qualifications in accordance with the law.

Pursuant to the Conditions of Practice and the Administrative Regulations on Fire Protection Technical Services (《社會消防技術服務管理規定》) issued by the Ministry of Emergency Management of the PRC (the “MEM”) on 13 September 2021 which came into effect on 9 November 2021, and the Conditions of Practice for Fire Protection Technical Service Agencies (《消防技術服務機構從業條件》) (the “**Conditions of Practice**”) issued by the MEM on 29 August 2019, agencies providing fire protection technical services engaged in maintenance and testing of fire protection facilities services shall meet the following conditions: (a) being a legal person; (b) the construction area of the workplace shall not be less than 200 square meters; (c) the basic equipment for fire protection technical services and the equipment for maintenance and testing of fire protection facilities services are equipped in accordance with relevant regulations and requirements; (d) there shall be no less than two registered fire engineers, of which no less than one Level 1 certified fire engineer; (e) there shall be no less than six personnel who have obtained the national vocational qualification certificate for fire protection facility operators, of which no less than two are above the intermediate skill level; and (f) having a sound quality management system. Agencies providing fire protection technical services shall input the basic information of themselves and their employees, as well as the situation of fire protection technical service projects, into the social fire protection technical service information system.

As of the Latest Practicable Date, our Company has not yet applied for or acquire relevant qualification certificates or governmental approval in respect of agricultural products testing, transportation construction testing or fire protection testing. However, our Company has started to make preparations for the future application of qualifications in those areas, for example hiring some required employees, purchasing relevant equipment, and we plan to use part of the proceeds from the Share Offer to acquire additional equipment, technicians or acquire a testing and inspection company in order to acquire relevant qualifications for the above-mentioned areas, see “Future Plans and Use of Proceeds – Implementation Plans – (3) Diversifying our testing and inspection services offering expanding into areas including food and agricultural, transportation, and fire protection.” in this prospectus for details. By leveraging on our existing management experiences in construction engineering quality inspection, detailed plans for recruiting required technicians, purchasing relevant equipment, acquiring the relevant testing and inspection company and satisfying other qualification requirements, and advices of our legal advisers, our Directors believe our Company will be able to meet the above-mentioned qualification requirements and carry out our expansion plan into those areas gradually.



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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

#### Work Safety

The Work Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Work Safety Law**”) which was issued on 29 June 2002, last amended on 10 June 2021 and came into effect on 1 September 2021, provides that a production and operation enterprise must meet the national standards or industry standards on work safety and provide the required work conditions as set out in the relevant laws, administrative rules and national or industry standards. An entity that cannot provide required conditions for work safety shall not engage in production and business operation activities. A production and operation enterprise must present prominent warning signs at relevant dangerous operation sites, facilities and equipment.

Pursuant to the Work Safety Law, the person-in-charge of an enterprise shall be fully responsible for the safety of production of the enterprise. With regard to enterprises that do not involve in special industry such as mine, metal smelting, construction, transport or the production, sales, storage, loading and unloading of hazardous substances, an enterprise having more than 100 employees shall establish a department or engage in personnel managing production safety specifically. If an enterprise has no more than 100 employees, it shall engage in full-time or part-time personnel managing production safety. Personnel who is responsible for managing production safety shall inspect the safety of production regularly based on the characteristics of production of the enterprise and shall deal with any safety issue identified during the inspection in a timely manner. Any unsolved issue shall be reported to the person-in-charge in a timely manner and the person-in-charge shall solve such issue immediately. The inspection and measures taken shall be duly recorded. Enterprises shall provide their employees with training on production safety and shall truthfully inform their employees of any potential risks in relation to the workplace and duties, preventive measures and emergency measures. In addition, an enterprise shall provide its employees with protective equipment that meets the national or industry standards and supervise and train them to use such equipment.

#### Safety Training and Labour Protection

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》) (the “**Labor Law**”), issued by the SCNPC on 5 July 1994 and last amended and effective on 29 December 2018, the employing unit must establish a sound labour safety and hygiene system and shall strictly implement state rules and standards of labour safety and hygiene, provide laborers with occupational safety and health conditions conforming to the provisions of the State and necessary articles of labor protection, conduct labour safety and hygiene education among its employees to prevent accidents and reduce occupational hazards. An employee must strictly observe operational safety procedures.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

In accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989 and last amended on 24 April 2014 by the SCNPC and effective on 1 January 2015, the Law on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) promulgated on 30 October 1995 and last amended on 29 April 2020 by the SCNPC and effective on 1 September 2020, and the Law on the Prevention and Control of Environmental Noise Pollution (《中華人民共和國噪聲污染防治法》) promulgated by the SCNPC on 24 December 2021 and came into effect on 5 June 2022, enterprises, public institutions and other producers and operators that discharge pollutants shall adopt measures to control environmental pollution and harm resulting from dust, solid waste materials, noise and vibration at construction sites. The State Environmental Protection Administration and local governmental authorities in charge of environmental protection are responsible for the supervision and administration of environmental protection during the course of construction.

Entities may be subject to various regulatory measures or penalties for breach of environmental protection laws in accordance with the extent of the pollution and the circumstances of the breach, which include warnings, fines, and remedial actions within prescribed timelines, suspension or cessation of operations. Entities in breach will also be liable to indemnify entities who have suffered losses as a result of the pollution.

### COMPANY LAW AND LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Companies established and operating in the PRC shall be subject to Company Law, which was promulgated by the SCNPC on 29 December 1993, came into effect on 1 July 1994, revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 respectively, and was latest revised on 29 December 2023 and came into effect on 1 July 2024. The Company Law provides for the establishment, corporate structure and corporate management of companies, which also applies to foreign-invested enterprises in the PRC. Unless otherwise provided in the PRC foreign investment laws, the provisions in the Company Law shall prevail. The Company Law stipulates that a limited company shall prepare a shareholders' register, which shall record the following matters: (1) The name and address of each shareholder; (2) The capital contribution subscribed and paid up by each shareholder, contribution method, contribution date; and (3) The serial number of each capital contribution certificate; (4) Date of receipt or loss of shareholder status for each shareholder. The shareholders recorded in the shareholders' register may, pursuant to the shareholders' register, claim and exercise shareholders' rights. A company shall register each shareholder's name for a limited liability company or the name of promoters for a joint stock limited company at the company registration authority. The company shall carry out the amendment of the registration in the event of any change in the registered details. Any registration detail that fails to be amended or registered shall not be valid against any third-party.



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## REGULATORY OVERVIEW

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On 15 March 2019, the NPC approved the PRC Foreign Investment Law (《中華人民共和國外商投資法》) (the “**FIL**”), which came into effect on 1 January 2020 and replaced three existing laws on foreign investments in the PRC, namely, the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》) and the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》). On 26 December 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on 1 January 2020 and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》) and the Regulations on Implementing the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法實施細則》). The FIL embodies a predictable PRC regulatory trend to rationalise its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the PRC’s corporate legal requirements for both foreign and domestic invested enterprises. The FIL establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

On 30 December 2019, the MOFCOM and the SAMR issued the Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》) which became effective on 1 January 2020. According to the Measures on Reporting of Foreign Investment Information, foreign investors or foreign investment enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System. Foreign investment enterprises shall also submit the annual report for the preceding year during 1 January to 30 June annually through the National Enterprise Credit Information Publicity System.

The Catalogue of Industries for Encouraged Foreign Investment (2022 Edition) (《鼓勵外商投資產業目錄(2022年版)》) (the “**Encouraging Catalogue**”) was jointly promulgated by the NDRC and the MOFCOM on 26 October 2022. And it came into effect on 1 January 2023. The Encouraging Catalogue and the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**2021 Negative List**”) categorises the industries into three categories, including “encouraged”, “restricted”, and “prohibited”. Foreign investment in areas not listed in the 2021 Negative List is permitted and treated equally with domestic investment. The Encouraging Catalogue and the 2021 Negative List is subject to review and update by the Chinese government from time to time.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTIONS

Pursuant to the FIL, foreign investors, according to the present PRC Law, may freely remit into or out of the PRC, in RMB or any other foreign currency, their capital contributions, profits, capital gains, income from asset disposal, intellectual property royalties, lawfully acquired compensation, indemnity or liquidation income and so on within the territory of PRC. In addition, pursuant to the Company Law, a company established in PRC must set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reach 50% of its registered capital. These reserve funds, however, may not be distributed as cash dividends.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed by the Central People's Government of Mainland of China and the Government of the Hong Kong Special Administrative Region on 21 August 2006, the PRC Government may impose tax on dividends paid by a PRC company to a Hong Kong resident (including natural person and legal entity), but such tax shall not exceed 10% of the total amount of dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interests in a PRC company and the Hong Kong resident is the beneficial owner of the dividends and meets other conditions, such tax shall not exceed 5% of the total amount of dividends payable by the PRC company. The Fifth Protocol to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《國家稅務總局關於〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) issued by the STA and effective on 6 December 2019 provides that such provisions shall not apply to arrangements or transactions made for one of the primary purposes of obtaining such tax benefits.

Pursuant to the Administrative Measures on Entitlement of Non-resident Taxpayers to Preferential Treatment under Tax Treaties (《非居民納稅人享受協定待遇管理辦法》), which was promulgated by the STA on 14 October 2019 and became effective on 1 January 2020, non-resident taxpayers are entitled to preferential treatment under the tax treaties through self-determination, self-declaration and keeping and documenting relevant information for inspection. Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding declaration through a withholding agent, simultaneously gather and retain the relevant materials pursuant to the regulations for future inspection, and be subject to subsequent administration by tax authorities.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO TAXATION

#### EIT

In accordance with the EIT Law (promulgated on 16 March 2007 and became effective from 1 January 2008 and newly amended on 29 December 2018) and the Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (promulgated on 6 December 2007 and became effective from 1 January 2008, and revised on 23 April 2019), enterprises are classified as either “resident enterprises” or “non-resident enterprises”. The “resident enterprises” are defined as enterprises set up in the PRC under the PRC laws or set up according to the foreign country/region’s law whereas whose actual or de facto control is administered from within the PRC. Enterprises established under the foreign country/region’s law with “de facto management bodies” outside the PRC, but have set up institutions or establishments in the PRC or, without institutions or establishments set up in the PRC, have income originating from the PRC, shall be considered as “non-resident enterprises”. A resident enterprise shall pay EIT on its income originating from both inside and outside the PRC at an EIT rate of 25%. A non-resident enterprise that has establishments or places of business in the PRC shall pay EIT on its income originating from the PRC obtained by such establishments or places of business, and on its income which deriving outside PRC but has an actual connection with such establishments or places of business, at the EIT rate of 25%. A non-resident enterprise that does not have an establishment or place of business in the PRC, or it has an establishment or place of business in the PRC but the income has no actual connection with such establishment or place of business, shall pay EIT on its passive income derived from the PRC at a reduced rate EIT of 10%.

#### VAT

According to Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (the “**VAT Regulations**”) (promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, newly amended on 19 November 2017), and The Detailed Rules for the Implementation of the Provisional Regulations of the People’s Republic of China on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則(2011年修訂)》) (promulgated by the MOF and was last amended on 28 October 2011 and came into effect on 1 November 2011), organisations and individuals engaging in the sale of goods or processing, repair and assembly services, the sale of services, intangible assets, immovables and importation of goods in the PRC shall be taxpayers of VAT, and shall pay VAT pursuant to these Regulations. The amount of VAT payable is calculated as “output VAT” minus “input VAT”. Pursuant to the VAT Regulations, the rate of VAT is 17% for those engaging in the sale of goods or labour services or tangible personal property leasing services or importation of goods except as otherwise provided by the VAT Regulations. The tax rate of VAT is 11% for the sales of the service of transportation, posting, basic telecommunications, construction and leasing real estate, the sale of real estate and the transfer of land use right, or sell or import the goods listed in the VAT Regulations. The tax rate of VAT is 6% for the sales of services or intangible assets other than the foregoing and those specified in the VAT Regulations.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Under the Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administrative Regulations**”) (promulgated by the State Council on 29 January 1996, newly amended on 5 August 2008), Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as direct investment or engaging in the issuance or trading of negotiable securities or derivatives unless the prior approval by the competent authorities for the administration of foreign exchange is obtained. In accordance with the Foreign Exchange Administrative Regulations, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by the SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant government authorities (if necessary).

According to the Notice of the SAFE on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (Hui Fa [2015] No.13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (匯發[2015]13號) (the “**Circular 13**”), which was promulgated by the SAFE on 13 February 2015 and came into effect on 1 June 2015, and was amended on 30 December 2019, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the Circular 13. The SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

According to the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**Circular 19**”) (promulgated by SAFE on 30 March 2015, and became effective on 1 June 2015, partially repealed on 30 December 2019 and amended on 23 March 2023), the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretionary Foreign Exchange Settlement (the “**Discretionary Foreign Exchange Settlement**”). The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined as 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account. If a foreign-invested enterprise needs to make a further payment from such assigned accounts, it still needs to provide supporting documents and go through the banks’ review process.

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## REGULATORY OVERVIEW

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Pursuant to the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《關於改革和規範資本項目結匯管理政策的通知》) (the “Circular 16”) (Hui fa [2016] No.16) (promulgated by SAFE on 9 June 2016, which became effective simultaneously and amended on 23 March 2023), enterprises registered in the PRC (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. The Circular 16 provides an integrated standard for converting foreign exchange under capital account items (including but not limited to foreign exchange capital and foreign debts) on a discretionary basis which applies to all enterprises registered in the PRC. The Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, and such converted Renminbi shall not be provided as loans to its non-affiliated entities, except where it is expressly permitted in the business licence.

In accordance with the Circular on Further Promoting Cross-border Trade and Investment Facilitation (Hui Fa [2019] No. 28) (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (匯發[2019]28號), which was issued and came into effect on 23 October 2019 by the SAFE and amended on 4 December 2023, foreign-invested enterprise engaged in non-investment business are permitted to settle foreign exchange capital in RMB and make domestic equity investments with such RMB funds according to laws and regulations under the condition that the current Special Administrative Measures (Negative List) for Foreign Investment Access are not violated and the relevant domestic investment projects are true and compliant.

## LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL WELFARE

### Labour Protection

According to the Labour Law of the PRC (《中華人民共和國勞動法》) (promulgated by the SCNPC on 5 July 1994, became effective as at 1 January 1995, and as amended on 27 August 2009 and 29 December 2018), enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by State rules and standards on workplace safety, educate employee in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with national standards. The enterprises and institutions shall provide employees with workplace safety and sanitation conditions, which comply with State stipulations and relevant labour protection articles.

According to the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated on 29 June 2007 and came into effect on 1 January 2008, and was amended on 28 December 2012 and came into effect on 1 July 2013, and the Regulation on the Implementation of the Labour Contract Law of the PRC (No. 535 Order of the State Council) (《中華人民共和國勞動合同法實施條例》), which was promulgated and came into effect on 18 September 2008, labour contracts must be concluded in written form. Upon reaching an agreement after due negotiation, an employer and an employee may conclude a fixed-term labour contract, a non-fixed-term labour contract, or a labour contract that concludes

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## REGULATORY OVERVIEW

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upon the completion of certain work assignments. Upon reaching an agreement after due negotiation with employees or under other circumstances in line with legal conditions, an employer may terminate a labour contract and dismiss its employees in accordance with the PRC laws. Labour contracts concluded before the issuance of Labour Law and existing during its effective term shall continue to be acknowledged.

### **Social Insurance and Housing Fund**

As required under the Regulation of Insurance for Labour Injury (《工傷保險條例》) implemented on 1 January 2004 and amended in 20 December 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on 14 December 1998, The Unemployment Insurance Measures (《失業保險條例》) promulgated on 22 January 1999, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) implemented on 22 January 1999 and amended on 24 March 2019 and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) promulgated on 28 October 2010 and amended on 29 December 2018, enterprises are obliged to provide their employees in mainland China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit. Employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

In accordance with the Regulations on the Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》) (promulgated by the State Council on 3 April 1999 and was amended on 24 March 2002 and 24 March 2019), enterprises must register at the competent managing centre for housing funds and upon the examination by such managing centre of housing funds, these enterprises shall complete procedures for opening an account for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner. In violation of the provisions of Administration of Housing Provident Fund, an employer is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit have not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.



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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

#### Copyright

China is a signatory to some major international conventions on the protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001. Furthermore, China has enacted various laws and regulations relating to the protection of copyright. The Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”) was promulgated on 7 September 1990 and newly revised on 11 November 2020 and became effective from 1 June 2021. The Implementation of the Copyright Law of the PRC (《中華人民共和國著作權法實施條例》) (the “**Copyright Implementation**”) was promulgated on 30 May 1991 and newly revised on 30 January 2013 and became effective from 1 March 2013. Under the Copyright Law, works of citizens, legal persons or unincorporated organisations of China, whether published or not, shall enjoy copyright. The natural person, legal person or unincorporated organisation named on a work as its author shall be the author of the work and have the corresponding rights to the said work, unless proven to the contrary. Authors and other copyright owners may complete the registration of their works with a registration agency recognised by the State copyright authority.

The Regulations on the Protection of Computer Software (《計算機軟件保護條例》) promulgated by the State Council on 4 June 1991, and most recently amended on 30 January 2013 and took into effect on 1 March 2013, and the Measures for Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) issued by the Ministry of Machine Building and Electronics Industry on 6 April 1992 (amended on 20 February 2002), apply to software copyright registration, licence contract registration and transfer contract registration. The National Copyright Administration of the PRC shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Centre of China (the “**CPCC**”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Computer Software Copyright Registration Procedures and the Computer Software Protection Regulations (Revised in 2013).

#### Patent

According to the Patent Law of the People’s Republic of China (《中華人民共和國專利法》) revised by the SCNPC on 17 October 2020 and came to effect on 1 June 2021, and the Implementing Regulations of the Patent Law of the People’s Republic of China (《中華人民共和國專利法實施細則》) revised by the State Council on 11 December 2023 and took effect on 20 January 2024, the patent administration department under the State Council is responsible for the patent work throughout the country. It receives and examines patent applications and grants patent rights for inventions-creations in accordance with law. The patent administration departments of the people’s governments of provinces, autonomous regions and municipalities directly under the central government are responsible for the administration of patents within their respective administrative regions. An invention or utility model for which a patent is granted

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## REGULATORY OVERVIEW

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shall be novel, inventive and practically applicable. Any design for which patent right may be granted shall not be an existing design, nor has any entity or individual filed before the date of filing with the patent administration department under the State Council an application relating to the identical design disclosed in patent documents announced after the date of filing. The protection period is 20 years for an invention patent 10 years for a utility model patent and 15 years for design patent, commencing from their respective application dates. Any entity or individual that uses a patent of another party shall enter into a licensing contract with the patent owner and pay patent royalties to the patent owner. Any use of a patent without the permission of the patent owner constitutes an infringement of the patent right.

### Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) (promulgated by the SCNPC on 23 August 1982, came into effect on 1 March 1983 and revised on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019) and the PRC Trademark Law Implementing Regulations (《中華人民共和國商標法實施條例》) (last amended by the State Council on 29 April 2014 and came into effect on 1 May 2014). The trademark bureaus under the General Administration for Industry and Commerce are responsible for trademark registration and authorising registered trademarks for a validity period of 10 years. Trademark registrants may apply for renewal of registration, and the validity of a renewed registered trademark is the following 10 years. Trademark registrants may, by signing a trademark licence contract, authorise others to use their registered trademark. The trademark licence contract shall be submitted to the trademark office for filing. For trademarks, trademark law adopts the principle of “prior application” while handling trademark registration. Where a trademark under registration application is identical with or similar to the trademark of another party that has, in respect of the same or similar goods or services, been registered or, after examination, preliminarily approved, the application for trademark registration shall be rejected. Anyone who applies for trademark registration shall not impair any existing prior right of anyone else, or forestall others in registering a trademark which others have already begun to use and which has “some influence”.

### Domain names

The MIIT promulgated the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) on 16 August 2017 and came into force on 1 November 2017. According to the Domain Name Measures, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure. The Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Internet Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》) promulgated by the MIIT on 27 November 2017 and effective on 1 January 2018 provides for the obligations of internet information service providers and other entities to fight terrorism and maintain network security.



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## REGULATORY OVERVIEW

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### REGULATIONS RELATING TO OVERSEAS OFFERING AND LISTING

On 17 February 2023, with the approval of the State Council, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Trial Measures**”) and relevant five guidelines, which came into force on 31 March 2023.

According to the Trial Measures, (i) PRC domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and submit relevant information to the CSRC; if a domestic company fails to complete the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; (ii) domestic companies that seek to offer or list securities overseas directly means that PRC companies limited by shares offer or list securities in overseas securities markets; and (iii) any PRC company limited by shares are required to file with the CSRC within three business days after its application for overseas listing is submitted. Failure to complete the filing under the Trial Measures may subject a PRC domestic company to rectification ordered by the CSRC, warning, and fine of RMB1 million to RMB10 million.

Besides, PRC domestic companies seeking to Overseas Offering and Listing shall strictly comply with the laws, administrative regulations and relevant provisions of the PRC Government on foreign investment, State-owned assets, industry regulation, overseas investment, etc., shall not disrupt domestic market order, and shall not harm national interests, public interest and the legitimate rights and interests of domestic investors. The Trial Measures also provides the circumstances where the Overseas Offering and Listing is explicitly prohibited, including: (i) such securities offering and listing is explicitly prohibited by specific PRC laws and regulations; (ii) that constitute threat to or endanger national security; (iii) the PRC domestic company, or its controlling shareholder(s) and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the PRC domestic company is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the controlling shareholder(s) or by other shareholder(s) that controlled by the controlling shareholder(s) and/or the actual controller.

On 24 February 2023, the CSRC and other relevant government authorities promulgated the Provisions on Strengthening the Confidentiality and Archives Administration of Overseas Securities Issuance and Listing by Domestic Companies (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the “**Provision on Confidentiality**”), which came into force on 31 March 2023. According to the Provision on Confidentiality, where any PRC domestic company provides or publicly discloses to the relevant securities companies, securities service institutions, overseas regulatory authorities and other entities and individuals, or provides or publicly discloses through its overseas listing subjects, documents and materials involving state secrets and working secrets of state organs, it shall report the same to the competent department with the examination and approval authority for approval in accordance with the law, and submit the same to the secrecy administration department of the same level for filing.

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# HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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## OVERVIEW

Our history dates back to 2000 when our Company was established as a joint-stock cooperative enterprise in the name of “Xinyi City Construction Engineering Quality Inspection Station (信宜市建設工程質量檢測站)” to assume the operation of our predecessor “Xinyi County Construction Materials Laboratory (信宜市建築材料試驗室)” (“**Xinyi County CM Laboratory**”), which was a department of a public institution “Xinyi City CEQS Station”, and to provide construction engineering testing and inspection services in Xinyi City, Maoming. Since then, we have been accredited to perform various compliance testing of construction materials and equipment, and begun to carry out monitoring of building excavation since 2017. In 2019, we expanded our operations and tapped into some of the 3rd to 5th tiers cities and districts in Maoming, including Gaozhou City and Huazhou City. In July 2023, our Company was converted into a limited liability company wholly owned by Xinyi City CEQS Center and renamed as Xinyi Xince Testing and Certification Technology Service Center Co., Ltd. (信宜信測檢測認證技術服務中心有限公司). Subsequently, in October 2023, in contemplation of the Listing, our Company was converted into a joint stock company with limited liability and renamed as Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (廣東集信國控檢測認證技術服務中心股份有限公司). Our Company received two tranches of Pre-IPO Investment from Xinyi Xinhui. Upon completion of the Pre-IPO Investment in November 2023, our Company was owned as to 80% by Xinyi City CEQS Center and 20% by Xinyi Xinhui.

## KEY MILESTONES

The following events set forth the key corporate and business development milestones of our Company:

<b>Year</b>	<b>Milestone</b>
2000	Our Company was established as a joint-stock cooperative enterprise and assumed the operations of our predecessor, Xinyi County CM Laboratory, which was a department of a public institution “Xinyi City CEQS Station”, and to provide construction engineering testing and inspection services, in Xinyi City, Maoming.
2013	Qualified to determine the length of piles by way of core drilling (鑽芯法檢測) and conduct cone light dynamic penetration test (圓錐輕型動力觸探檢測) in China.
2015	Accredited to carry out concrete permeability (混凝土抗滲性能試驗) in China.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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- 2016
- Accredited to carry out foundation pit monitoring (基坑監測) and conduct inspections on construction machinery and safety protection supplies (施工機具及安全防護用品) and energy efficient building construction (建築節能工程) in China.
- Qualified to conduct single pile horizontal static load test (單樁水平靜載試驗), supporting bolt uplift test (支護錨杆抗拔試驗), basic bolt uplift test (基礎錨杆抗拔試驗) and single pile vertical resistance static load test (單樁豎向抗拔靜載試驗) on foundation (地基基礎) in China.
- Qualified maximum test load for single pile vertical static load test increased up to 20,000kN.
- 2017
- Began to implement monitoring of excavation pit (基坑監測).
- 2019
- Expanded our operations and tapped into some of the 3rd to 5th tiers cities and districts in Maoming, including Gaozhou City and Huazhou City.
- 2020
- Accredited to conduct inspection on:
- (a) residual current protective devices (餘電流動作保護電器), electric wires and electric cables (電線電纜) in the electrical and electronic category;
  - (b) waterproof membranes (防水卷材), waterproof coating (防水塗料), curbs (路緣石), cement and admixtures (水泥與摻合料), pipes (管材) and pipe fittings (管件) in the construction materials category;
  - (c) electrical engineering (電氣工程) in the engineering equipment category;
  - (d) roadbed and pavement (路基路面) in the pavement engineering category; and
  - (e) building doors and windows (建築門窗) in the curtain wall, door, window and roof system category in China.
- Qualified to conduct foundation pile hole imaging (基樁孔內攝像) in the foundations category in China.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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2023

Accredited to carry out:

- (a) inspection on asphalt (瀝青), coarse aggregate concrete (粗集料), well lids (井蓋), materials stabilised with inorganic binders (無機結合料穩定材料), geosynthetics (土工合成材料) in the highway traffic engineering materials category;
- (b) in-tube closed circuit television (CCTV) inspection (管道內窺電視攝像檢測) and water retaining tests (滿水試驗) in the engineering equipment category;
- (c) foundation construction inspections (地基及基礎工程檢測) in the water conservancy and hydropower engineering category; and
- (d) earthwork tests (土工試驗) on roadbed and payment in China.

Qualified maximum test load for single pile vertical static load test has increased up to 35,000kN.

Our Company was converted into a limited liability company and renamed as Xinyi Xince Testing and Certification Technology Service Center Co., Ltd. (信宜信測檢測認證技術服務中心有限公司) in July 2023. Xinyi City CEQS Center became the sole registered shareholder of our Company.

Our Company was subsequently converted into a joint stock company with limited liability and renamed as Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (廣東集信國控檢測認證技術服務中心股份有限公司) in October 2023.

We received investment from Xinyi Xinhui for an aggregate amount of RMB20,000,000. Upon completion of the Pre-IPO Investment, our Company was owned as to 80% by Xinyi City CEQS Center and 20% by Xinyi Xinhui in November 2023.

2024

We obtained the qualification certificate issued by the Guangdong AMR for carrying out certain food and agricultural product testing in April 2024 and have commenced to provide food testing services since May 2024.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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### MAJOR CORPORATE DEVELOPMENT AND SHAREHOLDING CHANGES

#### **Establishment of our Company as a Joint-Stock Cooperative Enterprise on 28 March 2000**

On 28 March 2000, our Company was established as a joint-stock cooperative enterprise with a registered capital of RMB190,000 and assumed the operations of Xinyi County CM Laboratory, which was a department of a public institution “Xinyi City CEQS Station”. Our Company has been principally engaged in the provision of construction engineering testing and inspection services in the PRC since our establishment.

Xinyi City CEQS Station was the then ultimate beneficial owner of our Company. However, in consideration of the then shareholder and capital contribution requirement of a joint-stock cooperative enterprise and the enterprise’s then working capital needs, 19 then staff of our Company and/or Xinyi City CEQS Station subscribed for and held the registered capital of our Company on behalf of Xinyi City CEQS Station in cash in equal shares.

Each of the then shareholders or his/her successors, Xinyi City CEQS Center (being the successor of Xinyi City CEQS Station) and our Company had acknowledged the said shareholding arrangements, and confirmed that each party has fulfilled their respective obligations and such shareholding arrangement had been terminated.

#### **Xinyi City CEQS Station Becoming a Direct Shareholder of our Company on 31 March 2000**

Xinyi City CEQS Station decided to adjust the shareholding structure and capital contributions of our Company with a view to (i) officially recognising Xinyi City CEQS Station as a registered shareholder of our Company; and (ii) allowing some of the then shareholders of our Company to withdraw or reduce their capital contributions while keeping the total amount of registered capital unchanged.

Against this background, on 31 March 2000:

- (a) Xinyi City CEQS Station subscribed for the registered capital of our Company in the amount of RMB173,000, representing approximately 91.05% of the registered capital of our Company by way of contribution of equipment; and
- (b) of the then 19 individual shareholders of our Company, (i) two shareholders withdrew from our Company and the registered capital in an aggregate amount of RMB20,000 was returned to the relevant shareholder; and (ii) the registered capital in an aggregate amount of RMB170,000 was returned to the other 17 individual shareholders who each subsequently subscribed for the registered capital in the amount of RMB1,000, representing approximately 0.53% of the registered capital of our Company, in cash on behalf of Xinyi City CEQS Station.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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After the said shareholding changes, our Company was owned as to approximately 91.05% by Xinyi City CEQS Station and as to approximately 8.95% by 17 then staff of our Company and/or Xinyi City CEQS Station in equal shares. The 17 individual shareholders subscribed for and held the registered capital of our Company on behalf of Xinyi City CEQS Station in consideration of the then shareholder and capital contribution requirement of a joint-stock cooperative enterprise and the enterprise's then working capital needs.

Each of the then shareholders or his/her successors, Xinyi City CEQS Center (being the successor of Xinyi City CEQS Station) and our Company had acknowledged the said shareholding arrangements, and confirmed that each party has fulfilled their respective obligations and such shareholding arrangement had been terminated.

### **Increase in Registered Capital on 30 July 2009**

Pursuant to the Announcement of the Guangdong Provincial Construction Department on the Implementation of Administrative Licensing on Construction Engineering Quality Inspection Agencies (廣東省建設廳關於實施建設工程質量檢測機構行政許可的公告) issued in April 2009, the registered capital of our Company shall be not less than RMB1,800,000. To comply with such requirements, it was decided that our Company's registered capital be increased to RMB1,820,000, of which RMB1,767,220 was contributed by Xinyi City CEQS Station (as to RMB1,314,000 by asset contribution (including building and equipment) and as to RMB453,220 in cash) and the remaining RMB52,780 was contributed in cash by the 29 then staff of our Company and/or Xinyi City CEQS Station on behalf of Xinyi City CEQS Station in equal shares in consideration of the then shareholder requirement of a joint-stock cooperative enterprise and enhancement of the ties between our Company and the then staff of our Company by the shareholding arrangement.

After the aforesaid increase in registered capital, our Company was owned as to 97.1% by Xinyi City CEQS Station and 2.9% by 29 then staff of our Company and/or Xinyi City CEQS Station in equal shares on behalf of Xinyi City CEQS Station.

Each of the then shareholders or his/her successors, Xinyi City CEQS Center (being the successor of Xinyi City CEQS Station) and our Company has acknowledged the said shareholding arrangements, and confirmed that each party had fulfilled their respective obligations and such shareholding arrangements had been terminated.

### **Xinyi City CEQS Center Becoming a Registered Shareholder of our Company on 29 December 2022**

Pursuant to Xinyi City Institutional Reform Plan (信宜市機構改革方案), Xinyi City Public Institution Reform Plan (信宜市市直事業單位改革方案) and the Notice issued by the Institutional Establishment Committee of the Xinyi City Committee of the Communist Party of China (On Promoting the Reform Plan for the Third Category Public Welfare and Public Institutions Engaged in Production and Business Activities in Xinyi City) (中共信宜市委機構編制委員會印發(關於推進信宜市公益三類及從事生產經營活動事業單位改革方案)的通知), Xinyi City Bureau of Housing and Urban-Rural Development

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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decided to integrate Xinyi City CEQS Station and Xinyi City Construction Engineering Safety Supervision Station to form Xinyi City CEQS Center, which was subsequently approved by Xinyi City Committee Organisation Establishment Committee Office of the Communist Part of China (中共信宜市委機構編制委員會辦公室) in accordance with the Approval of “Implementation Plan for Adjustment and Optimisation of the Institutions Affiliated to the Xinyi City Bureau of Housing and Urban – Rural Development” (關於〈信宜市住房和城鄉建設局所屬事業單位調整優化設置實施方案〉的批覆) issued on 25 August 2020.

Xinyi City CEQS Center was established on 2 March 2021 to assume the operations of Xinyi City CEQS Station and Xinyi City CESS Station and become a shareholder of our Company. Xinyi City CEQS Center, a public institution under the Xinyi City Bureau of Housing and Urban-Rural Development, is primarily responsible for the supervision and management of building construction and infrastructure projects, supervision and inspection of the quality of construction works and construction safety, issuance of project quality supervision report, safety evaluation letter and safety supervision report; educating and provision of training to parties involved in the construction projects to establish and improve the construction safety system in Xinyi City. The registration for change in name of shareholder of our Company from Xinyi City CEQS Station to Xinyi City CEQS Center was completed on 29 December 2022.

### **Return of Registered Capital to Xinyi City CEQS Center and Conversion into a Limited Liability Company on 12 July 2023**

Xinyi City CEQS Center made requests for change in corporate form and return of registered capital from the then staff of our Company to the Xinyi City Bureau of Housing and Urban-Rural Development and Xinyi State-owned Assets Supervision and Administration Bureau (信宜市國有資產監督管理局) to seek for approval to convert our Company into a limited liability company and collect the staff’s registered capital in our Company. Such requests were approved by the Xinyi City Bureau of Housing and Urban-Rural Development, Xinyi State-owned Assets Supervision and Administration Bureau and Xinyi City People’s Government on 7 July 2023.

On 7 July 2023, each of the 29 then individual shareholders of our Company entered into an agreement with Xinyi City CEQS Center, pursuant to which each of the then individual shareholders agreed to return all their equity interest in our Company to Xinyi City CEQS Center at the original subscription price of RMB1,820. Such transfers were completed on 12 July 2023 and our Company was converted into a limited liability company on the same day and renamed as Xinyi Xince Testing and Certification Technology Service Center Co., Ltd. (信宜信測檢測認證技術服務中心有限公司).

Upon completion of the transfers, Xinyi City CEQS Center became the sole registered shareholder of our Company and the then individual shareholders ceased to hold the registered capital of our Company on behalf of Xinyi City CEQS Center.



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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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### **First Tranche of Pre-IPO Investment and Increase in Registered Capital on 27 July 2023**

On 27 July 2023, our Company entered into a capital injection agreement with Xinyi City CEQS Center and Xinyi Xinhui, pursuant to which Xinyi Xinhui agreed to subscribe for an aggregate of 20% of the enlarged registered capital of our Company at a total consideration of RMB20 million in two tranches (the “**Pre-IPO Investment**”).

On 27 July 2023, our Company increased its registered capital from RMB1,820,000 to RMB5,000,000. Of the additional registered capital of RMB3,180,000, RMB2,930,000 was contributed by Xinyi City CEQS Center by way of capitalization of capital reserves of our Company and RMB250,000 was contributed by Xinyi Xinhui at a consideration of RMB5,000,000 in cash (RMB250,000 of such capital injection was credited to the registered capital of our Company and the remaining RMB4,750,000 was credited to capital reserve of our Company). Such additional registered capital contribution was completed by Xinyi City CEQS Center and Xinyi Xinhui by 28 July 2023, and the registration procedures with the relevant industrial and commercial administration authority were completed on 31 July 2023.

Upon completion of such capital injection, our Company was owned as to 95% by Xinyi City CEQS Center and 5% by Xinyi Xinhui.

See “– Pre-IPO Investment” below for further details.

### **Conversion into a Joint Stock Company with Limited Liability on 31 October 2023**

On 31 October 2023, in contemplation of the Listing, our Company was converted from a limited liability company into a joint stock company with limited liability and renamed as Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (廣東集信國控檢測認證技術服務中心股份有限公司). Upon completion of the conversion on 31 October 2023, the share capital of our Company was RMB20,000,000 divided into 20,000,000 Shares with a nominal value of RMB1.00 each, of which Xinyi City CEQS Center and Xinyi Xinhui held 19,000,000 Shares and 1,000,000 Shares, representing 95% and 5% of our share capital, respectively.

Our PRC Legal Advisers have confirmed that with respect to the conversion of our Company into a joint stock company with limited liability, we have completed all the necessary registration filing procedures in compliance with the relevant PRC laws and regulations, and such conversion was properly and legally completed.

### **Second Tranche of Pre-IPO Investment on 3 November 2023**

On 3 November 2023, our Company increased its share capital from RMB20,000,000 to RMB23,750,000. The additional share capital of RMB3,750,000 was contributed by Xinyi Xinhui at a consideration of RMB15,000,000 in cash (RMB3,750,000 of such capital injection was credited to the registered capital of our Company and the remaining RMB11,250,000 was credited to capital reserve of our Company). Such additional registered capital contribution was completed by Xinyi Xinhui on 3 November 2023, and the registration procedures with the relevant administration authority for market regulation were completed on 6 November 2023.



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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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Upon completion of such capital injection in November 2023, our Company was owned as to 80% by Xinyi City CEQS Center and 20% by Xinyi Xinhui.

See “– Pre-IPO Investment” below for further details.

### Issue of H shares

Immediately after the Share Offer, our issued share capital shall comprise a total of 23,750,000 Unlisted Shares and 10,179,000 H Shares (assuming the Offer Size Adjustment Option is not exercised).

### PRE-IPO INVESTMENT

On 27 July 2023, our Company entered into a capital injection agreement with Xinyi City CEQS Center and Xinyi Xinhui, pursuant to which Xinyi Xinhui agreed to subscribe for an aggregate of 20% of the enlarged registered capital of our Company at a total consideration of RMB20 million in two tranches.

The table below summarizes the principal terms of the Pre-IPO Investment from Xinyi Xinhui:

	<b>First Tranche of the Pre-IPO Investment</b>	<b>Second Tranche of the Pre-IPO Investment</b>
Registered capital increased	: RMB250,000	RMB3,750,000
Amount of consideration paid	: RMB5,000,000	RMB15,000,000
Basis of consideration	: The consideration was determined after arm’s length negotiations with reference to the valuation of our Company as of 31 January 2023.	
Date on which the Pre-IPO Investment was settled	: 31 July 2023	3 November 2023
Average investment cost per Share <sup>1</sup>	: RMB4.21 (or approximately HK\$4.59)	
Discount to the Offer Price <sup>2</sup>	: Approximately 48.3%	
Shareholding in our Company after completion of the Pre-IPO Investment and immediately before the Share Offer	: 20%	

1 Calculated based on the total amount contributed by Xinyi Xinhui divided by the number of Shares to be held by it upon Listing (assuming the Offer Size Adjustment Option is not exercised).

2 Calculated on the basis of the Offer Price of HK\$9.50, the mid-point of the proposed range of the Offer Price.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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	<b>First Tranche of the Pre-IPO Investment</b>	<b>Second Tranche of the Pre-IPO Investment</b>
Approximate shareholding in our Company after completion of the Pre-IPO Investment and immediately after the Share Offer		14%
Use of proceeds	: We plan to allocate: <ul style="list-style-type: none"><li>(i) 17.0% of the proceeds for acquisition of concrete testing equipment by end of 2024;</li><li>(ii) 18.1% of the proceeds for acquisition of food and agricultural testing equipment by end of 2024;</li><li>(iii) 31.6% of the proceeds for renovation of the food and agricultural testing laboratory by end of 2024; and</li><li>(iv) 33.3% of the proceeds for general working capital purpose.</li></ul> <p>As at the Latest Practicable Date, our Company has utilised a total amount of RMB16.7 million of the proceeds from the Pre-IPO Investment for acquisition of concrete testing equipment and food and agricultural testing equipment and renovation of the food and agricultural testing laboratory and general working capital purpose.</p>	
Strategic benefit to our Company	: Our Directors were of the view that the additional capital provided by Xinyi Xinhui will support our Company's future development. The Pre-IPO Investment also demonstrated Xinyi Xinhui's confidence in our operations and served as an endorsement of our Company's performance, strengths and prospects. In particular, it also enhanced our cooperation relationship with Xinyi Xinhui. See "Continuing Connected Transactions" in this prospectus for further details of our cooperation relationship with Xinyi Xinhui.	
Lock-up period	: No specific lock-up period has been agreed in the capital injection agreement. However, pursuant to the applicable PRC law, within 12 months following the Listing Date, holders of any Share issued prior to the Share Offer (including Xinyi Xinhui) cannot transfer such Share.	
Special right	: No special right has been granted to Xinyi Xinhui.	

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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### Information about Xinyi Xinhui

Xinyi Xinhui is a limited liability company established in the PRC on 24 August 2022 that is principally engaged in corporate management, property management, provision of engineering project management services. As at the Latest Practicable Date, Xinyi Xinhui is wholly owned by Xinyi City Bureau of Finance. Prior to the Pre-IPO Investment, our Company entered into (i) the engagements for provision of construction engineering testing and inspection services with Xinyi Xinye, a wholly owned subsidiary of Xinyi Xinhui, in 2021 and 2023; and (ii) two 1-year term loan agreements with Xinyi Xinye, as the borrower, dated 29 January 2023 and 3 March 2023 with principal amount of RMB3,750,000 and RMB4,100,000 respectively and a fixed interest rate of 4.35% per annum and such loans had been fully settled in December 2023. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, proceeds from the loans were used as general working capital. Save for the Pre-IPO Investment and the aforesaid transactions, Xinyi Xinhui did not have any business relationship with our Company.

The Directors confirm that our Company will not provide any loans to any connected/related parties in the future. Our Company has adopted the internal control policy on connected transactions (including any loans), pursuant to which, among others, our Company shall regularly update a control list of connected parties of our Company to identify all potential connected transactions of our Company. We have also adopted the contract management policy, pursuant to which the contract management department will monitor/approve all material contracts (including any loan agreement) before entering into by our Company. We believe that by implementing these two policies, our management will be able to prevent offering any loan to connected/related parties in the future.

### PUBLIC FLOAT

As at the Latest Practicable Date, the 23,750,000 Shares held by Xinyi City CEQS Center and Xinyi Xinhui, representing 100% of our total issued Shares of our Company before the Share Offer, or approximately 70% of our total issued Shares upon Listing (assuming the Offer Size Adjustment Option is not exercised), or approximately 67% of our total issued Shares upon exercise of the Offer Size Adjustment Option in full, will not be considered as part of the public float for the purpose of Rule 11.23(7) of the GEM Listing Rules as these Shareholders will constitute core connected persons of our Company upon Listing, the Shares held by them will not be counted towards the public float for the purpose of Rule 11.23(7) of the GEM Listing Rules after Listing.

Based on the above, it is expected that immediately following completion of the Share Offer and assuming the Offer Size Adjustment Option is not exercised, the total number of 10,179,000 H Shares of our Company held by the public represents approximately 30% of our issued Shares. Therefore, our Company will be able to meet the minimum public float requirement under Rule 11.23(7) of the GEM Listing Rules.

# HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

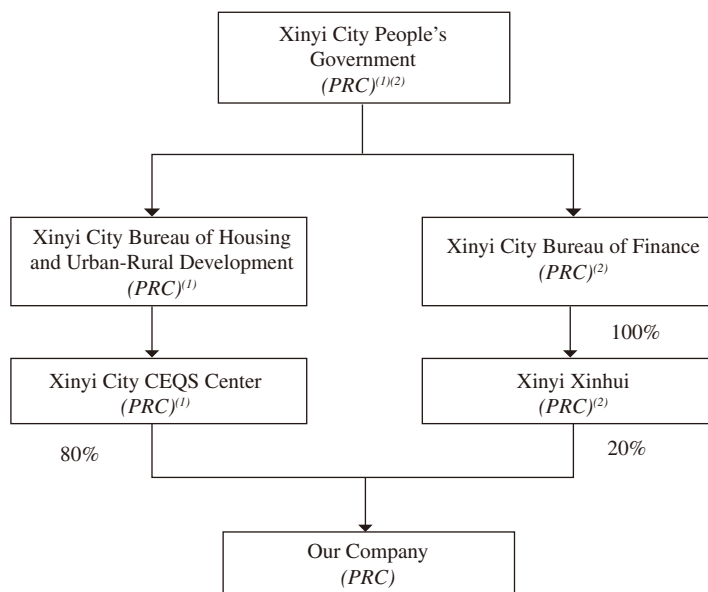
## Compliance with the Guide

On the basis that (i) the consideration under the Pre-IPO Investment was fully settled and received by our Company on or before 3 November 2023, which was more than 28 clear days before the date of our Company's first submission of the listing application to the Stock Exchange in relation to the Listing; and (ii) no special right has been granted to the Xinyi Xinhui pursuant to the capital injection agreement entered among Xinyi City CEQS Center, Xinyi Xinhui and our Company, the Joint Sponsors are of the view that and that the Pre-IPO Investment is in compliance with the Chapter 4.2 of the Guide issued by the Stock Exchange.

## OUR SHAREHOLDING AND CORPORATE STRUCTURE

### Shareholding Structure Immediately before the Share Offer

The chart below sets out our shareholding structure as at the Latest Practicable Date:



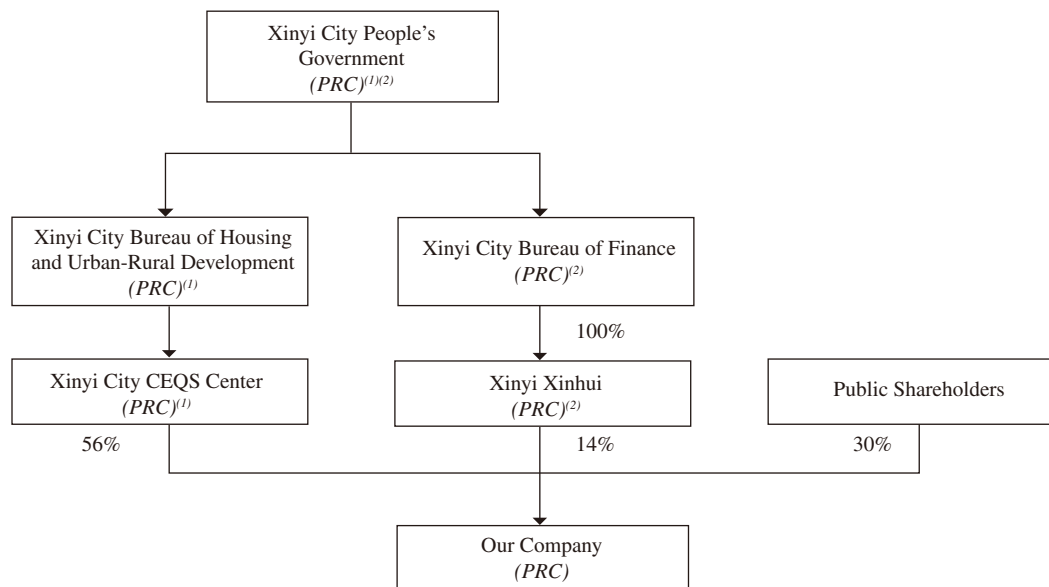
#### Notes:

1. Xinyi City CEQS Center (formerly known as Xinyi City CEQS Station) is a public institution of the Xinyi City People's Government under the Xinyi City Bureau of Housing and Urban-Rural Development. As advised by our PRC Legal Advisers, there is no shareholding relationship among Xinyi CEQS Center, Xinyi City Bureau of Housing and Urban-Rural Development and Xinyi City People's Government.
2. Xinyi Xinhui is a limited liability company incorporated in the PRC on 24 August 2022. Xinyi Xinhui is wholly owned by Xinyi City Bureau of Finance (信宜市財政局), a department of the Xinyi City People's Government. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Xinyi Xinhui does not have any relationship with Xinyi City CEQS Center.

# HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

## Shareholding Structure Immediately after Completion of the Share Offer

The chart below sets out our simplified shareholding structure immediately after completion of the Share Offer (assuming Offer Size Adjustment Option is not exercised):



### Notes:

1. Xinyi City CEQS Center (formerly known as Xinyi City CEQS Station) is a public institution of the Xinyi City People's Government under the Xinyi City Bureau of Housing and Urban-Rural Development. As advised by our PRC Legal Advisers, there is no shareholding relationship among Xinyi CEQS Center, Xinyi City Bureau of Housing and Urban-Rural Development and Xinyi City People's Government.
2. Xinyi Xinhui is a limited liability company incorporated in the PRC on 24 August 2022. Xinyi Xinhui is wholly owned by Xinyi City Bureau of Finance (信宜市財政局), a department of the Xinyi City People's Government. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Xinyi Xinhui does not have any relationship with Xinyi City CEQS Center.

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# BUSINESS

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## OVERVIEW

Our Company is principally engaged in the provision of construction engineering testing and inspection services, serving customers in Maoming, Guangdong Province of China. Founded in 2000 and headquartered in Xinyi City, Maoming, we have grown throughout the years in terms of revenue generated from construction engineering testing and inspection services. Our service offerings include a range of construction engineering testing and inspection services covering different types of testing and inspections processes involved in the industry. We primarily offer construction engineering testing services including foundation testing service, infrastructure and public roads testing service, construction material testing service, as well as building structure testing service. Additionally, we provide construction engineering inspection services including slope monitoring and foundation pit monitoring services. Since May 2024, as part of our expansion plan, while remaining our primary business focus on construction engineering testing and inspection services, we have commenced to diversify our service offerings and provide food testing services, which contributed 12.3% to our total revenue generated in 6M2024.

According to the CIC Report, the construction engineering testing and inspection services sector emerged with significant potential. The total market size of the construction engineering testing and inspection industry in Maoming was RMB389.8 million in 2023 and is expected to reach RMB614.6 million in 2028, representing a CAGR of 9.5% from 2023 to 2028. Over the years, the industry has also demonstrated steady growth, mainly driven by the government's initiative for rapid infrastructure development. The construction engineering testing and inspection industry in Maoming showcased a CAGR of 11.1% from 2019 to 2023.

Our customer base primarily consists of entities involved in the construction industry in China, including private and public sector entities such as property developers and construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus. These customers rely on our expertise to ensure the quality, safety and compliance at relevant stages of their construction or infrastructure projects. The primary focus of our testing and inspection services lies in private commercial and residential construction projects as well as public construction and infrastructure projects. During FY2021, FY2022, FY2023 and 6M2024, we had 268, 182, 279 and 196 customers, respectively. We are committed to delivering high quality testing and inspection services to our customers. Our reputation among our current and potential customers has been pivotal in expanding and diversifying our customer base.

As at the Latest Practicable Date, we maintain a team of 106 employees, holding a total of 179 testing qualifications issued and approved by the Guangdong Association for Quality and Safety Testing and Appraisal of Construction Projects, enabling them to conduct proficient and reliable testing and inspection processes. Among them, 55 are qualified engineers specialising in construction engineering and three are qualified engineers specialising in food and agriculture in China. Our Company has also obtained accreditation in a total of 39 categories for testing and inspection services relating to construction engineering, product and material testing, environmental testing, food testing and agricultural related testing approved by the Guangdong AMR and we offer testing services with over 2,700 parameters under the 39 categories.

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## BUSINESS

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We have obtained the Inspection and Testing Agency Qualification Certificate issued by the Guangdong AMR. This certificate grants us permission to use the mark of the CMA (China Inspection Body and Laboratory Mandatory Approval) when conducting our business. CMA is a certification and evaluation of the testing capability and reliability of inspection institutions, conducted by quality inspection departments at the provincial level or above in accordance with the provisions of the Metrology Law of China. Additionally, we also hold the Construction Engineering Quality Inspection Agency Qualification Certificate issued by the Guangdong Provincial Department of Housing and Urban-Rural Development. As a testing and inspection company, we are required to obtain the Inspection and Testing Agency Qualification Certificate. When carrying out testing and inspection activities relating to construction engineering, we are also required to obtain the Construction Engineering Quality Inspection Agency Qualification Certificate. These certificates are crucial for demonstrating our capability and eligibility to provide reliable testing and inspection services. Our market reputation is largely established on the foundation of delivering reliable services, and we maintain this standard through stringent quality control measures. These measures are in place to ensure that we consistently uphold our service standards.

We operate our headquarters located in Xinyi City, Maoming, Guangdong Province, and provide on-site or laboratory testing and inspection services to customers in Maoming. Leveraging on (i) our state-owned background; (ii) our proven track records; (iii) our established market presence in Maoming; and (iv) our experienced senior management supported by our skilled personnel, we have grown throughout the years in terms of revenue generated from the testing and inspection services.

During the Track Record Period, our revenue was mainly derived from our foundation testing service. Revenue from foundation testing service accounted for 74.8%, 56.2%, 59.3% and 61.8% of our total revenue for FY2021, FY2022, FY2023 and 6M2024, respectively. The revenue generated from our foundation testing service was RMB29.7 million, RMB11.2 million, RMB24.6 million and RMB14.1 million for FY2021, FY2022, FY2023 and 6M2024, respectively. The decrease in revenue generated from foundation testing service in FY2022 was due to the impact of the COVID-19 pandemic, as a result, the number of foundation service orders completed by us in FY2022 decreased. See “Effect of the COVID-19 pandemic” below for details. As the impact of the COVID-19 pandemic gradually eased in 2023 and there is a growth in our foundation testing service provided to projects in public sector, our revenue from foundation testing service increased in FY2023.

## BUSINESS

The following table sets forth a breakdown of revenue generated by types of service during the Track Record Period.

	FY2021		FY2022		FY2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Construction engineering</b>								
<i>Testing services</i>								
Foundation testing service	29,743	74.8	11,232	56.2	24,619	59.3	14,112	61.8
Infrastructure and public roads testing service	893	2.2	456	2.3	5,837	14.1	1,408	6.2
Construction material testing service	5,185	13.0	2,955	14.8	3,888	9.4	2,409	10.5
Building structure testing service	2,649	6.7	759	3.8	1,682	4.0	810	3.5
<i>Inspection services</i>								
Slope monitoring and foundation pit monitoring services	1,311	3.3	4,564	22.9	5,474	13.2	1,292	5.7
<b>Food testing services</b>	-	-	-	-	-	-	2,799	12.3
<b>Total</b>	<u>39,781</u>	<u>100.0</u>	<u>19,966</u>	<u>100.0</u>	<u>41,500</u>	<u>100.0</u>	<u>22,830</u>	<u>100.0</u>



### COMPETITIVE STRENGTHS

We believe that we possess several key strengths that set us apart from our competitors and enable us to compete effectively in the industry.

**We provide a wide spectrum and comprehensive construction engineering testing and inspection services and food testing services, serving a diversified base of customers in both private and public sectors.**

Throughout the years, our Company has been providing a range of construction engineering testing and inspection services. Our offerings include foundation testing, infrastructure and public roads testing, construction material testing, building structure testing, as well as slope monitoring and foundation pit monitoring services. Our diversified range of services has allowed us to cater to a wide range of customers, including private and public sector entities such as property developers, construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus. Accreditation in 36 categories for different construction engineering testing and inspection services also signifies our expertise and credibility. We offer construction engineering testing and inspection services encompassing over 2,500 parameters as at the Latest Practicable Date. This comprehensive coverage demonstrates our ability to deliver thorough and precise assessments, meeting the varied requirements of our clients and ensuring compliance with industry standards. In particular, our static load testing capacity for our foundation testing services has reached 35,000 kN. According to the CIC Report, among the top five construction engineering testing and inspection services providers in Maoming, only two of them, including our Company, has obtained the necessary qualification to conduct static load testing with capacity reaching 35,000 kN or more. We are also one of a few testing and inspection institutions capable of implementing fully automated process in our slope monitoring and foundation. With our capability of providing a wide spectrum of services, we were able to serve targeted customers involving in both private commercial and residential construction projects and public construction and infrastructure projects during the Track Record Period, solidifying our market presence and diversifying revenue streams.

Our reputation and credibility as a state-owned enterprise instill a sense of trust and reliability among our customers. Our reputation and credibility make us a preferred choice for crucial testing and inspection services. We believe our customers often prioritise partnering with state-owned companies due to the perceived stability, accountability, and adherence to strict quality standards. Our state-owned status reinforces these expectations, providing assurance to our customers that we possess the necessary resources, expertise, and commitment to deliver reliable and accurate testing and inspection services.

In 6M2024, we commenced to provide food testing services and generated revenue of approximately RMB2.8 million. We believe that the reputation and reliability of our Company are the critical factors for the success of our expansion in the 6M2024, as well as for the future growth and expansion of our business.

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## BUSINESS

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For FY2021, FY2022, FY2023 and 6M2024, we had 268, 182, 279 and 196 customers, respectively. Our revenue generated from state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus accounted for 15.4%, 39.3%, 37.9% and 46.9% of our total revenue in FY2021, FY2022, FY2023 and 6M2024, respectively.

These strengths position us as a trusted and sought-after provider of construction engineering testing and inspection services within the industry. With our diverse service offerings and extensive parameters coverage, we are well-equipped to meet the evolving needs of our customers and maintain a leading position in the market.

### **We strategically targeting the market in the 3rd to 5th tiers cities in Maoming.**

Founded in 2000 and headquartered in Xinyi City, Maoming, we have grown in terms of revenue generated from testing and inspection services.

Being headquartered in Xinyi City, Maoming provides us with a strategic advantage. We are geographically close to the cities in Western Guangdong, allowing us to easily reach our customers and provide prompt services. Our local presence enables us to understand the unique needs and dynamics of these cities. Operating in the region also enables us to provide our professional services at a relatively lower overhead costs, including lower transportation and labor expenses. This can positively impact our profitability and financial performance, allowing us to offer competitive pricing while maintaining quality service delivery. Over the years, we have built an extensive network of contacts and partnerships in the region. This network strengthens our ability to serve our customers effectively. We have established relationships with local government agencies, construction companies, and other key stakeholders, enabling us to navigate the local business environment and collaborate closely with our clients.

During the Track Record Period, we successfully tapped into some of the 3rd to 5th tiers cities in Maoming including Gaozhou City and Huazhou City. These cities are undergoing rapid urbanisation and infrastructure development. As these cities expand, new construction projects emerge, including residential complexes, commercial buildings, industrial facilities, and transportation infrastructure. The need for testing and inspection services arises to ensure the quality, safety, and compliance of these projects. With the implementation of stricter regulations and building codes, these cities are placing greater emphasis on compliance and quality control. Local authorities are enforcing higher standards for construction projects to meet safety and environmental requirements, which also drive the demand for testing and inspection services.

The increasing demand for construction engineering testing and inspection services in 3rd to 5th tiers cities is driven by urbanisation, regulatory compliance, quality assurance needs and government support. As these cities continue to grow and develop, the demand for reliable and comprehensive testing and inspection services is expected to further increase. We believe our past operation as well as our strategic location of services have laid a solid foundation for steady future growth. In addition, leveraging our stable customer base and stringent quality controls, we are able to continue to provide reliable testing and inspection services chosen by our customers.

**We strategically positioned ourselves to harness the accelerating infrastructure development in China driven by government policies in tier 3 or below cities.**

According to the CIC Report, lower tiers cities in China are experiencing growth in public infrastructure development. In May 2022, the State Council issued the “Opinions on Promoting Urbanisation with County Seats as Important Carriers” (《關於推進以縣城為重要載體的城鎮化建設的意見》), this policy aims to enhance the quality and efficiency of county-level urban infrastructure. In addition, the “Rural Revitalisation Initiative” (《鄉村振興》) implemented by the PRC Government and the “Project for the High-Quality Development of Hundreds of Counties, Thousands of Towns and Tens of Thousands of Villages” (《百縣千鎮萬村高質量發展工程》) promoted by the Guangdong Provincial Development and Reform Commission also have encouraged the infrastructure development in tier 3 or below cities in China. These initiatives have led to substantial investments in upgrading roads, bridges, water supply systems, public transportation networks, hospitals and schools, improving connectivity and living conditions. The focus on affordable housing and economic growth has attracted investment and created job opportunities and fostered the overall development. The initiatives have also facilitated urban-rural integration, reduced disparities and promoted balanced regional growth. As a result, residents have experienced improved quality of life, better access to essential services, and increased tourism opportunities, contributing to the prosperity and cultural preservation of these cities. Therefore, infrastructure construction plays a pivotal role as a key pillar industry in 3rd or lower tier cities. In particular, the sustained economic growth and significant infrastructure development in Western Guangdong including Maoming have led to an ongoing and robust demand for independent testing and inspection services.

Throughout the years, we successfully expanded our service offerings to cater for the diverse needs of our customers, allowing us to serve customers involving in both private commercial and residential construction projects and public construction and infrastructure projects. Together with our strategic approach to target the market in the 3rd to 5th tiers cities in Western Guangdong, we are able to capitalise on the surge in infrastructure development in developing cities in China. These cities are experiencing significant investment and support from the government, as the government aims at promoting a balanced regional development and unlocking the economic potential of developing cities.

Our expertise and capabilities enable us to play a crucial role in verifying the quality of construction materials, conducting structural assessments, performing safety inspections, and ensuring adherence to regulatory standards and specifications for the customers in lower tier cities. As these cities continue to progress and attract further investment, our presence and reputation as a reliable testing and inspection services provider will become more valuable. Our Directors believe that we can anticipate a steady flow of projects, consistent revenue streams, and the potential for expansion into new markets as these cities grow and evolve due to our familiarity with the operation process of the government in lower tier cities.

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## BUSINESS

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**We implement quality control measures to maintain our service standards and ensure precise testing outcomes.**

Throughout the years, our Company has obtained the Construction Engineering Quality Inspection Agency Qualification Certificate and the Inspection and Testing Agency Qualification Certificate in China, which are required by the PRC Government for institutions engaged in construction engineering testing and inspection services.

As of the Latest Practicable Date, we maintained a team of 106 employees, holding a total of 179 testing qualifications issued and approved by the Guangdong Association for Quality and Safety Testing and Appraisal of Construction Projects, for conducting different types of testing and inspection processes, with 55 of them being qualified engineers specialising in construction engineering and three of them being qualified engineers specialising in food and agriculture in China who are committed to providing comprehensive and reliable testing and inspection services to our customers. These engineers possess the necessary qualifications and certifications in their respective fields, ensuring their expertise and competence in delivering high-quality testing services. With their combined knowledge and experience, we are able to meet the diverse testing and inspection needs of our customers in a professional and efficient manner. Our Company places a strong emphasis on staff training and development to ensure our team possesses the necessary skills and expertise to deliver high-quality testing and inspection services. We invest in comprehensive training programs for our testing and inspection personnel and technicians that encompass both technical knowledge and practical skills relevant to our industry. Our training initiatives cover various aspects, including industry regulations, testing methodologies, equipment handling, safety protocols, and quality control measures. By investing in staff training and development, we ensure that our team is equipped with the necessary expertise to handle diverse testing and inspection projects. This commitment to ongoing learning and skill enhancement enables us to maintain the highest level of proficiency, deliver accurate results, and consistently meet the delivery time expectations of our customers.

In addition, to ensure rigorous quality control across all our services, we have established a comprehensive set of standardised quality control measures. These measures are implemented consistently throughout our operations and are followed by our employees. In order to cater to the unique requirements of our customers and local conditions, we provide compliance guidance to our employees. To oversee and enforce these stringent quality control measures, we have appointed experienced quality control officers who possess extensive on-site expertise. These officers play a crucial role in supervising our day-to-day operations, ensuring adherence to the established standards. In addition, we have established a dedicated quality control team responsible for formulating and implementing quality control measures. This team has the responsibility of monitoring the compliance of our entire network, thereby ensuring the consistent delivery of high quality services. As of the Latest Practicable Date, our quality control team consisted of 16 members including nine full time members in the quality control department and seven members are representatives from various other departments. Notably, Ms. Zhang Yue'e, who possesses over 13 years of relevant experience in the construction engineering testing and inspection industry, leads our quality control team.

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## BUSINESS

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The members of our quality control team collectively possess an average of 10 years of relevant experience, reflecting their deep understanding and expertise in the field. This wealth of experience enables us to effectively address our customers' specific needs by tailoring our quality control measures, ensuring maximum satisfaction in a cost-effective manner. Through the implementation of our stringent quality control measures, we have achieved a high level of consistency in delivering high-quality and efficient services. This approach has been instrumental in reducing operational risks inherent in our operations, ensuring smooth and reliable service delivery.

Our testing and inspection capabilities have consistently demonstrated a high level of accuracy, with no material delay and instances of challenges by our customers or the government or accidents or quality failures following our assessments or issuance of the testing reports. The meticulous approach that we employ during our service process ensures that potential issues are identified and addressed proactively, mitigating risks and maintaining the integrity and quality of the projects we assess. Our commitment to deliver reliable and trustworthy results has earned us a reputation and trustworthiness in the industry.

### **Our management team is recognised for their leadership and commitment.**

Our Company is guided by a visionary and dedicated management team which has played a pivotal role in our significant business growth. Leading our team is Mr. Lai Feng, who serves as our chairman of the Board and general manager, bringing with him over 23 years of experience in business management and quality engineering in the construction industry. His expertise and strategic leadership have been instrumental in driving our success.

Under Mr. Lai's guidance, our management team has been carefully assembled, comprising individuals with extensive experience and expertise. This team includes Mr. Huang Fei, Ms. Mai Jiayu and Mr. Zhang Xihua, who have made valuable contributions to our growth. Their collective efforts have fostered strong synergies, combining diverse skills and backgrounds to create an effective and cohesive management style.

Our management team members have forged close working relationships and possess a deep understanding of our strengths, enabling them to collaborate seamlessly. This collaborative approach has been pivotal in driving our growth and success. For more information about our management team, see "Directors, Supervisors and Senior Management" in this prospectus.

### **BUSINESS STRATEGIES**

Our long-term objective is to become one of the leading testing and inspection service providers in Western Guangdong, utilising our experience and expertise in construction engineering testing and inspection service to expand our business to other testing and inspection fields in China. To this end, we intend to implement a business strategy with the following key components.

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## BUSINESS

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### **Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services.**

The Construction Engineering Quality Inspection Agency Qualification Certificate to be issued by the Guangdong Provincial Department of Housing and Urban-Rural Development will introduce a division of testing qualifications into two categories under the 2023 Administrative Measures namely the Comprehensive Qualification and Specialised Qualifications, as regulated by the Qualification Standards of Construction Engineering Quality Inspection Agencies. Under the Qualification Standards of Construction Engineering Quality Inspection Agencies, there will be nine Specialised Qualifications, including (i) building materials and components, (ii) main structure and decoration, (iii) steel structure, (iv) foundation, (v) building energy-saving, (vi) building curtain wall, (vii) municipal engineering materials, (viii) road works, and (ix) bridge and underground works.

To achieve the Comprehensive Qualification, an institution would have to, among other things:

- (i) obtain five specific Specialised Qualifications (namely (i) building materials and components (or municipal engineering materials); (ii) main structure and decoration; (iii) steel structure; (iv) foundation; and (v) building energy-saving) and two other Specialised Qualifications;
- (ii) possess the equipment and capability to conduct testings and inspections in respect of all the necessary parameters of all nine Specialised Qualifications prescribed in the Qualification Standards of Construction Engineering Quality Inspection Agencies; and
- (iii) maintain a minimum number of technical personnel with specific qualifications.

In order to conduct all our Company's existing construction engineering testing and inspection businesses, we need to acquire six out of the nine Specialised Qualifications. These include (i) building materials and components, (ii) main structure and decoration, (iii) foundation, (iv) building energy-saving, (v) municipal engineering materials, and (vi) road works. Our Directors expect that, considering our existing capabilities and qualifications, we will be able to acquire the six Specialised Qualifications when the new standard is implemented. As at the Latest Practicable Date, the Implementation Rules have not yet been officially released and therefore the application process for obtaining the new certificate and acquiring the Specialised Qualifications under the new standard has not yet been made available. We will comply with the Implementation Rules and provide an update on the progress of obtaining the six Specialised Qualifications in the annual report and/or interim report of our Company after Listing.

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## BUSINESS

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Neither our Directors nor our PRC Legal Advisers foresaw difficulties in obtaining six out of the nine Specialised Qualifications as described above, fulfilling the application requirements and meeting the above-mentioned transition deadline, and the Joint Sponsors concur, after having considered the following factors:

- (a) our Company has reviewed and examined the relevant qualification requirements for the six Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, and found that save for the shortage of a small number of required testing equipment that are readily available in the market, which mainly includes (i) a chloride ion potentiometric titration detector (氯離子電位滴定法檢測儀) and a water absorption rate tester (吸水率測定儀) for testing of building material and components; (ii) a non-metallic ultrasonic defect detector (非金屬超聲探傷儀) and a push-out test apparatus (推出儀) for testing of main structure and decoration; (iii) a deadweight and leading bogie (重錘及導向架) and a high strain dynamic measuring instrument of pile (基樁高應變檢測儀) for testing of foundation; (iv) a thermal conductivity measuring apparatus (導熱系數測定儀) and a steady-state thermal transmission properties measuring system (穩態熱傳遞性質測定系統) for testing of building energy-saving; and (v) a visible spectrophotometer (可見分光光度計) and a fibre image analyser (纖維圖像分析儀) for testing of municipal engineering materials. We have formulated a procurement plan, obtained a quotation for acquisition of the required equipment. As at the Latest Practicable Date, we have commenced to acquire part of the required testing equipment and expect to complete the installation by October 2024. We will acquire and install the rest of the required testing equipment within one month after the Implementation Rules have been published. The total cost of acquisition and installation of required equipment is expected to be approximately RMB932,000. Our Directors believe that our Company has sufficient financial resources to implement such procurement plan. Save as disclosed, we have fulfilled all other requirements (including personnel) of the six Specialised Qualifications; and
- (b) during an interview conducted by our PRC Legal Advisers and the PRC legal advisers of the Joint Sponsors on 12 April 2024 with an officer of Maoming City Bureau of Housing and Urban-Rural Development, which, according to our PRC Legal Advisers, is a competent officer of the competent administrative governmental authority entrusted to approve the construction engineering quality inspection agency qualifications in Maoming and responsible for the qualification application review work for Specialised Qualifications of our Company under the draft implementation rules of Guangdong Province regarding the new qualification standards of construction engineering quality inspection agencies circulated in December 2023 for public comment and not yet promulgated, after reviewing our Company's evaluation of the fulfilment of relevant qualification requirements for the six Specialised Qualifications and in consideration of the relevant qualification standards, the responsible officer of the bureau is of the view that there is no impediment for our Company to acquire the six Specialised Qualifications having considered the requirements of the new qualification standards and the shortage of a small number of testing equipment that we will acquire. We expect to apply for the six Specialised Qualifications in one-go



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## BUSINESS

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once the Implementation Rules have been published. Further, during an interview with two officers of Guangdong Provincial Department of Housing and Urban-Rural Development, (which are competent officers of the superior administrative authority of construction engineering quality inspection agencies in Guangdong Province according to our PRC Legal Advisers), conducted by our PRC Legal Advisers, the PRC legal advisers of the Joint Sponsors, and Maoming City Bureau of Housing and Urban-Rural Development, on 28 May 2024, the officers interviewed confirmed that according to the Circular of Guangdong Provincial Department of Housing and Urban-Rural Development on Issuing the Work Plan on Entrusting the Implementation of Review and Approval of Construction Engineering Quality Inspection Agency Qualifications (《廣東省住房和城鄉建設廳關於印發委託實施建設工程質量檢測機構資質審批工作方案的通知》) and other relevant laws and regulations, Guangdong Provincial Department of Housing and Urban-Rural Development has entrusted the housing and urban-rural development department of prefecture-level city or above, including Maoming City Bureau of Housing and Urban-Rural Development, to be responsible for the review and approval of the licensing of construction engineering quality inspection agency qualifications, unless the MOHURD promulgates rules to disallow such entrustment in the future; and the housing and urban-rural development department of prefecture-level city or above is entitled to approve and grant the qualifications without further consent from Guangdong Provincial Department of Housing and Urban-Rural Development. Moreover, it was advised that since the MOHURD has not released relevant implementation regulation, the Implementation Rules in Guangdong Province has not been finalised. As advised by the interviewed officers of Guangdong Provincial Department of Housing and Urban-Rural Development, given that the Implementation Rules have not been released, the current qualification certificate held by our Company will remain valid after 31 July 2024 and our Company is allowed to carry out construction engineering quality inspection businesses in its current way, and Guangdong Provincial Department of Housing and Urban-Rural Development will formulate relevant policies to address the situation, so as to ensure that there would be sufficient time for enterprises to apply for new qualification certificates and administrative authorities to review the application under the new qualification standard. Based on the foregoing, our PRC Legal Advisers are of the view that the above confirmation given by the officer of Maoming City Bureau of Housing and Urban-Rural Development is unlikely to be challenged or revoked by the superior administrative authority of housing and urban-rural development.



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## BUSINESS

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As part of our expansion plan, we intend to obtain all nine Specialised Qualifications by the end of 2025, and ultimately to achieve the Comprehensive Qualification status under the Qualification Standards of Construction Engineering Quality Inspection Agencies by the end of 2027. The action plan for our Company to obtain the remaining three out of nine Specialised Qualifications, namely (i) steel structure; (ii) building curtain wall; and (iii) bridge and underground works, is as follows:

	<b>Requirements</b>	<b>Status as of the Latest Practicable Date</b>	<b>Action Plan in Meeting the Requirements and the Expected Timeline</b>
<b>1. Experience and Reputation</b>	1.1 The inspection agency shall be an enterprise, or a public institution with independent legal personality, or a partnership established in accordance with the law, which has not less than three years of experience in quality inspection.	Fulfilled.	N/A
	1.2 The agency shall have a good reputation in society, and did not involve in any general engineering quality and safety accident or accident of higher degree in the past three years.	Fulfilled.	N/A

**BUSINESS**

	<b>Requirements</b>	<b>Status as of the Latest Practicable Date</b>	<b>Action Plan in Meeting the Requirements and the Expected Timeline</b>
<b>2. Personnel</b>	<p>2.1 (a) The technical person in charge shall have senior or above technical title in engineering, the person in charge of quality shall have intermediate or above technical title in engineering, and both shall have more than 5 years of quality inspection experience; and (b) the number of principal personnel shall satisfy the specified requirements listed in the manning table for principal personnel in the appendix of the Qualification Standards of Construction Engineering Quality Inspection Agencies.</p> <p>See “Regulatory Overview – Laws and Regulations Relating to the Testing and Inspection of Construction Engineering – Qualification” in this prospectus for details.</p>	<p>(a) Fulfilled.</p> <p>(b) Our Company has satisfied the requirements for principal personnel save for the shortage of a small number of principal personnel as set out in 2.1.1, 2.1.2 and 2.1.3 below.</p>	<p>Please refer to the action plans as set out in 2.1.1, 2.1.2 and 2.1.3 below.</p>
	<p>2.1.1 For the Specialised Qualification of the steel structure, the agency shall have no less than one registered structural engineer Grade II with more than two years’ experience in quality inspection and shall have no less than 15 technicians, among which 4 or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years’ experience in quality inspection.</p>	<p>Fulfilled.</p>	<p>N/A</p>

## BUSINESS

	<b>Requirements</b>	<b>Status as of the Latest Practicable Date</b>	<b>Action Plan in Meeting the Requirements and the Expected Timeline</b>
	<p>2.1.2 For the Specialised Qualification of the building curtain wall, the agency shall have no less than 15 technicians, among which 4 or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection.</p>	<p>We have over 15 technicians, among which three have intermediate and above technical title in engineering and more than three years' experience in quality inspection.</p>	<p>We will hire three technicians among which, one has intermediate and above technical title in engineering and two have senior and above technical title in engineering, who have more than three years' experience in quality inspection before applying for the Specialised Qualification of the building curtain wall with the proceeds from the Share Offer by end of 2025.</p>
	<p>2.1.3 For the Specialised Qualification of the bridges and underground works, the agency shall have no less than one registered structural engineer Grade I and one registered civil engineer (geotechnical) with more than two years' experience in quality inspection, and shall have no less than 15 technicians, among which 4 or more shall have intermediate and above technical titles in engineering and two or more shall have senior and above technical titles in engineering, who shall have more than three years' experience in quality inspection.</p>	<p>We have:</p> <p>(a) one registered structural engineer Grade I and two registered civil engineers (geotechnical), who have more than two years' experience in quality inspection; and</p> <p>(b) over 15 technicians, among which four have intermediate and above technical title in engineering, who have more than three years' experience in quality inspection.</p>	<p>We will hire two technicians who senior and above technical title in engineering with more than three years' experience in quality inspection before applying for the Specialised Qualification of the bridges and underground works with the proceeds from the Share Offer by end of 2025.</p>

## BUSINESS

	Requirements	Status as of the Latest Practicable Date	Action Plan in Meeting the Requirements and the Expected Timeline
<b>3. Inspection Equipment and Workplace</b>	3.1 (a) The quality inspection equipment and facilities of the inspection agency shall be basically complete, and the function, range, and accuracy of inspection instruments and equipment, supporting equipment and facilities shall meet all the necessary testing parameters requirements for the specialised qualification applied for; and (b) the agency shall have fixed workplace and quality inspection sites that meet the needs of work.	(a) Save for the capabilities to measure the testing parameters as set out in 3.1.1 – 3.1.3 below, we have the capability to conduct tests on all other necessary testing parameters of the three Specialised Qualifications.  (b) We have fixed workplace and quality inspection sites that meet the needs of work.	We have formulated a procurement plan to acquire additional equipment for the three Specialised Qualifications, i.e. steel structure, bridge and underground engineering and building curtain wall, as set out in our Company’s business strategies and future plan. See “Business Strategies” in this section and “Future Plans and Use of Proceeds” in this prospectus for details.
	3.1.1 steel structure:  (a) the flexural strength, tensile strength, elongation and deviation in thickness of steel and welding;  (b) the optical quality and internal defects of welds;  (c) the thickness of steel structure’s anti-corrosion and heat-resistance coatings; and  (d) the anti-slip rating and toughness of high-strength anchors and fasteners;	Save for the capabilities to measure:  (a) the optical quality and internal defects of welds;  (b) the thickness of steel structure’s anti-corrosion and heat-resistance coatings; and  (c) the anti-slip rating and toughness of high-strength anchor and fasteners,  our Company has the capability to conduct tests on all other necessary testing parameters of steel structure.	We intend to acquire certain testing equipment with the proceeds from the Share Offer, including but not limited to a digital ultrasonic defect detector (數字超聲探傷儀), a magnetic particle defect detector (磁粉探傷儀), a coating thickness gauge (塗層測厚儀), a needle thickness gauge (針式測厚儀), an universal hardness tester (布洛維硬度計) and an anti-slip rating measuring instrument (抗滑移係數測定儀), by end of 2024.

## BUSINESS

	<b>Requirements</b>	<b>Status as of the Latest Practicable Date</b>	<b>Action Plan in Meeting the Requirements and the Expected Timeline</b>
	<p>3.1.2 building curtain wall:</p> <p>(a) the Shore hardness, compatibility and peel properties of sealant, tensile adhesive strength of structural sealant and measuring pollutants of sealant for stone;</p> <p>(b) the heat transfer coefficient, transmittance properties and solar heat gain coefficient of architectural glass and sealing performance of insulating glass; and</p> <p>(c) the air permeability, watertightness, wind resistance, deformation between stories of curtain wall and post-install pull-out bearing capacity of curtain wall;</p>	<p>Save for the capabilities to measure:</p> <p>(i) the Shore hardness of sealant;</p> <p>(ii) the heat transfer coefficient and transmittance properties of architectural glass; and the sealing performance of insulating glass; and</p> <p>(iii) the air permeability, watertightness, wind resistance and deformation between stories of curtain wall and the post-install pull-out bearing capacity of curtain wall,</p> <p>our Company has the capability to conduct tests on all other necessary testing parameters of building curtain wall.</p>	<p>We intend to acquire certain testing equipment with proceeds from our internal resources, including but not limited to a Shore hardness tester (邵氏硬度計), an UV spectrophotometer (紫外分光光度計), a fourier transform infrared spectroscopy (傅里葉紅外光譜儀) and an insulating glass dew point meter (中空玻璃露點測試儀), by the first half of 2025.</p>

## BUSINESS

	<b>Requirements</b>	<b>Status as of the Latest Practicable Date</b>	<b>Action Plan in Meeting the Requirements and the Expected Timeline</b>
	<p>3.1.3 bridge and underground works:</p> <p>(a) the static strain, dynamic strain, displacement, modal parameters (including frequency, mode shape, damping ratio), cable tensile strength, load-bearing capacity, bridge alignment, dynamic deflection, static deflection, structural dimension, axis deviation, verticality, strength of concrete, concrete carbonation depth, steel bar position and protective layer thickness, chloride ion content of bridge structures and components; and</p> <p>(b) the cross dimension, pull-out strength of anchor, thickness and compactness of lining, surface evenness, dimension of reinforcement meshes, anchor length, compactness of anchors, geometric dimension of duct pieces, deviation and ovality, concrete strength, steel bar position and protective layer thickness of underground structures and components.</p>	<p>Save for the capabilities to measure:</p> <p>(a) the static strain, dynamic strain, displacement, modal parameters, cable tensile strength, load-bearing capacity, dynamic deflection, static deflection, structural dimension and verticality of bridge structure and components; and</p> <p>(b) the cross dimension, pull-out strength of anchor, thickness and compactness of lining, anchor length, compactness of anchors, deviation and ovality and concrete strength of underground structures and components,</p> <p>our Company has the capability to conduct tests on all other necessary testing parameters of bridge and underground works.</p>	<p>We intend to acquire certain testing equipment with proceeds from the Share Offer and internal resources, including but not limited to a static strain measuring and capture device (靜態應變測量與採集設備), a resistance strain gauge (電阻應變計), a vibrating string extensometer (振弦式應變計), two static dynamic signal testing systems (動靜態信號測試系統), a displacement sensor and data collection system (位移計數據採集系統), an inclinometer (傾角計), a multi-function vibration testing system (振動信號採集與分析設備), a vibration transducers (測振傳感器), a bridge structure analysis software (橋樑結構計算分析軟件), a ground-penetrating radar (地質雷達) and a non-destructive anchor measuring instrument (錨桿無損檢測儀), by end of 2025.</p>

## BUSINESS

	Requirements	Status as of the Latest Practicable Date	Action Plan in Meeting the Requirements and the Expected Timeline
<b>4. Management Standard</b>	4.1 The inspection agency shall have a sound organisational structure and quality management system, and sound technical, archival and other management systems.	Fulfilled.	N/A
	4.2 The agency shall have information management system, and the whole process of quality inspection activities can be traced.	Fulfilled.	N/A

Our Company has reviewed and examined the relevant qualification requirements for the remaining three out of nine Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, and found that save for the shortage of a small number of required testing equipment and technicians as stated in the above table, we have fulfilled all other requirements of the three Specialised Qualifications. Neither our Directors, nor our PRC Legal Advisers foresaw difficulties in obtaining the remaining three Specialised Qualifications, and the Joint Sponsors concur, after having considered that our Company only has to acquire relevant testing equipment and hire relevant technicians in order to meet the relevant qualification requirements for the Specialised Qualifications and our Company has formulated a corresponding procurement and recruitment plan to meet the requirements. We estimated that the associated cost for obtaining the three Specialised Qualifications includes: (a) RMB3.3 million for acquisition and installation of the required equipment; and (b) RMB363,000 per month for recruitment of additional technical personnel.

To this end, we plan to allocate RMB0.2 million and RMB0.9 million of the net proceeds of the Share Offer to purchase the testing equipment to fulfill the Specialised Qualification requirements of (i) steel structure; and (ii) bridge and underground works, respectively. For implementation of this plan, see “Future Plans and Use of Proceeds” in this prospectus.

In addition, we plan to enhance our capability in providing testing and inspection services in respect of (i) foundation; (ii) building energy-saving; and (iii) main structure and decoration by purchasing additional testing equipment. To finance the purchase of the testing equipment, we expect that RMB2.9 million of the net proceeds of the Share Offer will be utilised for such purpose. For implementation of this plan, see “Future Plans and Use of Proceeds” in this prospectus.

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## BUSINESS

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As at the Latest Practicable Date, we had 106 employees, among them, 55 are qualified engineers specialising in construction engineering in China. In order to achieve the Comprehensive Qualification status, we plan to expand our workforce to around 180 technical personnel, by hiring additional individuals holding an intermediate or higher professional title in an engineering-related field and having a minimum of three years of experience in the quality testing field, including 20 individuals with a senior or higher professional title in an engineering-related field. We expect that RMB0.7 million, RMB0.3 million, RMB0.5 million and RMB2.7 million of the net proceeds of the Share Offer will be utilised to finance the recruitment of an aggregate of 84 additional technical personnel who will be working in the (i) steel structure; (ii) building curtain wall; and (iii) bridge and underground works; and (vi) others construction engineering, testing and inspection areas. For implementation of this plan, see “Future Plans and Use of Proceeds” in this prospectus.

Expanding our qualifications and meeting the specified staffing requirements will enable us to enhance our capabilities and offer a full range of construction engineering testing services. Our Directors believe that by acquiring all nine Specialised Qualifications and eventually attaining the Comprehensive Qualification status will enhance our position in our existing markets and enable us to enter into new markets. This will enable us to participate in larger-scale projects and meet the growing demand from customers for high quality and comprehensive services. This expansion plan aligns with our goal of becoming a leading provider in the construction engineering testing and inspection sector in Western Guangdong.

Meanwhile, in order to strengthen our competitive advantages in Maoming, we plan to allocate RMB3.4 million and RMB2.1 million of the net proceeds of the Share Offer to (i) upgrade our facilities in static load testing with the capacity reaching 50,000 kN to obtain the higher qualification; and (ii) purchase the new model of the existing testing equipment to enhance the accuracy and quality for our testing, respectively. For implementation of this plan, see “Future Plans and Use of Proceeds” in this prospectus.

### **Strengthening our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong.**

Headquartered in Xinyi City, Maoming and serving our customers in Maoming during the Track Record Period, we generated all revenue from Maoming, in particular within Xinyi City, Gaozhou City, Huazhou City and Dianbai District, in the aggregate of RMB39.8 million, RMB20.0 million, RMB41.5 million and RMB22.8 million for FY2021, FY2022, FY2023 and 6M2024, respectively.

Over the next three years, we intend to further strengthen our service presence in Maoming, including strengthening our current market presence in Dianbai District, Gaozhou City and Huazhou City and expanding into Maonan District in Maoming. According to the CIC Report, the independent construction engineering testing and inspection market in Maoming is projected to reach RMB419.4 million, RMB458.5 million, and RMB496.6 million in 2024, 2025 and 2026 respectively. This market size provides ample potential opportunities for us to expand our services, as most residential buildings, municipal projects and government infrastructure projects require technical services for relevant construction engineering testing and inspection. Therefore, we plan to deepen our presence in Maoming.



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## BUSINESS

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In addition, we also intend to extend our service locations and actively collaborate with other 3rd to 5th tiers cities in Western Guangdong, such as Zhanjiang City, Yunfu City, Yangjiang City, in order to expand our business coverage and reach more potential customers outside Maoming. According to the CIC Report, the combined market size of the independent construction engineering testing and inspection services in Zhanjiang City, Yunfu City and Yangjiang City is projected to reach RMB466.8 million, RMB498.2 million, and RMB531.7 million in 2024, 2025 and 2026 respectively.

As the first step, we plan to set up a branch office in Zhanjiang City, having considered factors such as proximity to our customers, accessibility, and business environment. The new branch office will be equipped with necessary infrastructure, equipment, and resources to provide comprehensive testing and inspection services in the area.

We also plan to acquire a company in Western Guangdong that engages in construction engineering testing and inspection with an established customer base by the end of 2025. We would consider acquisition target that fulfills the following criteria: (a) is domiciled in Western Guangdong; (b) recorded a revenue in the range of RMB10.0 million to RMB20.0 million (equivalent to HK\$10.9 million to HK\$21.8 million) in the previous financial year; (c) has sufficient working capital for business operation; (d) has an adequate workforce and sufficient number of technical personnel to meet staffing requirements of a foundation engineering inspection agency in the PRC (i.e. The acquisition target shall maintain not less than four technical professionals with senior or intermediate professional title who have engaged in the inspection of engineering piles for more than three years, and one of them is a certified geotechnical engineer); (e) has an established customer base consists of state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus; (f) is eligible to apply for the Specialised Qualification of foundation; and (g) was not involved in any litigation or arbitration proceeding, or experienced any non-compliance, that would have a material adverse impact on the business, financial condition or results of operation of the acquisition target. As of the Latest Practicable Date, we had not engaged in any commercial negotiation or entered into any letter of intent or agreement for potential acquisitions, and had yet to identify any specific acquisition target. Our Company does not have a specific preference for location of the acquisition target within Western Guangdong. However, our Directors expected that the acquisition target will not be located in Zhanjiang City, Guangdong Province. Our Directors were aware of not less than 10 companies that fulfill the abovementioned selection criteria in the market.

In addition, we also plan to recruit local talents in the target cities with expertise in construction engineering testing and inspection services, including professionals with relevant engineering qualifications and experience in quality control, and provide comprehensive training programs to ensure that the branch office staff is well-versed in our service standards, quality control measures, and industry best practices.

We will also actively engage with local government authorities, construction companies, developers, and other relevant organisations in the target markets to foster collaboration and establish mutually beneficial partnerships. We will showcase our capabilities and build relationships with key stakeholders in the target areas and districts by participating in relevant industry associations, conferences, and networking events.

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## BUSINESS

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To finance the above strategy, we expect that RMB13.9 million of the net proceeds of the Share Offer, will be utilised for such purpose. See “Future Plans and Use of Proceeds” in this prospectus for details of implementation of this plan.

**Diversifying our testing and inspection services offering, and expanding into areas including food and agricultural, transportation and fire protection.**

According to the CIC Report, due to the diverse nature of customer testing requirements, comprehensive network service capabilities are essential for meeting these demands. Given the dispersed and varied nature of testing needs, inspection organisations require an extensive product portfolio and professional and attentive “one-stop” services. Considering the current growth in the property development industry in China, we have recognised the importance of managing operational risks and diversifying our customer base. In line with this strategy, we plan to expand our service offerings into new areas. This expansion will enable us to tap into additional markets and reach a wider range of customers. By diversifying our services, we aim to enhance the stability and sustainability of our operations while capitalising on new opportunities for growth. Our objective is to expand our range of testing and inspection services by venturing into new areas, specifically food and agricultural products testing and inspection, transportation construction testing and fire protection testing and inspection. This expansion will allow us to cater to a wider range of customers’ needs and provide comprehensive solutions in these domains.

We intend to further expand our service offerings into (i) food and agricultural products testing and inspection focusing on areas such as heavy metals, microorganisms, additives, agricultural chemicals in food, medicinal materials, feed residues, and antibiotics testing; (ii) transportation construction testing encompassing testing of road infrastructure and construction structures, including expressways, national and provincial roads; and (iii) fire protection testing and inspection including the evaluation of fire prevention systems such as automatic alarm systems, automatic sprinkler systems, fire hydrant systems, and other fire safety measures in buildings.

According to the CIC Report:

- (i) the food and agricultural products testing and inspection industry in Maoming in recent years has experienced consistent revenue growth, with a 7.9% CAGR from 2019 to 2023, reaching RMB112.6 million in 2023 and is expected to reach RMB205.6 million in 2028, representing a CAGR of 12.8% from 2023 to 2028, driven by heightened concerns for food safety from both government and consumers. In 2023, the total market size was RMB112.6 million, of which the major market players accounted for about 50% of the market share and the small players and unmet demand accounted for the remaining 50% of the market share;

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## BUSINESS

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- (ii) the transportation construction testing and inspection market in Maoming reached RMB52.4 million in 2023, with a CAGR of 14.5% from 2019 to 2023. Looking ahead, as the quality requirements for bridge and transportation facilities continue to rise, the transportation construction testing sector in Maoming is expected to maintain a robust growth trajectory. It is projected to reach RMB98.2 million, with a CAGR of 13.4% from 2023 to 2028. Of the total market size in 2023 of RMB52.4 million, the major market players accounted for about 70% of the market share and the small players and the unmet demand accounted for the remaining 30% of the market share; and
- (iii) the fire protection testing and inspection industry in Western Guangdong will be expected to attain a market size of RMB66.6 million by 2028. The fire protection testing and inspection industry is significantly influenced by government policies and exhibits strong relevance to multiple sectors, including the construction and building materials industry, as well as the industrial sector. In 2023, the total market size was RMB51.1 million, of which the major market players accounted for 75% of the market share, and the small players and unmet demand accounted for the remaining 25% of the market share.

As at the Latest Practicable Date, we have obtained the qualifications approved by the Guangdong AMR for carrying out certain food testing. We plan to apply for the CATL qualifications in relation to the agricultural product testing in the third quarter of 2024. This business will primarily come from long-standing customers in Xinyi City, Maoming, such as the Market Supervision Bureau and schools. As at the Latest Practicable Date, we planned to use a total of RMB17.6 million for the acquisition of relevant equipment and the renovation and installation work of the relevant laboratory and recruitment of technicians, of which RMB12.1 million has been utilised and RMB5.5 million was scheduled to be paid by end of 2026. We believe that we can capture the local demand in the food and agricultural products testing industry of Maoming based on the following reasons: (i) recognizing the perishable nature of food and agricultural products, we intend to take advantage of our close proximity to customer to offer timely services; (ii) we have obtained the qualification certificate issued by the Guangdong AMR for carrying out certain food and agricultural product testing, and have seven technicians who are qualified to carry out food testing; (iii) through 20 years of experience in the construction engineering testing and inspection field and being a state-owned enterprise, we have built a strong reputation and brand recognition in Maoming. We believe our customer will have heightened trust and reliability in our services; and (iv) the increase in awareness on quality and traceability of food and agricultural products.

Simultaneously, we plan to begin the application for the qualification for transportation construction testing in 2024. We believe that we can capture the local demand in the transportation construction testing industry of Maoming based on the following reasons: (i) customers tend to engage local company due to the transportation costs and workforce involved in setting up the equipment and inspection personnel at the testing site; (ii) we can offer reliable transportation services to customer by leveraging our knowledge in roadways engineering and materials testing which is similar to that of transportation construction testing; (iii) save for the requirements on equipment, we have met other qualification requirement of a transportation construction testing and inspection agency in the PRC. We will acquire the qualification

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## BUSINESS

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certificate in respect of transportation testing by end of 2024; and (iv) we have been deeply rooted in the field of construction engineering testing and inspection for over 20 years and built strong reputation in Maoming. We believe that we are likely to be the preferred service provider if our customers are in need of transportation testing services.

Additionally, we also plan to acquire a company in Western Guangdong that holds the necessary qualifications for fire protection testing and inspection in 2026. The target acquisition candidate should be a small to medium-sized testing service company with a reasonable track record of business operations within its service area and with targeted business scale. We believe that we can capture the demand in the fire protection testing industry of Western Guangdong based on the following reasons: (i) as a large number of our customers come from construction and infrastructure projects, there is a demand for fire protection testing and inspection services in their operational and management processes after the completion of the relevant construction phases. Therefore, we believe that the accumulated customer base from our operating history will facilitate the expansion of our fire protection testing and inspection services; and (ii) we can endorse the fire protection testing and inspection services provided by our acquisition target by leveraging our Company's long-standing presence in the construction testing and inspection industry with good reputation and brand recognition and our background as a state-owned enterprise.

In view of the above, we intend to deploy RMB0.2 million, RMB1.3 million and RMB17.2 million of the net proceeds of the Share Offer to expand our services types to (i) food and agricultural; (ii) transportation construction; and (iii) fire protection, testing and inspection areas respectively. For implementation of this plan, see "Future Plans and Use of Proceeds" in this prospectus.

Through the diversification of our testing services into these new areas, we aim to expand our offerings, address the evolving needs of our customers, and become a comprehensive solution provider in construction engineering testing and inspection, food and agricultural testing, fire protection testing and inspection, and transportation construction testing.

### **OUR BUSINESS MODEL**

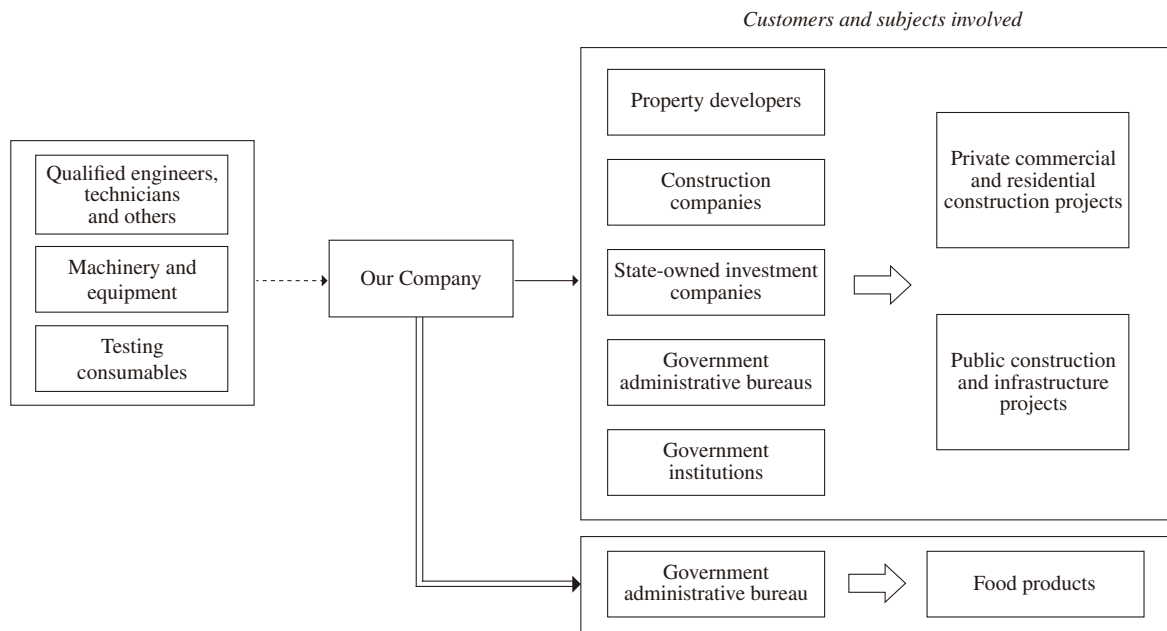
We offer a wide range of comprehensive construction engineering testing and inspection services to customers in the construction industry. Our testing services primarily include foundation testing service, infrastructure and public roads testing service, construction material testing service and building structure testing service, and our inspection services include slope monitoring and foundation pit monitoring services. Since May 2024, we have also commenced to provide food testing services.

# BUSINESS

Our customers include primarily property developers, construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus. Our construction engineering testing and inspection services cover the main stages of private commercial and residential construction projects as well as public construction and infrastructure projects and our food testing services since May 2024 cover various types of food products such as fruits, vegetables, tea leaves and eggs where we conduct testings to evaluate whether the products meet the relevant national legal quality and safety standards.

To provide our testing and inspection services, we would rely on our qualified testing and inspection personnel and technicians, our fleet of testing and inspection equipment sourced from relevant companies and manufacturers, and testing consumables sourced for our day to day testing process.

The following diagram illustrates the business chain of our Company:



-----> Elements and components for provision of our services

- > (1) Provision of construction engineering testing and inspection services to customers
- (2) Issuance of testing reports to customers to ensure the quality, safety and compliance of relevant standards and regulations for materials or process involved in various stages of construction or infrastructure projects

- ====> (1) Provision of food testing services to a customer in 6M2024
- (2) Issuance of testing reports to a customer to ensure the compliance of relevant quality and safety standards for the food products

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## BUSINESS

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As at the Latest Practicable Date, we had obtained accreditation in 39 categories for testing and inspection services relating to construction engineering, product and material testing, environmental testing, food testing and agricultural related testing approved by the Guangdong AMR under the Inspection and Testing Agency Qualification Certificate. The 39 categories are set out below:

### **Construction Engineering**

1. Geological Survey – Geotechnical Engineering Testing and Inspection
2. Geological Survey – Geotechnical Engineering Survey
3. Geological Survey – Geotechnical Engineering Inspection
4. Geological Survey – Engineering Surveying
5. Geological Survey – Geological Inspection
6. Engineering Materials – Construction Engineering Materials
7. Engineering Environment – Building Physics and Energy Saving
8. Engineering Environment – Environmental Engineering
9. Engineering Equipment – Construction Equipment
10. Engineering Equipment – Construction Equipment and Safety Protection Products
11. Engineering Entity – Roadway Engineering
12. Engineering Entity – Foundations
13. Engineering Entity – Engineering Monitoring and Surveying
14. Engineering Entity – Engineering Structures and Fittings
15. Engineering Entity – Curtain Walls, Windows, Doors, and Roofing Systems
16. Engineering Entity – Bridge Engineering
17. Engineering Entity – Tunneling
18. Highway Transportation – Accessory Works
19. Highway Transportation – Engineering Materials

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## **BUSINESS**

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- 20. Highway Transportation – Mechanical and Electrical Works
- 21. Highway Transportation – Roadbed and Pavement Works
- 22. Highway Transportation – Bridge Engineering
- 23. Highway Transportation – Water Transportation Engineering
- 24. Highway Transportation – Traffic Safety Facilities
- 25. Highway Transportation – Tunneling
- 26. Water Conservancy and Hydroelectric Engineering

### **Product and Material Testing**

- 27. Construction Materials
- 28. Metal Products – Structural Metal Products
- 29. Metal Products – Other Metal Products
- 30. Daily-use Chemical Products-Paints
- 31. Ceramic Products – Building Ceramics
- 32. Electrical and Electronic – Low Voltage
- 33. Electrical and Electronic – Wire and Cable
- 34. Electrical and Electronic – High Voltage
- 35. Electrical and Electronic – Electrical Appliances
- 36. Furniture – Furniture

### **Environmental Testing**

- 37. Air and Exhaust

### **Food Testing**

- 38. Food

### **Agricultural Related Testing**

- 39. Agricultural Products

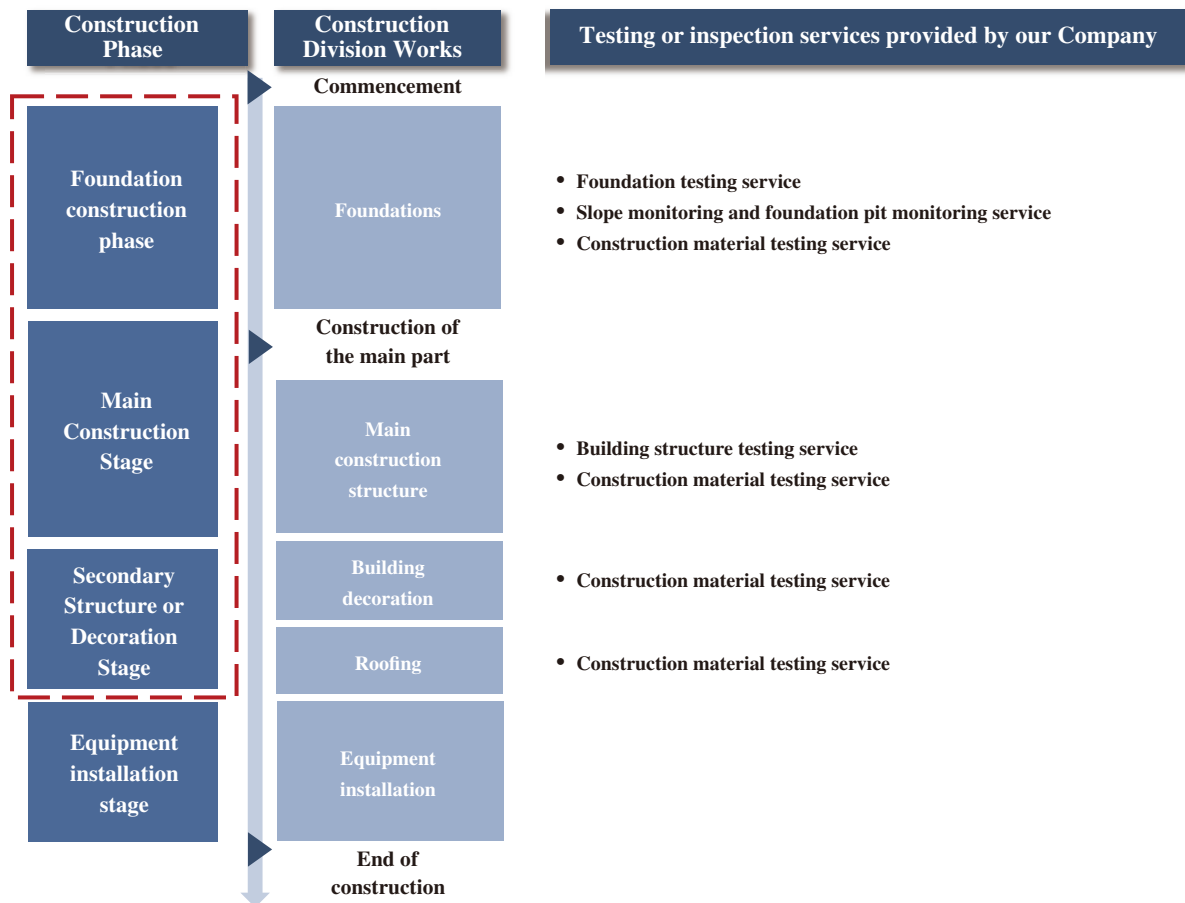
# BUSINESS

We offer testing services with over 2,700 parameters under the 39 categories. These parameters demonstrate the comprehensive range of testing services that we can offer to support the construction and other industries. By obtaining accreditation in multiple categories and covering a diverse set of parameters, we are able to conduct a large number of testing types in relation to each of our services, each testing type provides the approach or method used to perform the testing, while testing categories and parameters define the specific areas or characteristics being assessed within those testing types.

Our construction engineering testing and inspection services are required at various stages throughout our customers' construction or infrastructure projects. We assist our customers engaging in construction or infrastructure projects in ensuring compliance with regulatory standards, optimising performance, and enhancing the overall quality and safety of buildings and infrastructure. By delivering reliable and accurate results, we help our customers ensure compliance with contractual standards and confirm the quality of the relevant parts or stages in construction or infrastructure projects.

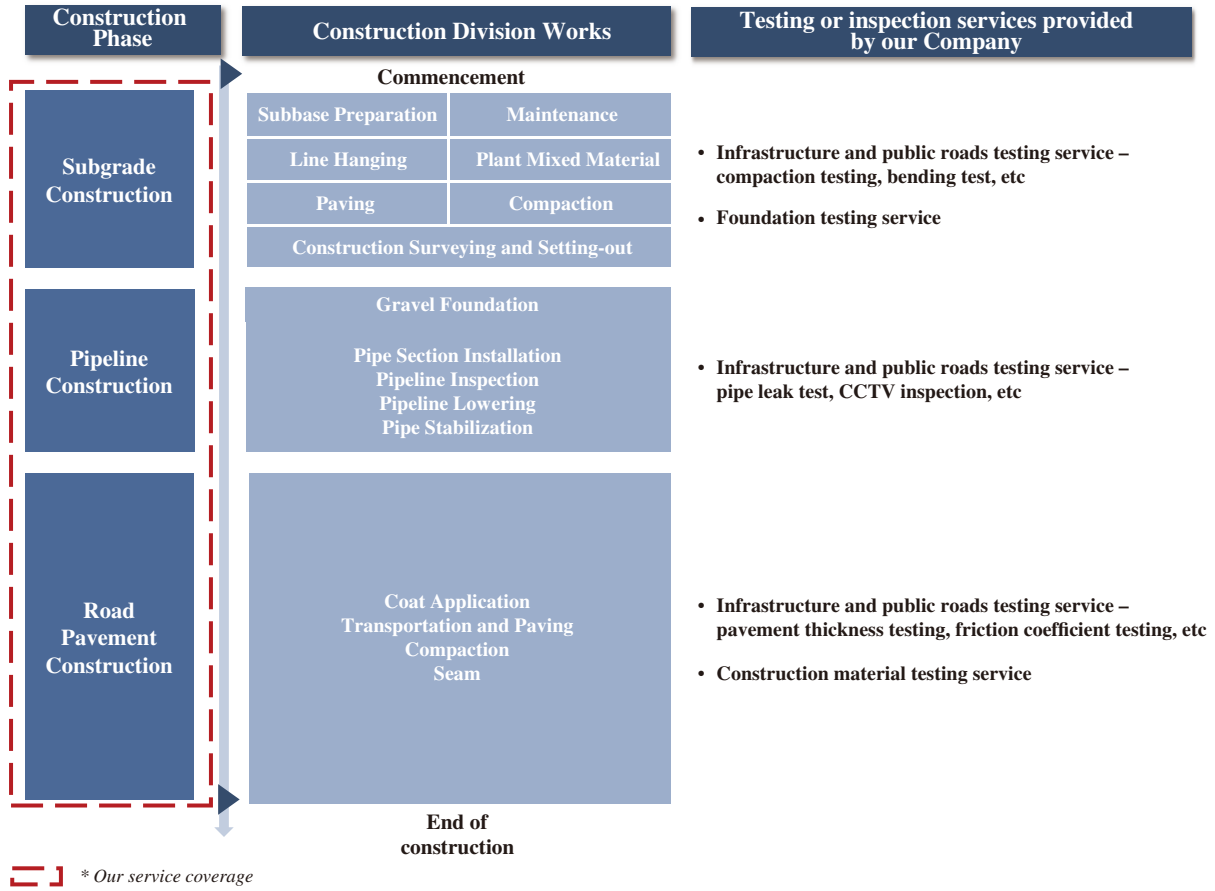
The following diagram illustrates the major stages of a construction project and an infrastructure project and at which stages our construction engineering testing and inspection services are required.

## Construction projects





**Infrastructure projects – public roads**



We are headquartered in Xinyi City, Maoming, Guangdong Province to provide construction engineering testing and inspection services through our professional teams in construction sites located primarily in Maoming. To perform quality tests on construction material samples for our customers, we also operate two in-house laboratory units with various laboratorial function located in Xinyi City. Our laboratories are equipped with advanced testing instrumentation and operated by skilled technicians. Our food testing services provided since May 2024 were also mainly conducted in our laboratories by our skilled technicians with relevant qualifications in food testing. Our employees for our testing services include field personnel that perform on-site testing at the designated construction sites and technicians that perform analytical tests in our laboratories or, for certain food testing, in designated locations. Our services are backed by stringent quality control measures to ensure the quality of testing and inspection services delivered to our customers. For further details, see “– Quality control” below in this section.

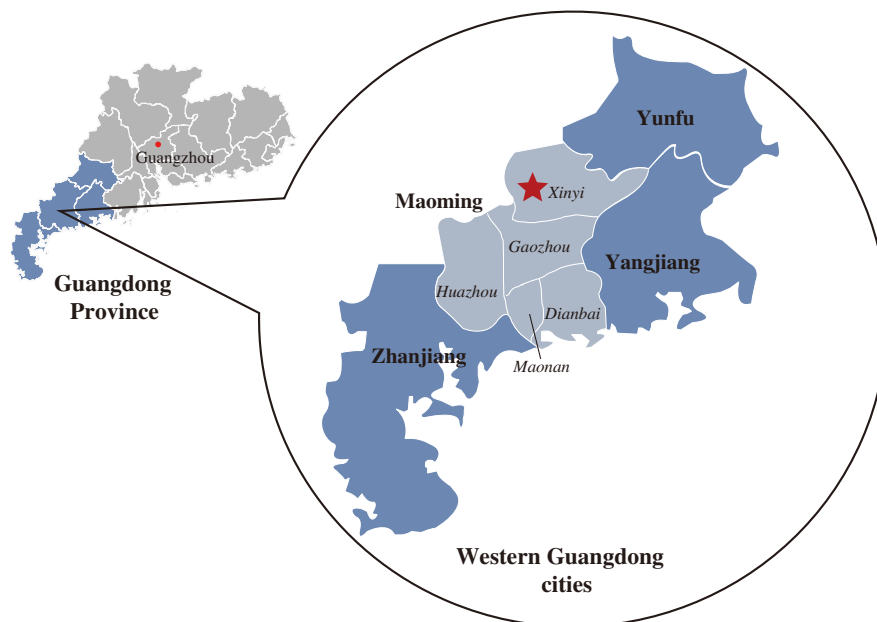
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## BUSINESS

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Maoming represents our primary market and all of our revenue generated in FY2021, FY2022, FY2023 and 6M2024 is attributable to our services provided in Maoming.

The following maps illustrates the location of our headquarters and service locations as at 30 June 2024:



*Notes:*

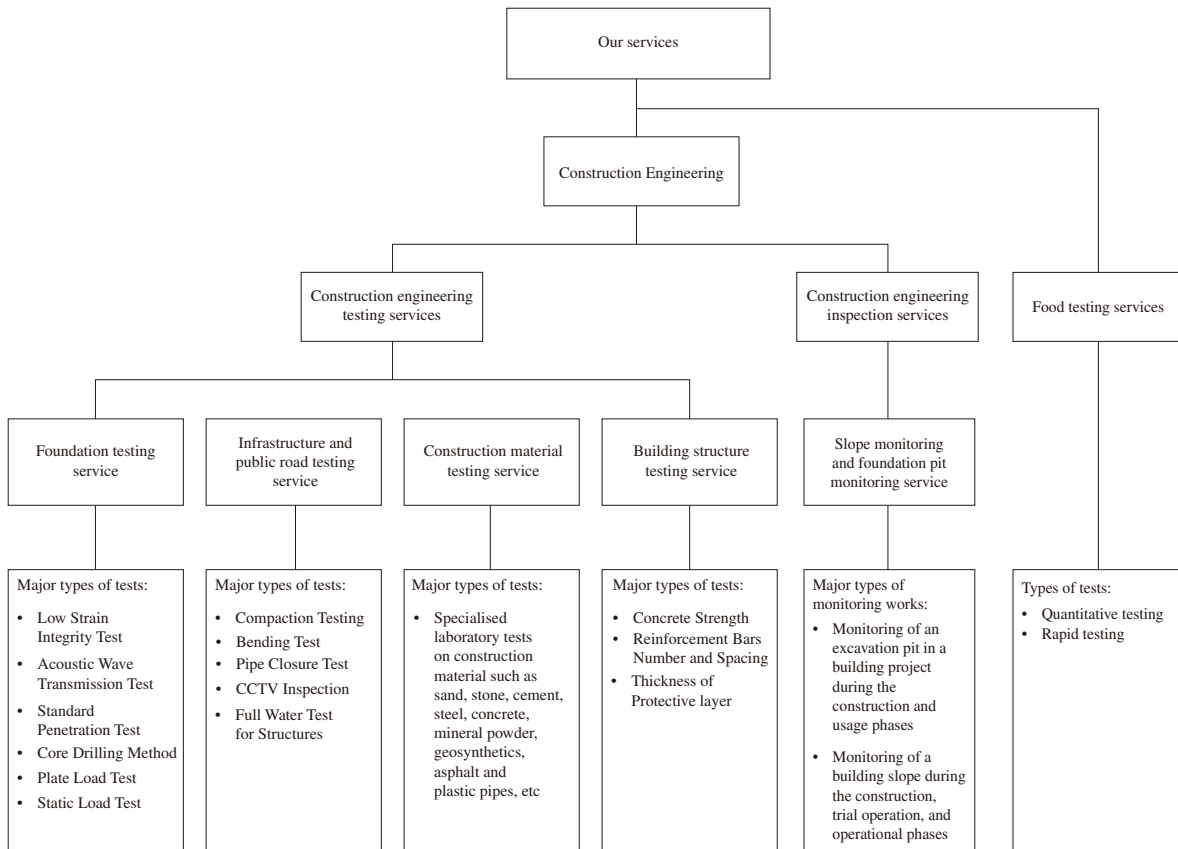
- (1) Zhanjiang City is a 3rd tier city; Maoming and Yangjiang City are 4th tier cities; Yunfu City is a 5th tier city.
- (2) Our headquarter is located in Xinyi City, Maoming. During the Track Record Period, we generated all revenue from Maoming, in particular within Xinyi City, Gaozhou City, Huazhou City and Dianbai District.
- (3) As part of our expansion plan, we intend to expand our service presence in Maonan District in Maoming, as well as other cities in Western Guangdong such as Zhanjiang City, Yunfu City, Yangjiang City. See “– Business strategies” in this section for details.

# BUSINESS

## OUR SERVICES

We provide a wide range of comprehensive construction engineering testing and inspection services to our customers, where (1) our testing services consist of (i) foundation testing service, (ii) infrastructure and public roads testing service, (iii) construction material testing service, and (iv) building structure testing service, and (2) our inspection services consist of (v) slope monitoring and foundation pit monitoring services. In addition, since May 2024, as part of our expansion plan, while remaining our primary business focus on construction engineering testing and inspection services, we have commenced to diversify our service offerings and provide food testing services, which contributed 12.3% to our total revenue generated in 6M2024.

The following diagram illustrates our main service offerings:



## BUSINESS

The following table sets forth a breakdown of revenue generated by types of service during the Track Record Period.

	FY2021		FY2022		FY2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Construction engineering</b>								
<i>Testing services</i>								
Foundation testing service	29,743	74.8	11,232	56.2	24,619	59.3	14,112	61.8
Infrastructure and public roads testing service	893	2.2	456	2.3	5,837	14.1	1,408	6.2
Construction material testing service	5,185	13.0	2,955	14.8	3,888	9.4	2,409	10.5
Building structure testing service	2,649	6.7	759	3.8	1,682	4.0	810	3.5
<i>Inspection services</i>								
Slope monitoring and foundation pit monitoring services	1,311	3.3	4,564	22.9	5,474	13.2	1,292	5.7
<b>Food testing services</b>	-	-	-	-	-	-	2,799	12.3
<b>Total</b>	<u>39,781</u>	<u>100.0</u>	<u>19,966</u>	<u>100.0</u>	<u>41,500</u>	<u>100.0</u>	<u>22,830</u>	<u>100.0</u>

The growth driver for each type of services are set out below:

- Foundation testing service : The increase in number of public buildings and infrastructure construction projects<sup>(Note)</sup>.
- Infrastructure and public road testing service : The increase in infrastructure projects such as roads and drainage pipelines<sup>(Note)</sup>.
- Construction material testing service : The increase in number of public building and infrastructure construction projects requiring material testing<sup>(Note)</sup>. Additionally, the testing of materials such as asphalt in municipal projects involving roads and transportation would generate new testing demands.
- Building structure testing service : The increase in number of public building construction projects<sup>(Note)</sup>.

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## BUSINESS

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- Slope monitoring and foundation pit monitoring services : The increase in number of public building and infrastructure construction projects<sup>(Note)</sup>.
- Food testing services : The regulations relating to food products have been intensified by the government, the demand from the government for compliance as well as the need for companies and individuals to self-inspect increase. In May 2024, the SAMR issued the “Food Safety Risk Control List,” (《食品安全風險管控清單》) aiming to strengthen the supervision and inspection related to food safety.

*Note:* According to the CIC Report, the sustained economic growth and significant infrastructure development in the Western Guangdong regions, driven by relevant government policies including the “Rural Revitalisation Initiative” (《鄉村振興》) and the “Project for the High-Quality Development of Hundreds of Counties, Thousands of Towns and Tens of Thousands of Villages” (《百縣千鎮萬村高質量發展工程》) promoted in lower tiers cities, have created robust demand for independent testing and inspection services. Sustained focus on infrastructure development in Western Guangdong is anticipated to drive growth in municipal facility construction and public building construction testing and inspection industry, with forecasted CAGRs of 13.1% and 10.3%, respectively, from 2023 to 2028. See “Industry Overview” in this prospectus for details.

### Construction Engineering Testing Services

#### *Foundation testing service*

We specialise in providing foundation testing service for private and public construction or infrastructure projects. We are involved in various aspects of foundation quality testing and evaluation works, as well as quality assessment of completed piles.

Our scope of work includes conducting tests using different methods in accordance with the instruction of our customers or the design in the relevant construction drawings to ensure the quality of the foundation works. Some of the main testing types we employ are:

- *Low Strain Integrity Test:* This method involves using gentle vibrations to stimulate the top of the pile and measure how the pile responds in terms of speed and force over time. By analysing these changes in vibrations using wave theory, we can determine the length and overall condition of the pile. We can also identify any irregularities or problems, such as cracks or empty spaces within the pile, by examining the patterns in the vibrations.

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## BUSINESS

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- *Acoustic Wave Transmission Test:* This method involves using sound waves transmitted through specially placed acoustic tubes. By measuring how these sound waves change in terms of travel time, frequency, and amplitude as they pass through the concrete, we can evaluate the quality of construction for cast-in-place concrete piles and underground diaphragm wall structures.
- *Standard Penetration Test:* This widely used method involves using a 63.5kg drop hammer with a 76cm drop height. A standard penetrometer is inserted into a pre-drilled hole, with a pre-drilled depth of 15cm from the bottom. The number of hammer blows required to further penetrate the soil by an additional 30cm is recorded. This test method helps in assessing the physical and mechanical characteristics of the soil.
- *Core Drilling Method:* This method involves drilling core samples to determine the length of piles (or depth of walls) and the thickness of sediment at the bottom of the piles (or walls). It is also used to identify the characteristics of rock foundations and the soil conditions in the load-bearing layers of the piles (or walls). Additionally, by examining the core sample features and conducting compressive strength tests on the core specimens, the construction quality of cast-in-place concrete piles, underground diaphragm walls, composite ground improvement structures, and cemented soil walls can be assessed.
- *Conical Power Touch:* This method determine the physical and mechanical properties of soil. It involves using a standard weight drop hammer which is dropped from a specific height. A standard cone-shaped probe is driven into the soil to a certain depth, and the number of hammer blows required to achieve this depth is recorded. Based on the number of blows needed to penetrate the soil to a specific distance, the physical and mechanical characteristics of the soil can be determined.
- *Plate Load Test:* This method involves gradually applying vertical pressure on the surface of natural, treated, or composite soil foundations and measuring the settlement over time. It helps determine the bearing capacity and deformation parameters of the foundation. For natural and treated soil foundations, it is known as shallow plate load testing, while for composite foundations, it is referred to as composite foundation plate load testing. In the case of deep foundations, it is typically called deep (borehole) plate load testing.
- *Rock Foundation Load Test:* This test is conducted on rock foundations that are intact, partially intact, or fractured. The purpose is to assess the bearing capacity and deformation parameters of these foundations, whether they are used as natural foundations or pile foundations. It is also known as rock foundation load testing.

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## BUSINESS

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- *Static Load Test:* This method involves applying incremental vertical loads, uplift forces, or horizontal forces at the top of a pile. The settlement, uplift displacement, or lateral displacement at the pile top is measured over time to determine the corresponding vertical compression bearing capacity, vertical uplift bearing capacity, and horizontal bearing capacity of the single pile.
- *Pull-out Test for Foundation Anchors/Soil Nails:* This test involves gradually applying pulling forces to the anchor head or soil nail, increasing the force until it reaches the maximum acceptable level. We measure how much the anchor head or soil nail moves over time to determine if it meets the required strength for pulling out. This method is commonly used for assessing the performance of foundation anchors and soil nails during acceptance testing.

The above foundation testing methods are required in the construction of foundation works stage during a building construction project and the roadbed construction stage during a public road or highway infrastructure project.

These testing techniques are utilised to ensure the quality and reliability of the foundation systems in construction projects. By conducting thorough testings and evaluations, we help ensure the structural integrity and safety of the built environment. Our expertise and experience in foundation testing enable us to provide valuable insights and recommendations to our customers in the construction industry.

We derived a majority of our revenue from foundation testing service during the Track Record Period. Our revenue derived from foundation testing service was RMB29.7 million, RMB11.2 million, RMB24.6 million and RMB14.1 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing 74.8%, 56.2%, 59.3% and 61.8% of our total revenue for the same years/period, respectively.

### ***Infrastructure and public roads testing service***

We provide infrastructure and public roads testing service mainly to municipal roadway projects, where physical testing is involved in assessing the quality and integrity of various roadway components.

Some common physical testing types used are set out below.

- *Compaction Testing:* This test measures the density of compacted road construction materials as a percentage of the prescribed standard density. This test is normally required in the roadbed construction stage during a public road or highway infrastructure project, the pipeline construction stage of an infrastructure project and the base level construction stage of an infrastructure project.
- *Bending Test:* This test measures how much the surface of the roadbed or pavement moves vertically under a specific load. It provides the total deflection or rebound deflection, measured in units of 0.01mm, indicating the amount of vertical deformation that occurs. This test is normally required in the roadbed construction stage during a public road or highway infrastructure project and the base level construction stage of an infrastructure project.

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## BUSINESS

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- *Pipe leak test:* After the completion of the installation of water supply and drainage pipelines, pipeline functionality should be tested according to the following requirements: (a) Pressure pipelines should undergo a hydraulic test in accordance with the specified requirements. This test consists of a pre-test and a main test stage. The test is considered successful if the pressure loss and water seepage values remain within the allowable limits defined by the design requirements. If there are no specific design requirements, the qualification will be based on one or both of these values, taking into account the actual circumstances of the project; (b) Unpressurised pipelines should undergo a leak test. The leak test can be conducted using either a water leak test or an air leak test, depending on the design requirements. If there are no specific design requirements, the choice between the water leak test and air leak test should be based on the actual conditions of the project. This test is essential to assess the functionality of the pipeline.

This method is normally required in the pipeline construction stage of an infrastructure project.

- *CCTV Inspection:* CCTV inspection involves using specialised cameras mounted on robotic devices to visually inspect the interior of pipes or other underground conduits. This method helps identify any blockages, cracks, deformations, or other structural issues within the pipe system. It enables efficient assessment and maintenance planning, facilitating timely repairs or replacements to ensure the smooth operation of municipal roadways.

This test is normally required in the pipeline construction stage of an infrastructure project.

- *Full Water Test for Structures:* After the completion of the construction of a pool structure, a leak test will be performed using water to check for any leaks. Additionally, water treatment structures will undergo a comprehensive water test after construction is completed. In the case of anaerobic tanks, they will go through an air leak test after successfully passing the water test.

The test is conducted when there is a specific request by our customers for testing a water treatment structure.

- *Pavement Thickness Testing:* This test is applicable to the measurement of the thickness of pavement structural layers. The excavation method is suitable for thickness testing of base layers or gravel pavements; the core drilling method is suitable for thickness testing of asphalt surface layers, cement concrete pavement panels and base layers from which complete core samples can be extracted.

This test is normally required during the construction of asphalt concrete pavement surface layer or cement concrete pavement surface layer in a public road or highway infrastructure project.



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## BUSINESS

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- *Friction Coefficient Testing:* This test uses a digital pendulum instrument to measure the British pendulum number (BPN), which is a value that represents the friction coefficient, of both ungrooved cement pavement and asphalt pavement. The purpose of this test is to evaluate the frictional performance of the pavement surfaces.

This test is normally required during the construction of asphalt concrete pavement surface layer or cement concrete pavement surface layer in a public road or highway infrastructure project.

- *Permeability Coefficient Testing:* This test measures the volume of water that penetrates into a specified area of the road surface within a given time, under a particular initial pressure. This measurement is expressed in milliliters per minute (ml/min). The water seepage performance of asphalt pavement serves as an indirect indicator of the composition of the asphalt mixture, reflecting the gradation of its components. Additionally, it is an essential indicator of the water stability of the asphalt pavement. Evaluating the water seepage performance is crucial for assessing the overall performance of the pavement.

This test is normally required during the construction of asphalt concrete pavement surface layer in a public road or highway infrastructure project.

- *Roughness Testing:* This test measures the vertical deviation of the pavement surface from an ideal plane, usually characterised by maximum clearance, bump accumulation, and the International Roughness Index.

This test is normally required during the construction of asphalt concrete pavement surface layer in a public road project.

- *Texture Depth Testing:* This test measures the depth of open voids, known as macro texture depth, on the pavement surface within a specific area. The measurement is expressed in millimeters (mm). The macro texture depth is a way to characterise the roughness of the road surface. It, along with the pavement friction coefficient, is a professional technical indicator used to assess the anti-skid performance of the road surface.

This test is normally required during the construction of cement concrete pavement surface layer in a public road project.

As part of our infrastructure and public roads testing service, we may also be required by our customers to conduct laboratory testing for relevant materials such as asphalt raw materials, mineral powder, cement and geosynthetic materials used in the municipal roadway projects. By offering physical testing and also laboratory testing for relevant municipal road materials, we contribute to the overall quality, durability, and safety of municipal road infrastructure projects.

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## BUSINESS

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Our revenue derived from infrastructure and public roads testing service was RMB0.9 million, RMB0.5 million, RMB5.8 million and RMB1.4 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing 2.2%, 2.3%, 14.1% and 6.2% of our total revenue for the same years/period, respectively.

### ***Construction material testing service***

Construction material testing is a crucial aspect of construction projects, aiming at analysing and evaluating the quality of various materials used in construction. It involves conducting tests on materials such as sand, stone, cement, steel, concrete, mineral powder, geosynthetics, asphalt and plastic pipes, etc. The objective is to gather accurate and reliable data on the properties and performance of the construction materials.

Testing for relevant construction material is normally required in the construction of foundation works stage and the initial building structure work stage during a building construction project and the roadbed construction, pipeline construction, base level construction and pavement surface layer construction during an infrastructure project.

Our customers usually provide samples of the construction materials from construction sites to us and we subject them to specialised laboratory tests in our laboratories. These tests are designed to assess the strength and other relevant characteristics specific to each material.

By conducting material testing, construction professionals can make informed decisions about material selection, ensure compliance with regulations and standards, assess the suitability of materials for specific applications, and ultimately enhance the quality and performance of construction projects.

Our revenue derived from construction material testing service was RMB5.2 million, RMB3.0 million, RMB3.9 million and RMB2.4 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing 13.0%, 14.8%, 9.4% and 10.5% of our total revenue for the same years/period, respectively.

### ***Building structure testing service***

Building structure testing is important for building construction, focusing on evaluating the key components and parameters of the building's main structure above the zero point (typically ground level). It is required throughout the building structure work stage during a building construction project.

In particular, the main testing types include:

- *Concrete Strength:* Testing the compressive strength of concrete to ensure it meets the required specifications and can bear the expected loads.
- *Reinforcement Bars Number and Spacing:* The number and spacing of the reinforcement bars used in the construction of the main structure verified to ensure that they are correctly installed according to design requirements.

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## BUSINESS

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- *Thickness of Protective Layer:* The protective layer thickness is measured to confirm that it meets the specified requirements.
- *Floor Slab Thickness:* The thickness of floor slabs is measured to confirm compliance with design specifications.
- *Settlement Observation:* The vertical ground movements, particularly settlement of structures, are measured and assessed. Observations are conducted based on the established monitoring points within the building and benchmark survey points to measure the degree of settlement and collect relevant data.

Our revenue derived from building structure testing service was RMB2.6 million, RMB0.8 million, RMB1.7 million and RMB0.8 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing 6.7%, 3.8%, 4.0% and 3.5% of our total revenue for the same years/period, respectively.

### **Construction Engineering Inspection Services**

#### *Slope monitoring and foundation pit monitoring services*

Foundation pit monitoring involves regular or continuous inspections, measurements, monitoring, data collection, analysis, and feedback activities implemented during the construction and usage phases of an excavation pit in a building project to assess the safety condition, changes, and development trends of the pit and its surrounding environment. This is done through various means and methods, including instrument measurements, on-site inspections, and other techniques to ensure the safety of the excavation pit and its surroundings.

Slope monitoring involves, measurements, monitoring, data collection, analysis, and feedback activities carried out during the construction, trial operation, and operational phases of a building slope to assess the safety condition, changes, characteristics, and development trends of the slope. Various means and methods, such as instrument measurements are employed.

By providing slope and foundation pit monitoring services, we ensure the comprehensive evaluation of slope conditions, foundation pit stability, and early detection of potential risks. These monitoring services contribute significantly to the safety and success of construction projects by facilitating timely interventions, minimising hazards, and maintaining the structural integrity of slopes and foundation pits.

Slope monitoring and foundation pit monitoring are normally required in the stage of excavation of foundation pit and backfilling of earthworks during a building construction project. They may also be required throughout certain infrastructure projects.

Our revenue derived from slope monitoring and foundation pit monitoring services was RMB1.3 million, RMB4.6 million, RMB5.5 million and RMB1.3 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing 3.3%, 22.9%, 13.2% and 5.7% of our total revenue for the same years/period, respectively.

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## BUSINESS

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### **Food Testing Services**

Since May 2024, we have also commenced to provide food testing services. Food testing primarily involves the detection and evaluation of pesticide residues and food additives within the product samples, in order to assess the physical and chemical quality characteristics of the products and to ensure that the products comply with the relevant national quality and safety standards.

We were engaged by a PRC government administrative bureau which is responsible for overseeing and regulating the food products market in Xinyi City to conduct government-mandated sampling tests on various types of food products such as fruits, vegetables, tea leaves and eggs.

Our food testing primarily involved two main types of testing methods, including quantitative testing and rapid testing. We provide quantitative testing and rapid testing on the food products based on our customer's designated testing plan formulated to ensure their products' compliance with the relevant quality and safety standards.

Quantitative testing involves the process of conducting a quantitative analysis or testing to accurately measure and determine the levels or amounts of specific components or contaminants, such as different types of pesticide residues, within a sample.

Rapid testing is a method that can quickly detect the presence of various target substances within a sample. Rapid testing acts as an initial screening tools that require minimal sample preparation and technical expertise to operate. The analysis time required is typically shorter than conducting quantitative testing.

Both quantitative testing and rapid testing were mainly conducted in our laboratories by our skilled technicians with relevant qualifications in food testing with the samples collected. In certain occasion, for rapid testing, we were required to conduct the tests directly at the food products marketplaces or other locations designated by our customer, where our technicians will travel to the designated locations with the testing equipment to perform the necessary testing.

Our revenue derived from food testing services was RMB2.8 million for 6M2024, representing 12.3% of our total revenue for the period.

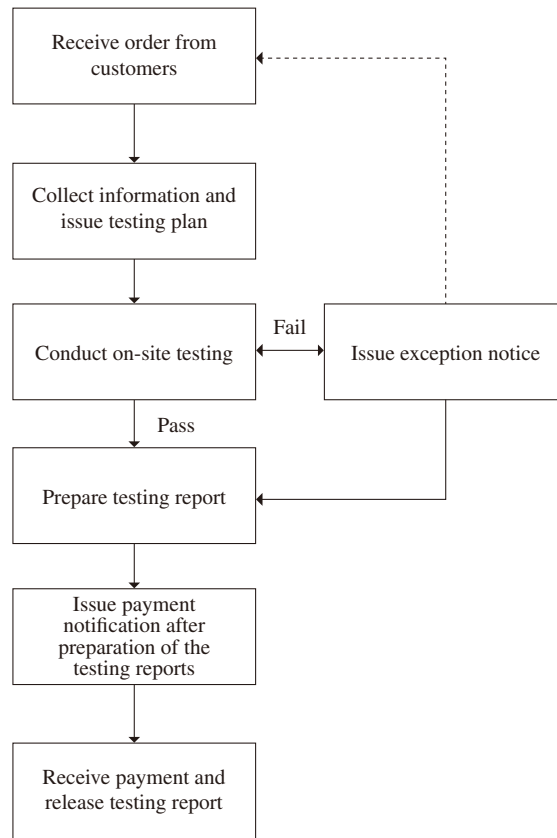
### **KEY SERVICE PROCESS**

Our service process comprises of on-site testing and inspection and laboratory testing. We conduct on-site services for our foundation testing service, infrastructure and public roads testing service, building structure testing service and slope monitoring and foundation pit monitoring services, and we conduct laboratory testing for our construction material testing service and as part of our infrastructure and public roads testing service for specific materials if required by our customers. For our food testing services provided since May 2024, they were mainly laboratory testing with a number of on-locations testing on demand.

## Process for on-site construction engineering testing and inspection services

Our foundation testing service, infrastructure and public roads testing service, building structure testing service and slope monitoring and foundation pit monitoring services are mainly conducted on-site at the locations of the relevant construction or infrastructure projects and typically encompasses the following major components: (1) receive order from customers; (2) collect information and issue testing plan; (3) conduct on-site testing; (4) prepare testing report (and issue exception notice if the test results indicate a failure and additional testing to be conducted); (5) issue payment notification; and (6) receive payment and release testing report. Our service process follows our standardised procedures and stringent quality control measures to ensure accurate results for our customers in a cost-effective manner.

The following diagram illustrates the typical on-site testing service process.



- *Receive order.* Our customers usually contact us and make order through various channels such as our Company’s website, our social media public account, or referrals from other parties. In some circumstances, there are also internal referrals within different testing and inspection departments of our Company, i.e. where our customer in one testing service, such as foundation testing, also requires other testing services such as material testing service for their projects involved, and our foundation testing department would refer the customer to our material testing department.

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## BUSINESS

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- *Collect information and formulate testing plan.* Upon receipt of order, we will enquire the customers on the project information including but not limited to the relevant testing requirements (e.g. relevant construction drawings and the geological information of the construction or infrastructure projects). Our general management department will formulate a testing plan, which including but not limited to the testing methods and the relevant criteria, and the expected workload of the projects, which will be reviewed by our technical personnel in charge. The testing plan will then be submitted to our customer, the relevant working units and supervisory units for confirmation. Our technical personnel in charge will determine whether the testing plan is suitable for the projects, taking into account various factors including the regulations requirement and the capacity of our resources. Generally, we are required to complete the project assessment within two to five days. Once the testing plan is approved, we will enter into an official service contract with our customers.
- *Conduct on-site testing.* Prior to on-site testing, our testing personnel will coordinate with the parties at the construction sites for pre-testing preparations. Our testing personnel will request for relevant testing equipment from our general management department, and transport the equipment to the site.

During the on-site testing, the data collection process is conducted systematically in the presence of responsible parties, including our customers, the relevant working units and supervisory units. Once the testing is finished, our testing personnel will return to our headquarters to analyse the data and acquire initial findings.

- *Issue exception notice.* In the event that the results indicate a failure to meet any industry requirements and specified design requirements, an exception notice will be generated and sent to our customers. We recommend that our customers to also send the exception notice to the relevant municipal supervisory authorities for quality and safety affairs, as well as the responsible parties involved in the construction project, including the design unit, construction unit, and supervisory unit. Our customers will normally receive revised construction drawings and upon receiving a new order from our customers, we will conduct additional testing. If no testing failure is identified, the testing results will be conveyed to our customers, signaling the commencement of the subsequent construction phase. Our testing personnel will organise the raw record sheets, analyse the data, and obtain the test results.
- *Prepare testing report and notification of payment.* After the on-site testing, regardless of whether the testing indicates a pass or fail result, we will prepare the preliminary and electronic version of a testing report. The testing report will be signed by our testing personnel. The report undergoes verification and review by our department heads, and final approval by our general manager. We will issue an invoice to our customer after preparation of the testing reports and they will then be notified for payment.

Except for certain customers with large contract sum or lengthy contract terms which we may require prepayment or payment by instalment before provision of our services and preparation of the reports, we typically request for payment from our customers after we complete the preparation of the testing reports.

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## BUSINESS

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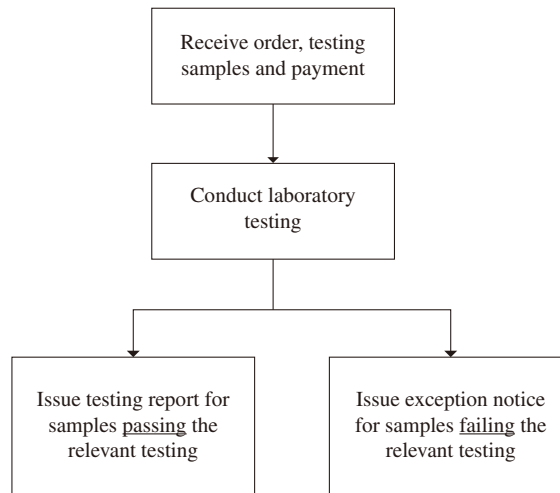
Since our testing and inspection services are always provided in conjunction to the construction or infrastructure projects, the duration of our services will vary and will be affected by the overall process of the construction or infrastructure projects or the construction stages of the specific area where our testing and inspection services are conducted in. Therefore, during the Track Record Period, the timeline for our services, from the commencement of on-site testing to completion of the preparation of testing reports, can range from one day to more than 300 days.

- *Receive payment and release testing report.* Once our general management department has received the payment from our customer, we will release the final testing report to our customer and our customer will sign and return a report acceptance form to complete the acceptance process. Subject to the preference of our customers and the stages of the construction or infrastructure projects they are involved in, our customers have the flexibility to collect the testing report and settle the payment in a prolonged period after we completed the preparation of the report and issued the invoice to them.

### Process for construction engineering laboratory testing services

Our construction material testing service is conducted in our laboratory units and typically encompasses the following major components: (1) receipt of order, testing samples and payment from customers; (2) conduct laboratory testing; (3) prepare and issue testing report for samples passing the relevant testing or issue exception notice for samples failing the relevant testing.

The following diagram illustrates the typical laboratory testing service process.



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## BUSINESS

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- *Receive order, testing samples and payment.* Our customers usually submit the relevant construction material testing samples to us where our sample receiving personnel will confirm the specifications, quantity, and compliance with the testing requirements. If the testing samples meet the requirements, we will notify our customer and they will place order for the testing services.

We usually require our customer to make up-front full payment for the testing service conducted in our laboratories. Upon receipt of payment, we will enter the samples information into our testing system and print identification labels to be affixed to the samples.

- *Conduct laboratory testing.* Our testing personnel will receive the testing task from the testing system, and will confirm the integrity, specifications and quantity of the samples. During laboratory testing, our testing personnel will perform the tests according to the relevant standards and upload the test results manually or automatically to our testing system.

See “Our major equipment – Laboratories” in this section for our major types of laboratorial functions in operation and the relevant testing conducted in our laboratory units.

- *Issue testing report for samples passing the relevant testing.* The test results for the testing samples uploaded to the testing system will be verified by the testing personnel, reviewed by the construction material testing department head, and approved by our general manager.

If the samples pass the relevant testing, we will prepare and issue a testing report to our customer and our customer will sign and return a report acceptance form to complete the acceptance process.

- *Issue exception notice for samples failing the relevant testing.* If the samples do not meet the requirements and fail the testing, an exception notice will be issued to our customer to document the non-compliance and the specific issues identified during the testing process. This exception notice includes details such as the sample information, the test results, and the specific deviations from the requirements. Our customer shall sign for receipt of the exception notice to acknowledge the test results and the identified issues. This process ensures transparency and allows the client to be informed about the non-compliant samples and take appropriate actions where necessary, such as retesting or replacing the materials.

Regardless of whether the samples passing or failing the relevant testing, unless as requested by our customers when we received the samples, we typically consider the tested samples as scrap. The tested samples are disposed of according to the our waste management procedures, ensuring proper disposal in an environmentally responsible manner.



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## BUSINESS

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As part of our infrastructure and public roads testing service, we may be required by our customers to conduct testing for specific materials such as asphalt raw materials, inorganic binding materials, geosynthetic materials, and manhole covers used in the municipal roadway projects. The material testing procedures will be conducted in our laboratory units, which mainly follows the testing process for construction material testing as stated in the paragraph “Process for construction engineering laboratory testing services – Conduct laboratory testing” above.

### **Process for food testing**

Our customer for food testing services in 6M2024 was a PRC government administrative bureau that was responsible for market regulation in Xinyi City, Maoming, including overseeing and regulating food safety. We entered into a service contract with the customer for food testing for various types of food products such as fruits, vegetables, tea leaves and eggs and our customer placed separate orders to us for quantitative testing and rapid testing based on the service contract.

The testing samples were submitted by our customer or collected directly by our technicians. When receiving samples, we will check and record the conditions of the samples and verify the samples against the sampling documents. We will not accept samples that do not meet the sampling standard and will report to our customer in a timely manner. Both quantitative testing and rapid testing were mainly conducted in our laboratory units with similar testing process for construction material testing as described above. In certain occasion, for rapid testing, we were required to conduct the tests directly at the food products marketplaces or other locations designated by our customer, where our technicians will travel to the designated locations with the testing equipment to perform the necessary testing. For food products that failed the relevant testings, i.e. containing pesticide residues and food additives or the level exceeding the relevant legal standards, our customer shall be informed and they shall take further actions such as prohibiting the sale of the relevant products.

## OUR MAJOR EQUIPMENT

### Machinery and equipment

We are equipped with more than 800 units of machinery and equipment for our construction engineering testing and inspection services sourced from domestic manufacturers.

Our major types of on-site machinery and equipment are described below:

#### *Foundation testing service*

- Static load testing analysis equipment: Used for conducting static load tests. Currently, we can conduct static load tests up to a capacity of 35,000 kN.



- Static load testing equipment: Used for providing the corresponding reaction force during vertical compression static load tests, with single bar bearing capacity of 35,000 kN.



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## BUSINESS

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- Plate load testing equipment: Used for providing the corresponding reaction force during plate load tests, specifically through the use of a load platform reaction device.



- Hydraulic jack: Used for providing the test pressure in various static load tests. It is used in conjunction with equipment such as high-pressure oil pumps.



- Core drilling rig: Used for core drilling test, involving evaluation of the quality of the pile body, the type of pile body at the head, the concrete strength of the pile body, the sedimentation condition at the bottom of the pile, and the rock and soil properties of the bearing layer.



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## BUSINESS

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- Pile dynamic tester: Used for detecting the integrity of the pile shaft, and determining the extent and location of any defects in the pile shaft.



- Multi-span hole ultrasonic automatic monitoring equipment for foundation piles: Used for detecting the integrity of the concrete poured piles and the wall body of underground continuous walls.



### *Infrastructure and public roads testing service*

- Bending Settling Apparatus: Used for measuring the rebound deflection values at various test points on the roadbed and pavement for assessing the overall strength of the pavement and inspecting its quality.



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## BUSINESS

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- Sand Pouring Cylinder: Used for compaction testing.



- Eight-wheel roughness meter: Used for characterising the smoothness of the pavement. It has widespread application in construction inspections, completion acceptance, and maintenance of roads, including highways, urban roads, squares, airport runways, and other pavement surfaces.



- Electric sand spreader: Used for testing the surface texture depth of asphalt pavement and non-grooved cement concrete pavement to assess the skid resistance performance of the road surface.

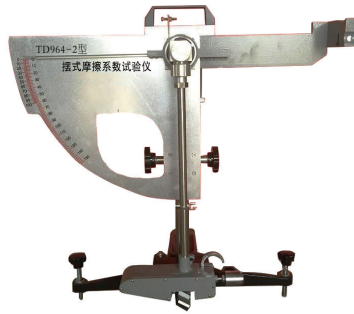


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## BUSINESS

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- Digital pendulum friction tester: Used for measuring the friction coefficient, which reflects the safety performance and friction characteristics of the road surface.



- CCTV pipeline robot: Used for inspection and diagnosis of drainage pipelines, aiding in the identification of blockages, cracks, deformations, or other structural issues within the pipeline system.



### *Building structure testing service*

- Floor Thickness Gauge: Used for measuring the thickness of a floor.





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## BUSINESS

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- Rebound hammer: Used for assessing the strength of concrete.



### *Slope monitoring and foundation pit monitoring services*

- Electronic Total Station: a high-tech surveying instrument that integrates optics, mechanics, and electronics and combines the functions of measuring horizontal angles, vertical angles, distances (slope distance, horizontal distance), and height differences into a single surveying instrument system.



- Incliner: Used for measuring deep-seated horizontal displacements through embedded inclinometer casing.



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## BUSINESS

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- Automatic level: Used for determining the line of sight height and horizontal distance.



### Laboratories

We operate two in-house laboratory units with various laboratorial functions located in Xinyi City, Maoming equipped with machinery and equipment for sample preparation and testing. Our construction material testing service and the material testing procedures of our infrastructure and public roads testing service, as well as our food testing services, are conducted in our laboratory units.

The major laboratorial functions conducted in our in-house laboratory units are described below:

### Construction material testing

- Metal material mechanical properties laboratorial testing



Used for testing the mechanical properties of metal materials, which includes inspecting the appearance dimensions and weight deviations of the materials, conducting tensile tests to measure the material's strength, and evaluating the material's yield strength and bending performance.



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## BUSINESS

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- Non-metal material mechanical properties laboratorial testing



Used for evaluating the mechanical properties of non-metallic materials, which includes testing the compressive and flexural strength of concrete, mortar, wall materials, pavement bricks, and curb stones.

- Cement physical properties laboratorial testing



Used for conducting physical performance tests and evaluating the performance indicators of cement, which include testing standard consistency water requirement, stability, initial and final setting time, and strength of the samples and collaborating with other departments for related experiments.

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## BUSINESS

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- Concrete permeability testing laboratorial testing



Used for conducting testing on the permeability of concrete, which includes measuring the water permeability of concrete.

- Building electrical laboratorial testing



Used for conducting routine testing of the safety performance of electrical wires, cables, and other electrical devices.

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## BUSINESS

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- Waterproof material laboratorial testing



Used for testing waterproofing membranes, waterproofing composite materials, polyurethane waterproof coatings, and waterproof coatings.

- Building energy saving materials laboratorial testing



Used for testing insulation materials, which includes testing the thermal insulation mortar for building insulation, thermal conductivity of insulation materials, thermal conductivity of extruded polystyrene foam for insulation purposes, thermal conductivity of autoclaved aerated concrete blocks, and dimensional measurements.

- Pipe and fittings laboratorial testing



Used for testing plastic pipes, including single-material plastic pipes such as rigid polyvinyl chloride (PVC) pipes, polyethylene pipes, polyethylene pipes, and PVC plastic pipes.

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## BUSINESS

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- Asphalt raw materials testing laboratorial testing



Used for conducting physical and chemical performance tests and performance indicator evaluations for various types of asphalt, which include but are not limited to: asphalt penetration degree, softening point, elongation, density and relative density, wax content, flash point and ignition point, dynamic viscosity, standard viscosity, kinematic viscosity, emulsified asphalt residue, emulsified asphalt particle ion charge, emulsified asphalt storage stability, and demulsification rate testing.

- Asphalt mixture testing laboratorial testing



Used for conducting physical and chemical performance testing, performance indicator evaluation, and mix design of asphalt mixtures. The main testing include compacting asphalt mixture density, theoretical maximum relative density, stability and flow value, dynamic stability, permeability coefficient, saturation rate, asphalt mixture aggregate gradation inspection and strength testing.



- Food testing



Used for conducting food testing. The main equipment for conducting quantitative testing include (i) gas and liquid chromatography-mass spectrometry systems used to analyse volatile and non-volatile components, contaminants, and residues like pesticides, veterinary drugs, and antibiotics; and (ii) gas and liquid chromatographs used to enable the separation and determination of nutritional elements as well as contaminants for quality assessment. The main equipment for rapid testing include (i) a multi-functional agricultural and veterinary drug residue detector which uses various methods such as spectroscopy and colloidal gold detection to check for pesticide and veterinary drug residues in food products; and (ii) a nitrogen evaporator used to quickly concentrate samples by evaporating moisture while preserving purity. This suite of instruments and techniques allows for comprehensive testing and detection of a wide range of substances in food products.

Our equipment used for rapid testing is designed to be portable, allowing technicians to travel to locations such as food products marketplaces or other locations designated by our customers and conduct testing of the food products.

We own all of our machinery and equipment for our business operations. Our machinery and equipment generally have a useful life of three to 10 years. All of our machinery and equipment are currently in good condition, ensuring sustainable and uninterrupted operation. As part of our commitment to maintaining high standards, we also periodically assess the need for new machinery and equipment. Replacement or upgrades are considered based on factors such as the condition of existing machines and advancements in technology.

In order to comply with the relevant legal requirements, most of our testing and inspection machineries and equipment are also required to undergo an annual review conducted by relevant government-approved testing institutions for machineries and equipment. Some of our machineries and equipment will be subject to review twice a year, or at intervals of every two, three or four years. Our testing and inspection machineries and equipment had passed all required reviews during the Track Record Period. These reviews ensure that our testing and inspection machineries and equipment consistently meet the necessary regulatory requirements, giving our customers confidence in the accuracy and reliability of our testing services.

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# BUSINESS

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## QUALITY CONTROL

Quality control is one of our core values and vital to our business. We implement stringent quality control measures throughout our service process.

We have obtained the Inspection and Testing Agency Qualification Certificate (檢驗檢測機構資質認定證書) issued by the Guangdong AMR for carrying out different types of testing and inspection services including, in particular, construction engineering testing and inspection and food testing services for our business during the Track Record Period. This certificate grants us permission to use mark of the CMA (China Inspection Body and Laboratory Mandatory Approval) when conducting our business. The CMA is a certification and evaluation of the testing capabilities and reliability of inspection institutions, conducted by quality inspection departments at the provincial level or above in accordance with the provisions of the Metrology Law of China. Additionally, we also hold the Construction Engineering Quality Inspection Agency Qualification Certificate (建設工程質量檢測機構資質證書) issued by the Guangdong Provincial Department of Housing and Urban-Rural Development (廣東省住房和城鄉建設廳). These certificates are crucial for demonstrating our capability and eligibility to provide reliable testing and inspection services.

We have also established a full set of standardised quality control measures, such as the procedures of inspection and testing, and we have set up a quality control team which formulates quality control measures and monitors quality control compliance of our testing personnel to ensure consistently high quality of our services provided by us.

Headed by Ms. Zhang Yue'e, our quality control team had 16 members including nine full time members in the quality control department and seven members are representatives from various other departments as of the Latest Practicable Date. The quality control team members have an average of 9 years of relevant experience. We also have designated quality control staff with extensive on-site experience deployed at the relevant construction sites or locations which our testing services are conducted to supervise the day-to-day operation of our on-site testing personnel, and to report to our quality control team on a daily basis.

### Quality control measures

Our quality control team has formulated a comprehensive set of quality control measures to reflect the latest development of regulatory or industrial requirements.

We strictly adhere to the service procedures outlined in our quality manual and utilise video surveillance at our service locations to ensure compliance and effective monitoring.

- **Quality manual:** We have a detailed quality manual that contains precise specifications and procedures for different testing services. Each employee has received training to ensure his understanding and strict adherence to these standards. These operating procedures cover various aspects, including safety protocols, equipment maintenance, data recording, and reporting.

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## BUSINESS

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- Video surveillance: Our service locations and laboratories are equipped with high-quality video surveillance system. Cameras are strategically placed to monitor activities at the construction sites or our laboratories in order to ensure the safety of the work area, supervise employee behaviour, and provide records and investigations of potential issues and incidents.

We require our operation to strictly comply with the requisite regulatory and widely-acknowledged industrial operating standards. These standards allow our field personnel and laboratorial technicians to perform tests with high accuracy in a cost-effective manner.

The following table sets forth certain key national and industrial standards that we follow in our service process.

<b>Standard Code</b>	<b>Standard Name</b>	<b>Issuing Organisation</b>	<b>Issuing Date</b>
DBJ15-60-2019	Code for testing of building foundation	Guangdong Provincial Department of Housing and Urban-Rural Development	20 May 2019
JTG 3450-2019	Field Test Methods of Highway Subgrade and Pavement	Ministry of Transport of the PRC	10 December 2019
GB50497-2019	Technical Standard for Monitoring of Building Excavation Engineering	MOHURD&SAMR	22 November 2019
JGJ/T 23-2011	Technical Specification for Inspecting of Concrete Compressive Strength by Rebound Method	MOHURD	3 May 2011
GB/T 50081-2019	Standard for Test Methods of Concrete Physical and Mechanical Properties	MOHURD&SAMR	19 June 2019
GB 31647-2018	National Food Safety Standards – General Hygiene Specifications for Food Additives Production	SAMR	26 April 2024

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## BUSINESS

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### OUR CUSTOMERS

Our customers mainly engage in the construction industry including property developers, construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus.

Property developers play a significant role in the construction industry, being involved in the development and construction of residential, commercial, and industrial properties. These developers undertake large-scale projects and require reliable and efficient services to ensure the successful completion of their ventures.

Construction companies encompass a wide range of businesses involved in various construction projects, such as infrastructure development, building construction, and renovation projects. They rely on specialised services and expertise to carry out their projects effectively and meet quality standards.

State-owned investment companies are state-owned enterprises directly or indirectly established by local governments in the PRC to facilitate urban and rural development and infrastructure projects and typically engage in investments in areas such as transportation, cultural and tourism, real estate, and public facilities. We assist these enterprises by conducting comprehensive testing and inspection to ensure the quality and safety of their construction or infrastructure projects.

PRC government institutions are non-profit public service entities established by the PRC Government to provide essential public services, such as education, healthcare, cultural activities, research, and social welfare. The projects engaged by the PRC government institutions include public schools, hospitals, research institutes, and social service organisations. They often rely on government funding and operate with a focus on public service rather than profit-making. We work closely with these entities to provide the necessary construction engineering testing and inspection expertise to ensure compliance with regulations and standards set by the PRC Government.

Additionally, the relevant PRC government administrative bureaus, such as the municipal bureaus for housing and urban-rural development, play a crucial role in overseeing and regulating the construction industry. They are administrative bodies of the PRC Government responsible for implementing government policies, managing public affairs, providing public services, and overseeing specific sectors or areas including construction and infrastructure developments in the country. They may engage our services for quality assurance, compliance verification, and project supervision purposes. These institutions ensure that construction and infrastructure projects adhere to safety regulations, environmental standards, and other legal requirements.

In addition, the customer which engaged us for food testing services in 6M2024 was also a PRC government administrative bureau that was responsible for market regulation in Xinyi City, Maoming including overseeing and regulating food safety matters.



## BUSINESS

The following table sets forth a breakdown of our revenue by customer type during the Track Record Period.

	FY2021		FY2022		FY2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Property developers	23,596	59.3	6,164	30.9	14,854	35.8	9,191	40.3
Construction companies	8,559	21.5	5,348	26.8	8,386	20.2	843	3.7
State-owned investment companies	3,502	8.8	2,091	10.5	5,851	14.1	4,202	18.4
PRC government institutions	2,297	5.8	3,934	19.7	6,743	16.3	2,076	9.1
PRC government administrative bureaus	308	0.8	1,807	9.1	3,131	7.5	4,434	19.4
Others <sup>(Note)</sup>	1,519	3.8	622	3.0	2,535	6.1	2,084	9.1
<b>Total</b>	<b>39,781</b>	<b>100.0</b>	<b>19,966</b>	<b>100.0</b>	<b>41,500</b>	<b>100.0</b>	<b>22,830</b>	<b>100.0</b>

*Note:* Including individuals involving in private construction or building works which require our testing services.

Our customers for construction engineering testing and inspection services involve in both private commercial and residential construction projects and public construction and infrastructure projects.

Private commercial construction projects involve the development, construction, and renovation of buildings intended for commercial use. This includes office buildings, shopping centers, hotels, warehouses, and other structures that cater to business activities. Private residential construction projects involve the construction, renovation, or expansion of residential properties that are privately owned. These private construction projects are mainly undergone by property developers and construction companies.

Public construction and infrastructure projects usually involve the construction of hospitals, schools and other buildings for public use and development of roads, bridges and water supply systems, etc. State-owned investment companies, PRC government institutions, PRC government administrative bureaus, construction companies, as well as certain property developers, are typically involved in these public sector projects. Since FY2022, we have shifted our focus towards providing more testing and inspection services for customers involved in public sector projects. Our Directors believe that we are able to compete with other market players in capturing demand from the public sector projects for testing and inspection services based on that (i) we are a state-owned company which provides us a backing for our credibility; (ii) we hold a prominent position in the industry where we ranked second among all independent construction engineering testing and inspection companies in Maoming, with a market share of 10.9% in 2023; (iii) we have a strong management team with extensive experience and expertise in the testing and inspection industry; (iv) with years of development in Maoming, we have gained recognition from our customers; and (v) we strategically focused on public projects as a key area of business growth since 2022. We have made progress in expanding our testing and inspection services for public projects, building valuable experience, and fostering strong partnerships with our customers involved in public projects. These accumulated resources and relationships will enable us to better capture the demand for testing and inspection services in public projects and enhance our competitive position in the testing and inspection market.

## BUSINESS

For the food testing services provided by us in 6M2024, our customer was a PRC government administrative bureau that was responsible for market regulation in Xinyi City, Maoming, including overseeing and regulating food safety matters, which engaged us to conduct government-mandated sampling tests on the relevant food products to evaluate whether the required quality, safety, and regulatory standards were met.

The following table sets forth a breakdown of our revenue by public and private sector construction engineering projects/by public sector customer demanding food testing service and by customers type during the Track Record Period:

	FY2021		FY2022		FY2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Construction engineering testing and inspection services</b>								
<i>Private Sector</i>								
Property developers	22,112	55.6	5,583	28.0	13,098	31.6	9,118	40.0
Construction companies	6,604	16.6	3,900	19.5	4,251	10.2	626	2.7
PRC government institutions <sup>(1)</sup>	–*	0	–	–	85	0.2	45	0.2
PRC government administrative bureaus <sup>(1)</sup>	1	0	–	–	3	0	1	0
Others <sup>(2)</sup>	1,435	3.6	559	2.8	2,028	4.9	943	4.1
Sub-total of private sector	30,152	75.8	10,042	50.3	19,465	46.9	10,733	47.0
<i>Public Sector</i>								
Property developers	1,484	3.7	581	2.9	1,756	4.2	73	0.3
Construction companies	1,955	4.9	1,448	7.3	4,135	10.0	217	1.0
State-owned investment companies	3,502	8.8	2,091	10.5	5,851	14.1	4,202	18.4
PRC government institutions	2,297	5.8	3,934	19.7	6,658	16.1	2,031	8.9
PRC government administrative bureaus	307	0.8	1,807	9.1	3,128	7.5	1,634	7.1
Others	84	0.2	63	0.2	507	1.2	1,141	5.0
Sub-total of public sector	9,629	24.2	9,924	49.7	22,035	53.1	9,298	40.7
Sub-total of construction engineering testing and inspection services	39,781	100.0	19,966	100.0	41,500	100.0	20,031	87.7
<b>Food testing services</b>								
<i>Public Sector</i>								
PRC government administrative bureau	–	–	–	–	–	–	2,799	12.3
Sub-total of food testing services	–	–	–	–	–	–	2,799	12.3
<b>Total</b>	<b>39,781</b>	<b>100.0</b>	<b>19,966</b>	<b>100.0</b>	<b>41,500</b>	<b>100.0</b>	<b>22,830</b>	<b>100.0</b>

\* represents that the amount is less than RMB1,000

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## BUSINESS

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*Notes:*

1. Certain PRC government institutions and PRC government administrative bureaus conduct sampling quality inspection on various aspect in a private construction project, such as the quality of the construction materials. As part of this process, they engage us to provide relevant testing services to ensure the required quality standards set by the government are met and maintained in the private construction projects.
2. Including individuals involving in private construction works which require our testing services.

During FY2021, FY2022, FY2023 and 6M2024, we had 268, 182, 279 and 196 customers, respectively. The table below sets forth a breakdown of number of customers by type of services offered by us during the Track Record Period.

	FY2021	FY2022	FY2023	6M2024
Foundation testing service	156	73	124	62
Infrastructure and public roads testing service	4	13	15	18
Construction material testing service	121	106	206	160
Building structure testing service	62	31	50	26
Slope monitoring and foundation pit monitoring services	9	14	17	8
Food testing services	–	–	–	1

*Note:* Certain customers engaged us to provide more than one type of testing and inspection service during FY2021, FY2022, FY2023 and 6M2024

Our customers usually contact us and ask for quotation and make order through various channels such as our Company’s website, our social media public account, or referrals from other parties. In some circumstances, there are also internal referrals within different testing and inspection departments of our Company. See “– Key service process” in this section for details. In FY2021, FY2022, FY2023 and 6M2024, the average spending per customer was approximately RMB148,000, RMB110,000, RMB149,000 and RMB116,000, respectively. In FY2021, FY2022, FY2023 and 6M2024, we had a customer retention rate, representing the number of customers in the previous year who remains as our customers in the current period divided by the total number of customers in the previous year, of 52.2%, 34.7%, 61.0% and 47.3%, respectively. Due to the shift in focus on our revenue and project sector, both the number and revenue contribution from property developers had decreased in FY2022, as a result our customer retention rate decreased in FY2022.

## BUSINESS

The following table sets forth a breakdown of revenue by service types that were attributed from each customer type throughout the Track Record Period:

### ***FY2021***

	Foundation testing service		Infrastructure and public road testing service		Construction material testing service		Building structure testing service		Slope monitoring and foundation pit monitoring services	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	Property developers	23,007	77.4	-	-	8	0.2	324	12.2	257
Construction companies	678	2.3	417	46.7	5,139	99.1	2,325	87.8	-	-
State-owned investment companies	2,319	7.8	411	46.0	-	-	-	-	772	58.9
PRC government institutions	2,089	7.0	-	-	-*	-	-	-	208	15.8
PRC government administrative bureaus	258	0.9	-	-	-*	-	-	-	50	3.8
Others <sup>(Note)</sup>	1,392	4.6	65	7.3	38	0.7	-	-	24	1.9
<b>Total</b>	<b>29,743</b>	<b>100</b>	<b>893</b>	<b>100</b>	<b>5,185</b>	<b>100</b>	<b>2,649</b>	<b>100</b>	<b>1,311</b>	<b>100</b>

\* represents that the amount is less than RMB1,000

### ***FY2022***

	Foundation testing service		Infrastructure and public road testing service		Construction material testing service		Building structure testing service		Slope monitoring and foundation pit monitoring services	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	Property developers	5,749	51.2	-	-	37	1.2	159	20.9	219
Construction companies	1,143	10.2	451	98.9	2,866	97.0	598	78.8	290	6.4
State-owned investment companies	2,088	18.6	1	0.3	-	-	2	0.3	-	-
PRC government institutions	254	2.2	4	0.8	5	0.2	-	-	3,671	80.4
PRC government administrative bureaus	1,480	13.2	-	-	-	-	-	-	327	7.2
Others <sup>(Note)</sup>	518	4.6	-	-	47	1.6	-	-	57	1.2
<b>Total</b>	<b>11,232</b>	<b>100</b>	<b>456</b>	<b>100</b>	<b>2,955</b>	<b>100</b>	<b>759</b>	<b>100</b>	<b>4,564</b>	<b>100</b>

## BUSINESS

### *FY2023*

	Foundation testing service		Infrastructure and public road testing service		Construction material testing service		Building structure testing service		Slope monitoring and foundation pit monitoring services	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Property developers	12,074	49.0	3	0.0	1,518	39.0	289	17.2	970	17.7
Construction companies	3,777	15.3	2,386	40.9	786	20.2	1,351	80.4	86	1.6
State-owned investment companies	3,072	12.5	1,680	28.8	630	16.2	20	1.2	449	8.2
PRC government institutions	1,277	5.2	1,680	28.8	274	7.1	7	0.4	3,505	64.0
PRC government administrative bureaus	2,369	9.6	31	0.5	353	9.1	1	0.0	377	6.9
Others <sup>(Note)</sup>	2,050	8.4	57	1.0	327	8.4	14	0.8	87	1.6
<b>Total</b>	<b>24,619</b>	<b>100</b>	<b>5,837</b>	<b>100</b>	<b>3,888</b>	<b>100</b>	<b>1,682</b>	<b>100</b>	<b>5,474</b>	<b>100</b>

### *6M2024*

	Foundation testing service		Infrastructure and public road testing service		Construction material testing service		Building structure testing service		Slope monitoring and foundation pit monitoring services		Food testing services	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Property developers	7,965	56.4	-	-	751	31.2	176	21.9	299	23.1	-	-
Construction companies	252	1.8	101	7.2	121	5.0	349	43.1	20	1.5	-	-
State-owned investment companies	3,336	23.6	142	10.1	598	24.8	19	2.1	107	8.4	-	-
PRC government institutions	478	3.4	438	31.1	321	13.3	-	-	839	64.9	-	-
PRC government administrative bureaus	235	1.7	727	51.6	416	17.3	257	31.8	-	-	2,799	100
Others <sup>(Note)</sup>	1,846	13.1	-	-	202	8.4	9	1.1	27	2.1	-	-
<b>Total</b>	<b>14,112</b>	<b>100</b>	<b>1,408</b>	<b>100</b>	<b>2,409</b>	<b>100</b>	<b>810</b>	<b>100</b>	<b>1,292</b>	<b>100</b>	<b>2,799</b>	<b>100</b>

*Note:* Including individuals involving in private construction works which require our testing services.

In the course of provision of our testing and inspection services, the testing reports produced by us are of utmost importance to our customers. At various stages in construction or infrastructure projects, it is essential to conduct targeted monitoring and testing for different aspects such as foundation, building structure, slope, and material quality as the projects can only proceed to the next stage if the results of these tests meet the required construction standards and regulations. Qualified test results and supporting data play a vital role in ensuring the smooth progress of the project.

## BUSINESS

During the acceptance process of different stages of a construction or infrastructure project, the testing report serves as crucial evidence to demonstrate that the quality of the relevant construction stages aligns with the relevant standards or regulations set by the MOHURD. The MOHURD issued various codes on testing and inspection standards involving different construction stages which require testing and inspections to be conducted by certified testing agencies in order to proceed to further construction stages, such as “CJJ1-2008 – Code for Construction and Quality Acceptance of Urban Road Engineering”, “GB50202-2018 – Construction Quality Acceptance Criteria for Building Foundation Engineering”, and “GB-50204-2015 – Code for Construction Quality Acceptance of Concrete Structure Engineering”. The format and content of the testing reports produced by certified testing agencies are also regulated and governed by the MOHURD. These reports validate that the materials and workmanship involved in the different construction stages of the project comply with the regulatory requirements.

Along with the emphasis on regulatory compliance and enhancing regulations governing safety and quality standards, customers may request our Company to perform voluntary testing and inspections on specific procedures or aspects within a construction project. These tests and inspections are not mandatory under the recent regulatory requirements and the testing reports generated from these testing or inspections serve as additional safeguards for the quality of the project.

For the food testing services provided by us in 6M2024, we were engaged by a PRC government administrative bureau that was responsible for market regulation in Xinyi City, Maoming, including overseeing and regulating food safety matters to conduct government-mandated sampling tests to evaluate whether the relevant food products meet the required quality, safety, and regulatory standards.

The following table sets forth a breakdown of our revenue by applicability of our testing reports (i.e. whether the testing reports are needed due to regulatory requirements or for voluntary testing) during the Track Record Period:

	FY2021		FY2022		FY2023		6M2024	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Due to regulatory requirements	39,554	99.4	19,753	98.9	41,198	99.3	22,757	99.7
For voluntary testing	227	0.6	213	1.1	302	0.7	73	0.3
<b>Total</b>	<b>39,781</b>	<b>100.0</b>	<b>19,966</b>	<b>100.0</b>	<b>41,500</b>	<b>100.0</b>	<b>22,830</b>	<b>100.0</b>

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## BUSINESS

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The following table sets forth a breakdown of the number of our completed order by service type during the Track Record Period.

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>6M2024</b>
Foundation testing service	819	338	878	434
Infrastructure and public road testing service	12	41	573	266
Construction material testing service	67,278	38,400	44,273	22,505
Building structure testing service	604	208	341	169
Slope monitoring and foundation pit monitoring services	8	5	10	5
Food testing services	–	–	–	12,605

The following table sets forth a breakdown of the average service order value by service type during the Track Record Period.

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>6M2024</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Foundation testing service	36,315	33,232	28,040	32,516
Infrastructure and public road testing service	74,448	11,123	10,186	5,294
Construction material testing service	77	77	88	107
Building structure testing service	4,386	3,647	4,932	4,785
Slope monitoring and foundation pit monitoring services	163,926	912,815	547,411	258,475
Food testing services	–	–	–	222

## BUSINESS

### Top five contracts

The table below sets forth details of our top five contracts in terms of revenue contribution for each year/period during the Track Record Period:

#### *FY2021*

Rank	Type of service provided by us	Customer	Commencement date of testing and inspection services	Issue date of last testing report	Total contract sum of relevant contract (net of tax)	Revenue derived and % of total revenue for the year	
					RMB'000	RMB'000	%
1.	Foundation testing	A state owned enterprise incorporated in China which its ultimate holding company is listed on Shanghai stock exchange with market capitalisation of RMB97.9 billion as at the Latest Practicable Date and is principally engaged in property development and related activities.	23 January 2021	10 November 2021	1,056	1,056	2.7
2.	Foundation testing	Customer C <sup>(1)</sup>	16 August 2021	30 November 2021	967 <sup>(2)</sup>	967	2.4
3.	Foundation testing	Customer B <sup>(1)</sup>	12 August 2021	30 September 2021	742 <sup>(2)</sup>	742	1.9
4.	Foundation testing	Customer B <sup>(1)</sup>	14 May 2021	20 October 2021	568 <sup>(2)</sup>	568	1.4
5.	Foundation testing	Customer D <sup>(1)</sup>	15 January 2021	25 September 2021	538 <sup>(2)</sup>	538	1.4

#### *Notes:*

- See “– Major customers” below for details of the background of such customers.
- There is no fixed contract sum agreed in relevant contract. This amount represents the total service fee attributable to the relevant contract that is determined based on actual work done.



## BUSINESS

**FY2022**

Rank	Type of service provided by us	Customer	Commencement date of testing and inspection services	Issue date of last testing report	Total contract sum of relevant contract (net of tax)	Revenue derived and % of total revenue for the year	
					RMB'000	RMB'000	%
1.	Slope monitoring and foundation pit monitoring	Customer F <sup>(1)</sup>	8 May 2022	8 April 2023	3,679 <sup>(2)</sup>	3,671	18.4
2.	Foundation testing	Customer D <sup>(1)</sup>	12 October 2022	18 November 2022	764 <sup>(3)</sup>	764	3.8
3.	Foundation testing	Customer D <sup>(1)</sup>	16 June 2022	15 September 2022	432 <sup>(3)</sup>	432	2.2
4.	Foundation testing	A state owned enterprise incorporated in China which is principally engaged in hydroelectric power generation, construction engineering design and construction activities.	18 August 2021	17 May 2023	884 <sup>(3)(4)</sup>	375	1.9
5.	Foundation testing	A government administrative bureau which oversees and governs housing and urban-rural development matters in Xinyi City, Maoming.	8 January 2022	25 November 2022	348 <sup>(3)</sup>	348	1.7

*Notes:*

- See “– Major customers” below for details of the background of such customers.
- The remaining contract sum of RMB8,000 had been recognised as revenue in FY2023.
- There is no fixed contract sum agreed in relevant contract. This amount represents the total service fee attributable to the relevant contract that is determined based on actual work done.
- The remaining contract sum of RMB443,000 and RMB67,000 had been recognised as revenue in FY2021 and FY2023 respectively.

# BUSINESS

**FY2023**

Rank	Type of service provided by us	Customer	Commencement date of testing and inspection services	Issue date of last testing report	Total contract sum of relevant contract (net of tax)	Revenue derived and % of total revenue for the year	
					RMB'000	RMB'000	%
1.	Slope monitoring and foundation pit monitoring	Customer I	5 September 2023	24 November 2023	3,181	3,181	7.7
2.	Foundation testing	Customer H <sup>(1)</sup>	28 April 2022	not yet completed	3,221 <sup>(2)(3)(4)</sup>	2,820	6.8
3.	Foundation testing	A private company incorporated in China with RMB50 million registered capital which is principally engaged in property development and related activities.	11 April 2023	27 December 2023	1,233 <sup>(2)</sup>	1,233	3.0
4.	Foundation testing, infrastructure and public roads testing, construction materials testing	Customer D <sup>(1)</sup>	22 March 2023	not yet completed	1,376 <sup>(2)(4)(5)</sup>	1,053	2.5
5.	Foundation testing, infrastructure and public roads testing, construction materials testing	A state owned enterprise incorporated in China which is principally engaged in provision of construction of municipal public works services	24 August 2022	not yet completed	1,208 <sup>(2)(4)(6)</sup>	904	2.2

*Notes:*

1. See “– Major customers” below for details of the background of such customers.
2. There is no fixed contract sum agreed in relevant contract. This amount represents the total service fee attributable to the relevant contract that is determined based on actual work done or the tentative contract sum should the agreed scope of testing and inspection services in the relevant contract have not yet been completed.
3. Part of the contract sum of RMB108,000 and RMB293,000 had been recognised as revenue in FY2022 and 6M2024 respectively.
4. Certain agreed scope of testing and inspection services in the relevant contract has not yet been completed during the Track Record Period.
5. Part of the contract sum of RMB77,000 had been recognised as revenue in 6M2024.
6. Part of the contract sum of RMB129,000 and RMB76,000 had been recognised as revenue in FY2022 and 6M2024 respectively.

## BUSINESS

6M2024

Rank	Type of service provided by us	Customer	Commencement date of testing and inspection services	Issue date of last testing report	Total contract sum of relevant contract (net of tax)	Revenue derived and % of total revenue for the period	
					RMB'000	RMB'000	%
1.	Food testing	Customer K <sup>(1)</sup>	11 May 2024	not yet completed	3,297 <sup>(3)</sup>	2,799	12.3
2.	Foundation testing	Customer L <sup>(1)</sup>	11 March 2024	not yet completed	1,160 <sup>(2)(3)</sup>	1,160	5.1
3.	Foundation testing, infrastructure and public roads testing construction material testing and slope monitoring and foundation pit monitoring	Customer F <sup>(1)</sup>	4 July 2023	not yet completed	1,448 <sup>(2)(3)(4)</sup>	1,055	4.6
4.	Foundation testing	Customer D <sup>(1)</sup>	6 October 2023	not yet completed	1,166 <sup>(2)(3)(5)</sup>	1,047	4.6
5.	Foundation testing	A private company incorporated in China with RMB28 million registered capital which is principally engaged in real estate development and operation	23 December 2023	not yet completed	1,018 <sup>(2)(3)</sup>	1,018	4.5

Notes:

- See “– Major customers” below for details of the background of such customers.
- There is no fixed contract sum agreed in relevant contract. This amount represents the total service fee attributable to the relevant contract that is determined based on actual work done or the tentative contract sum should the agreed scope of testing and inspection services in the relevant contract have not yet been completed.
- Certain agreed scope of testing and inspection services in the relevant contract has not yet been completed during the Track Record Period.
- Part of the contract sum of RMB140,000 had been recognised as revenue in FY2023.
- Part of the contract sum of RMB39,000 had been recognised as revenue in FY2023.

## BUSINESS

### Backlogs

The table below sets forth a breakdown of backlog by type of services offered by us.

	As at 31 December			As at	As at
	2021	2022	2023	30 June	the Latest
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	Practicable
				2024	Date
				<i>RMB'000</i>	<i>RMB'000</i>
Foundation testing service	3,081	5,564	6,753	6,096	5,446
Infrastructure and public roads testing service	580	2,392	684	3,851	3,473
Construction material testing service	257	280	533	194	318
Building structure testing service	2,340	2,634	1,505	1,398	1,115
Slope monitoring and foundation pit monitoring services	308	620	751	974	789
Food testing services	–	–	–	498	809
<b>Total</b>	<b>6,566</b>	<b>11,490</b>	<b>10,226</b>	<b>13,011</b>	<b>11,950</b>

We expect to recognise RMB5.9 million, RMB2.6 million and RMB1.0 million of the backlog amount as at the Latest Practicable Date as revenue by 31 December 2024, 31 December 2025 and after 31 December 2025, respectively. The timing of recognising the remaining amount of backlog as at the Latest Practicable Date amounted to RMB2.5 million as revenue cannot currently be reliably estimated because this is largely depending on the work schedule and construction progress of our customers which we do not have knowledge of that as at the Latest Practicable Date.

Our backlog represents an estimate of the total outstanding contract value or amount of service orders (assuming all works under the agreed testing service scope are required to be carried out) as at 31 December 2021, 2022 and 2023 and 30 June 2024 and the Latest Practicable Date. It is important to note that not all of the contracts nor service orders entered into by us and our customers include a specified contract sum or fixed amount for the services to be provided. The backlog above only considered orders-on-hand with workload that can be reliably estimated. Furthermore, the backlog amount for these orders-on-hand may be subject to potential changes due to various factors, including alterations in the scope and duration of services, pricing adjustments, and any other unforeseen circumstances. Since we normally charge our customers based on a pre-agreed testing service scope and unit price, taking into account the actual amount of testing or inspection services performed. As a result, there may be a deviation between the future actual revenue recognised and the backlog amount estimated at the time of order acceptance.

Our backlog amount of infrastructure and public roads testing service as at 31 December 2022 was comparatively large due to our effort in expanding our business to serve customers involving in sizeable infrastructure projects, and our revenue generated from the provision of infrastructure and public roads testing service increased significantly from RMB0.5 million in FY2022 to RMB5.8 million in FY2023.

# BUSINESS

## Major customers

For FY2021, FY2022, FY2023 and 6M2024, the percentage of our total revenue attributable to our largest customer amounted to 12.8%, 18.4%, 10.8% and 12.6%, respectively, while the percentage of our total revenue attributable to our five largest customers amounted to 37.6%, 44.4%, 38.3% and 43.6%, respectively. Our relationship with our five largest customers for each year/period during the Track Record Period ranges from four months to seven years.

Set out below is a breakdown of our revenue by our five largest customers for each year/period during the Track Record Period and their respective background information:

### FY2021

Rank	Customer	Business profile	Type of services undertaken by us	Location of services	Year of commencement of business relationship	Typical payment and credit terms	Payment method	Revenue derived from the customer	
								RMB'000	%
1.	Customer A	A private company incorporated in China with RMB12 million registered capital, which was established in 2002 and is the holding company of our direct customers and principally engaged in property development and related activities.	Foundation testing	Xinyi City, Maoming	2020	Payment in advance or payment on demand	by bank transfer	5,078	12.8
2.	Customer B	A company incorporated in China which is the holding company of our direct customers and their ultimate holding company is listed on Hong Kong stock exchange with market capitalisation of HK\$13.57 billion as at the Latest Practicable Date with its principal business are development and sales of real estate.	Foundation testing	Maoming	2020	Payment in advance	by bank transfer	3,133	7.9
3.	Customer C <sup>(1)(2)</sup>	A company incorporated in China with RMB10 million registered capital, which was established in 2018 and principally engages in planting and sale of vegetable and fruits. It is the holding company of our direct customers which principally engage in property development and related activities.	Foundation testing	Xinyi City, Maoming	2021	Payment in advance or payment on demand	by bank transfer	2,668	6.7
4.	Customer D <sup>(3)</sup>	A state owned enterprise incorporated in China with RMB610 million registered capital, which was established in 2017 and principally engages in engineering construction for buildings and urban real estate development and operation.	Foundation testing, slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2018	Payment in advance or payment by completion stage or payment on demand	by bank transfer	2,305	5.8
5.	Customer E	A private company incorporated in China with RMB10 million registered capital, which was established in 2019 and principally engages in property development and related activities.	Foundation testing	Xinyi City, Maoming	2020	Payment on demand	by bank transfer	1,755	4.4
						Five largest customers combined		14,939	37.6
						All other customers		24,842	62.4
							Total revenue	39,781	100.0

# BUSINESS

**FY2022**

Rank	Customer	Business profile	Type of services undertaken by us	Location of services	Year of commencement of business relationship	Typical payment and credit terms	Payment method	Revenue derived from the customer	
								RMB'000	%
1.	Customer F <sup>(3)</sup>	An entity commissioned by the People's Government of Xinyi City to undertake construction management work of government-invested construction projects and other assignments from the municipal party committee and the government.	Slope monitoring and foundation pit monitoring	Xinyi City, Maoming,	2022	Payment within five working days after approval of local financial bureau	by bank transfer	3,671	18.4
2.	Customer D <sup>(3)</sup>	A state owned enterprise incorporated in China with RMB610 million registered capital, which was established in 2017 and principally engages in engineering construction for buildings and urban real estate development and operation.	Foundation and building structure testing	Xinyi City, Maoming,	2018	Payment within 10 working days after issuance of payment notification/bill	by bank transfer	1,714	8.6
3.	Customer A	A private company incorporated in China with RMB12 million registered capital, which was established in 2002 and is the holding company of our direct customers and principally engaged in property development and related activities.	Foundation testing	Xinyi City, Maoming	2020	Payment in advance or payment within 10 working days after issuance of payment notification/bill	by bank transfer	1,403	7.0
4.	Customer E	A private company incorporated in China with RMB10 million registered capital, which was established in 2019 and principally engages in property development and related activities.	Foundation testing	Xinyi City, Maoming	2020	Payment within 10 working days after issuance of payment notification/bill	by bank transfer	1,085	5.4
5.	Customer G <sup>(2)</sup>	A private company incorporated in China with RMB102 million registered capital, which was established in 1995 and principally engages in engineering construction for buildings and real estate development and operation.	Foundation testing, building structure testing and construction material testing	Xinyi City, Maoming	2017	Payment in advance or payment within 10 working days after issuance of payment notification/bill or payment on demand	by bank transfer	1,008	5.0
Five largest customers combined								8,881	44.4
All other customers								11,085	55.6
Total revenue								<u>19,966</u>	<u>100.0</u>

# BUSINESS

**FY2023**

Rank	Customer	Business profile	Type of services undertaken by us	Location of services	Year of commencement of business relationship	Typical payment and credit terms	Payment method	Revenue derived from the customer	
								RMB'000	%
1.	Customer H	A private company incorporated in China with RMB5 million registered capital, which was established in 2022 and principally engages in provision of commercial complex management services and leasing of houses.	Foundation testing, building structure testing and construction material testing	Xinyi City, Maoming	2022	Payment within five or 10 working days after issuance of payment notification/bill or payment on demand	by bank transfer	4,470	10.8
2.	Customer I <sup>(3)</sup>	An entity commissioned by the People's Government of Gaozhou City, which principally engaged in assisting competent authorities to complete construction projects quota, promote building energy conservation, new wall materials, gas safety, and construction, operation and management of urban water purification facilities.	Slope monitoring and foundation pit monitoring	Gaozhou City, Maoming	2023	Payment on demand	by bank transfer	3,181	7.7
3.	Customer D <sup>(3)</sup>	A state owned enterprise incorporated in China with RMB610 million registered capital, which was established in 2017 and principally engages in engineering construction for buildings and urban real estate development and operation.	Foundation, testing, building structure testing, infrastructure and public road testing, construction material testing and slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2018	Payment on demand or payment within five working days after issuance of payment notification/bill or payment subject to approval of local finance bureau	by bank transfer	3,023	7.3
4.	Customer F <sup>(3)</sup>	An entity commissioned by the People's Government of Xinyi City to undertake construction management work of government-invested construction projects and other assignments from the municipal party committee and the government.	Foundation testing, infrastructure and public road testing, construction material testing and slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2022	Payment subject to approval of local finance bureau or payment on demand	by bank transfer	2,710	6.5
5.	Customer J <sup>(4)</sup>	A company incorporated in China with RMB600 million registered capital, which was established in 2017 and principally engages in provision of park management services and leasing of land use right.	Foundation testing, building structure testing, infrastructure and public roads testing, construction material testing and slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2020	Payment within five working days after issuance of payment notification/bill or payment on demand or payment by completion stage	by bank transfer	2,506	6.0
Five largest customers combined								15,890	38.3
All other customers								25,610	61.7
Total revenue								41,500	100.0

# BUSINESS

6M2024

Rank	Customer	Business Profile	Types of services undertaken by us	Location of services	Year of commencement of business relationship	Typical payment and credit terms	Payment method	Revenue derived from the customer	
								RMB'000	%
1.	Customer D <sup>(3)</sup>	A state owned enterprise incorporated in China with RMB610 million registered capital, which was established in 2017 and principally engages in engineering construction for buildings and urban real estate development and operation.	Foundation testing, building structure testing, infrastructure and public roads testing, construction material testing and slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2018	15 – 120 working days	Bank transfer	2,882	12.6
2.	Customer K <sup>(3)</sup>	A government administrative bureau that is responsible for market regulation in Xinyi City, Maoming, including overseeing and regulating food safety matters.	Food testing	Xinyi City, Maoming	2024	15 – 120 working days	Bank transfer	2,799	12.3
3.	Customer F <sup>(3)</sup>	An entity commissioned by the People's Government of Xinyi City to undertake construction management work of government-invested construction projects and other assignments from the municipal party committee and the government.	Foundation testing, infrastructure and public roads testing, construction material testing and slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2022	15 – 120 working days	Bank transfer	1,490	6.5
4.	Customer L	A private company incorporated in China with RMB15 million registered capital which was established in 2002 and principally engaged in real estate development.	Foundation testing and construction material testing	Xinyi City, Maoming	2021	15 – 60 working days	Bank transfer	1,420	6.2
5.	Customer M <sup>(5)</sup>	A private company incorporated in China with RMB60 million registered capital which was established in 2022 and principally engaged in real estate development and related activities.	Foundation testing, construction material testing and slope monitoring and foundation pit monitoring	Xinyi City, Maoming	2022	15 – 60 working days	Bank transfer	1,354	6.0
Five largest customers combined								9,945	43.6
All other customers								12,885	56.4
Total revenue								22,830	100.0



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## BUSINESS

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*Notes:*

- (1) To the best knowledge of our Directors, as at the Latest Practicable Date, the father of Ms. Mai Jiayu, an executive Director and a deputy general manager of our Company, held 22% of equity interests in Customer C and was a supervisor of Customer C. Our Directors confirm that the terms of the transactions including the service fees we charged to Customer C for provision of the relevant testing and inspection services were established through arm's length negotiations and were in line with normal commercial terms and the terms of other transactions including the service fees we charged on comparable testing or inspection services to other independent third-party customers.
- (2) To the best knowledge of our Directors, a shareholder of Customer C who effectively holds 40.8% equity interest in Customer C, also effectively holds 28.0% equity interest in Customer G. The shareholder is an Independent Third Party, and there was no overlapping in the rest of shareholders and management of Customer C and Customer G.
- (3) In accordance with the accounting policies outlined in the Accountant's Report, entities controlled by the PRC Government and PRC government administrative bureaus are considered related parties. See Note 30.9 to the Accountant's Report in Appendix I to this prospectus for details. In this regard, Customer D, Customer F, Customer I and Customer K are considered related parties to our Company under the Accountant's Report. Customer D, Customer F, Customer I and Customer K will not become connected persons of our Company under the GEM Listing Rules upon Listing.
- (4) Customer J is directly wholly owned by Xinyi Xinhui, our substantial Shareholder. Our Directors confirm that the terms of agreements entered into between us and Customer J are comparable to other independent third party customers of our Company. The service fees charged by us to Customer J for provision of the relevant testing and inspection services are no more favourable than the service fees charged by us to other independent third-party customers, which were based on quantity of unit for testing and other key factors, (see "– Pricing" below in this sub-section,) and agreed upon on normal commercial terms after arm's length negotiations.
- (5) To the best knowledge of our Directors, as at the Latest Practicable Date, the father and brother of Ms. Mai Jiayu, an executive Director and a deputy general manager of our Company, indirectly aggregately held 10% of equity interests in Customer M and the brother of Ms. Mai Jiayu was a director of Customer M. Our Directors confirm that the terms of the transactions including the service fees we charged to Customer M for provision of the relevant testing and inspection services were established through arm's length negotiations and were in line with normal commercial terms and the terms of other transactions including the service fees we charged on comparable testing or inspection services to other independent third-party customers.

Save for Customer J, none of our Directors, their close associates, or any Shareholders who or which, to the knowledge of our Directors, owned more than 5% of the issued Shares as at the Latest Practicable Date had any interest in any of the five largest customers of our Company for each year/period during the Track Record Period.

Save as disclosed above, to the best knowledge of our Directors, there is no past or present relationship (including, without limitation, family, financing, employment or otherwise) between each of our five largest customers for each year/period during the Track Record Period and our Company, including our Shareholders, Directors, senior management, Supervisors and their respective associates.

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## BUSINESS

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### Principal Terms of Service Agreements

We generally enter into standardised testing service agreements with our customers on a service-order basis. Set forth below are certain key aspects of our standardised service agreements.

- *Scope of services.* Our service agreements outline the intended scope of services we are required to provide.
- *Testing locations and time.* Our service agreements outline the intended location and timing of services we are required to provide.
- *Pricing.* Our service agreements itemise the service fees we charge for each type of testing services we are required to provide.
- *Payment term and settlement.* We typically require settlement of payment before we release the test results or reports, and sometime before we initiate services. The payment method is generally by wire transfer. During the Track Record Period, all revenue from our services was denominated in Renminbi.
- *Delivery of test results.* For testing services, we are generally required to complete preparation of the testing reports within 10 days after we complete the relevant testing.

We do not have standardised credit period for our customers prior to December 2023 and may grant credit period to customers on a case-by-case basis in considering various factors including but not limited to the services type we provided, the construction progress of the projects of our customers and the background of the customers. We have established credit term policy since December 2023 and have implemented such policy since January 2024 in order to standardise the procedures for granting credit period to our customers.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material customer complaints or disputes surrounding the quality of our services.

### Pricing

When determining the pricing for our services, we take into account several key factors, including the required specifications, technical complexities, expected costs, market conditions, and prevailing prices for similar services. With these considerations in mind, depending on the specific type of service we provide, our pricing may vary.

We typically charge our services by quantity of unit to be tested, such as the number of piles when we are required to perform foundation testing, subject to different testing methods, and the quantity of material samples when we are required to perform construction material testing. This approach ensures that our pricing is directly proportional to the scope and scale of the testing required, providing transparency and fairness in our charges.

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## BUSINESS

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During the Track Record Period, the price range per testing unit for each type of our services are set out below:

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>6M2024</b>
	<i>Price range per testing unit RMB</i>	<i>Price range per testing unit RMB</i>	<i>Price range per testing unit RMB</i>	<i>Price range per testing unit RMB</i>
Foundation testing service	50 – 72,590	50 – 72,590	21 – 113,422	30 – 106,750
Infrastructure and public roads testing service	4 – 150	4 – 500	13 – 7,500	15 – 500
Construction material testing service	30 – 1,050	30 – 1,050	30 – 2,300	30 – 2,300
Building structure testing service	35 – 450	35 – 450	35 – 450	17 – 450
Slope monitoring and foundation pit monitoring services	41 – 600	44 – 600	41 – 600	47 – 600
Food testing services	–	–	–	200 – 1,600

The price we charge for different testing methods under the same type of services for our construction engineering testing and inspection services can vary significantly due to, among others, (i) the technical requirements and complexity for different methods; (ii) different measurement of testing unit associated with specific methods; (iii) the difference in the testing parameters applied to different testing targets; and (iv) whether any discounts are offered to our customers. For instance, (i) for our foundation testing services, the highest price per unit we charged during the Track Record Period was RMB113,422 per pile for conducting static load test and the lowest price per unit we charged during the Track Record Period was RMB21 per meter through the testing targets under the acoustic wave transmission test; (ii) for our infrastructure and public roads testing service, the highest price per unit we charged during the Track Record Period was RMB7,500 per structure under the full water test for structures and the lowest price per unit we charged during the Track Record Period was RMB4 per meter under the pipe leak test; (iii) for our construction material testing service, the highest price we charged during the Track Record Period was RMB2,300 per unit for conducting relevant testing on geosynthetics and the lowest price we charged during the Track Record Period was RMB30 per unit for conducting relevant testing on concrete; (iv) for our building structure testing service, the highest price we charged during the Track Record Period was RMB450 per floor slab for testing of floor slab thickness and the lowest price we charged during the Track Record Period was RMB35 per testing point for conducting settlement observation; and (v) for our slope monitoring and foundation pit monitoring services, the highest price we charged during the Track Record Period was RMB600 per monitoring point per time for monitoring deep horizontal displacement and the lowest price we charged during the Track Record Period was RMB41 per monitoring point per time for monitoring supporting structure horizontal and vertical displacement.

In addition, the price range for the same testing method we charged during the Track Record Period can also vary. For instance, the fee we charged during the Track Record Period for conducting static load test under our foundation testing services varies due to the difference in testing capacity requirements applied for different orders, and ranges from RMB3,904 per pile (for applying testing capacity of 120kN) to RMB113,422 per pile (for applying testing capacity of 29,000kN).

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## BUSINESS

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For food testing services, the price we charge varies depending mainly on the testing methods, i.e. quantitative testing or rapid testing, used for conducting the relevant tests which involve varying degree of testing complexity, expected cost and market price. In 6M2024, the highest price we charged was RMB1,600 per batch of products for conducting quantitative testing and the lowest price we charged was RMB200 per batch of products for conducting rapid testing.

According to the CIC Report, for construction engineering testing and inspection services, within the industry, (i) the price for foundation testing service typically ranges from RMB20 to RMB150,000 per testing unit. Pricing for different testing methods within the same service category can vary significantly due to the specific measurement units associated with each testing method. For instance, the cost of conducting static load test typically ranges from RMB5,000 to RMB150,000 per pile depending on the testing capacity applied. The cost of conducting conical power touch method typically ranges from RMB20 to RMB200 per testing point, and the cost of conducting standard penetration test typically ranges from RMB300 to RMB800 per meter; (ii) the price for infrastructure and public roads testing service typically ranges from RMB5 to RMB10,000 per testing unit, for instance, the price for full water test for structures typically ranges from RMB6,000 to RMB10,000 per structure; (iii) the price for construction materials testing service varies depending on the type of material being tested, such as sand, stone, cement, steel bars, concrete, asphalt, plastic pipes, etc., and typically ranges from RMB20 to RMB8,000 per testing unit, for instance, the cost for testing concrete strength typically ranges from RMB20 to RMB100 per test, while the cost for testing the rutting resistance for asphalt mixture can range from RMB4,000 to RMB8,000; (iv) the price for building structure testing service typically ranges from RMB30 to RMB700 per testing unit, depending on the types of testing services; and (v) the price for slope monitoring and foundation pit monitoring services typically ranges from RMB30 to RMB3,500 per monitoring point per time depends on factors such as the type of monitoring project, the number of monitoring points and the complexity of the monitoring services. For food testing services, within the industry, the price for conducting quantitative testing for similar products as tested by our Company ranges from RMB1,700 to RMB2,200 per batch, and the price for conducting rapid testing for similar products as tested by our Company ranges from RMB115 to RMB215 per batch.

### **Seasonality**

Our Directors believe that the industry in which we operate does not exhibit any significant seasonality.

### **Marketing**

Leveraging our team's industry expertise and experience, we have forged stable business relationships with our customers.

We generally generate new business through customer referrals. Additionally, we have a corporate promotional brochure that serves as a comprehensive showcase of our offerings, helping to further enhance our brand presence.

Our senior management are generally responsible for maintaining customer relationships and staying attuned to market developments and potential business opportunities. They play a vital role in liaising with customers, ensuring their satisfaction, and proactively exploring avenues for business growth.

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## BUSINESS

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### OUR SUPPLIERS AND SUBCONTRACTORS

#### Suppliers

Our suppliers mainly include companies and manufacturers for testing consumables for conducting our testing services.

Our Company maintains an approved list of suppliers, which is reviewed and updated periodically. The admission of suppliers onto our approved list is subject to assessment of various factors including product quality, timeliness of delivery, after-sales services and qualification.

We have not entered into any long term supply agreements with our suppliers, as we consider that our comprehensive list of approved suppliers already assures a reasonably diversified base of reliable suppliers which offer competitive prices. During the Track Record Period, we have not experienced any significant delay in delivery of testing consumables by our suppliers which caused disruption to our works.

Testing consumables purchased by us are normally settled by wire transfer in Renminbi.

During the Track Record Period, purchases from our suppliers accounted for 24.7%, 33.7%, 56.6% and 70.8% of our total purchases, respectively, for each of FY2021, FY2022, FY2023 and 6M2024.

#### Subcontractors

During the course of provision of our foundation testing service, we would outsource certain physically demanding works such as extracting core samples during the foundation and geotechnical drilling process for the core drilling and standard penetration testing method to third party drilling companies specialising in these types of labour works. As advised by our PRC Legal Advisers, our subcontractors are not required to obtain specific licenses or certificates under current PRC laws to engage in those labour works relating to core drilling services other than their business licenses. Since our subcontractors principally provide labor services to us and do not engage in construction engineering quality testing and inspection activities in connection with our cooperation, they are not required to become qualified under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies. We consider involving certain degree of subcontracting for part of our foundation testing service process is in line with the common practice of the construction engineering testing and inspection industry in China.

During the Track Record Period, purchases from our subcontractors accounted for 75.3%, 66.3%, 43.4% and 29.2% of our total purchases, respectively, for each of FY2021, FY2022, FY2023 and 6M2024. Our subcontracting fees primarily consist of service fees to subcontractors for extracting core samples during the foundation and geotechnical drilling processes. Total subcontracting fee we incur in any financial period is closely linked to the frequency of the testing methods we use during the provision of foundation testing services, such as core drilling method and standard penetration test. In recent years, with the improvement of construction techniques, the frequency of the usage of these testing methods has gradually decreased and therefore our procurement from subcontractors as a percentage of total purchases decreased throughout the Track Record Period.

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## BUSINESS

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Set forth below are certain key terms of our subcontracting agreements with our subcontractors.

- *Contract period.* The duration of the subcontracting agreement is in line with the duration of the whole foundation and geotechnical drilling process.
- *Scope of subcontracting.* Our subcontracting agreements outline the intended scope of subcontracting works, i.e. extracting core samples during the foundation and geotechnical drilling process.
- *Standard of subcontracting service.* Our subcontracting agreements outline the required industrial standard for the subcontracting works, such as the Guangdong Province Construction Foundation Testing Standards.
- *Subcontracting fee and payment terms.* The subcontracting fee is typically calculated based on the drilling depth of the core samples extraction process. We typically settle the fee upon completion of our testing process.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material dispute with our subcontractors.

Our Company maintains an approved list of subcontractors which could provide similar services at similar costs as the existing subcontractors we engaged during the Track Record Period, and are selected based on service quality, timeliness of service delivery, after-sales services and qualification. We believe that our stable relationship with our subcontractors enables us to have a thorough understanding and assessment of their performance over the years, which in turn allows us to ensure their quality of works.

### **Costs of goods and services**

The costs incurred from the purchases of goods and services from our suppliers and subcontractors amounted to RMB1.8 million, RMB1.2 million, RMB1.4 million and RMB1.2 million respectively, representing 18.3%, 14.3%, 11.8% and 17.9% respectively of our total cost of sales for each of FY2021, FY2022, FY2023 and 6M2024.

### **Major suppliers and subcontractors**

We have maintained business relationships with our five largest suppliers or subcontractors for each year/period during the Track Record Period for five months to 15 years. Purchases from our largest suppliers or subcontractors accounted for 37.6%, 41.0%, 31.8% and 23.8% of our total purchases, respectively, for each of FY2021, FY2022, FY2023 and 6M2024, and purchases from our five largest suppliers or subcontractors for each of FY2021, FY2022, FY2023 and 6M2024 accounted for 90.5%, 80.0%, 61.9% and 78.1% of our total purchases, respectively.

## BUSINESS

Set out below is a breakdown of our total purchases attributable to our five largest suppliers or subcontractors for each year/period during the Track Record Period and their respective background information:

### *FY2021*

Rank	Suppliers/ Subcontractors	Business profile	Products/service provided to our Company	Year of commencement of business relationship	Credit terms	Payment method	Purchases by us from the suppliers/subcontracting costs from the subcontractors	
							RMB'000	%
1.	Subcontractor A <sup>(1)</sup>	A sole proprietor business established in China in 2017 which principally engages in provision of pile foundation core drilling services.	Core drilling service	2017	Payment upon issuance of payment notification	by bank transfer	662	37.6
2.	Subcontractor B <sup>(2)</sup>	A private company incorporated in China with RMB1 million registered capital, which was established in 2016 and principally engages in provision of geological drilling engineering and geological drilling and drilling technology services and consulting.	Core drilling service	2016	Payment upon issuance of payment notification	by bank transfer	586	33.4
3.	Supplier C	A sole proprietor business established in 2000 and a private company incorporated in China in 1995 with RMB1 million registered capital held by the same individual. It principally engages in manufacturing of hydraulic and pneumatic power machinery and component and sale, leasing, repair and maintenance of machinery and equipment.	Equipment maintenance service	2009	Within 10 working days after receipt of invoice	by bank transfer	152	8.7
4.	Supplier D	A private company incorporated in China with RMB1 million registered capital, which was established in 2020 and principally engages in provision of general cargo warehousing services and sale/leasing of machinery and equipment.	Equipment warehousing service	2020	Annual settlement	by bank transfer	120	6.8
5.	Subcontractor E	A private company incorporated in China with RMB500 thousand registered capital, which was established in 2016 and principally engages in provision of cleaning services and pile foundation core drilling service.	Core drilling service	2019	Quarterly settlement	by bank transfer	71	4.0
Five largest suppliers/subcontractors combined							1,591	90.5
All other suppliers/subcontractors							167	9.5
Total purchases							<u>1,758</u>	<u>100.0</u>

## BUSINESS

**FY2022**

Rank	Suppliers/ Subcontractors	Business profile	Products/service provided to our Company	Year of commencement of business relationship	Credit terms	Payment method	Purchases by us from the suppliers/subcontracting costs from the subcontractors	
							RMB'000	%
1.	Subcontractor A <sup>(1)</sup>	A sole proprietor business established in China in 2017 which principally engages in provision of pile foundation core drilling services.	Core drilling service	2017	Payment upon issuance of payment notification	by bank transfer	496	41.0
2.	Subcontractor F <sup>(2)</sup>	A private company incorporated in China with RMB4.85 million registered capital, which was established in 2019 and principally engages in provision of geological drilling engineering and geological drilling and drilling technology services and consulting.	Core drilling service	2020	Payment upon issuance of payment notification	by bank transfer	188	15.6
3.	Supplier D	A private company incorporated in China with RMB1 million registered capital, which was established in 2020 and principally engages in provision of general cargo warehousing services and sale/leasing of machinery and equipment.	Equipment warehousing service	2020	Annual settlement	by bank transfer	120	10.0
4.	Supplier G	A sole proprietor business established in China in 2019 which principally engages in manufacturing and sales of machinery and equipment.	Equipment maintenance service	2022	Within seven working days after completion of equipment maintenance service	by bank transfer	90	7.4
5.	Supplier C	A sole proprietor business established in China in 2000 which principally engages in manufacturing of hydraulic and pneumatic power machinery and component and sale, leasing, repair and maintenance of machinery and equipment.	Equipment maintenance service	2009	Within seven working days after receipt of invoice	by bank transfer	73	6.0
Five largest suppliers/subcontractors combined							967	80.0
All other suppliers/subcontractors							242	20.0
Total purchases							<u>1,209</u>	<u>100.0</u>



## BUSINESS

**FY2023**

Rank	Supplier/ Subcontractors	Business profile	Products/service provided to our Company	Year of commencement of business relationship	Credit terms	Payment method	Purchases by us from the supplier/subcontracting costs from the subcontractors	
							RMB'000	%
1.	Subcontractor A <sup>(1)</sup>	A sole proprietor business established in China in 2017 which principally engages in provision of pile foundation core drilling services.	Core drilling service	2017	Payment upon issuance of payment notification	by bank transfer	438	31.8
2.	Supplier C	A sole proprietor business established in 2000 and a private company incorporated in China in 1995 with RMB1 million registered capital held by the same individual. It principally engages in manufacturing of hydraulic and pneumatic power machinery and component and sale, leasing, repair and maintenance of machinery and equipment.	Equipment maintenance service	2009	Within 10 working days after receipt of invoice	by bank transfer	123	8.9
3.	Supplier D	A private company incorporated in China with RMB1 million registered capital, which was established in 2020 and principally engages in provision of general cargo warehousing services and sale/leasing of machinery and equipment.	Equipment warehousing service	2020	Annual settlement	by bank transfer	120	8.7
4.	Subcontractor E	A private company incorporated in China with RMB500 thousand registered capital, which was established in 2016 and principally engages in provision of cleaning services and pile foundation core drilling service.	Core drilling service	2019	Quarterly settlement	by bank transfer	95	6.9
5.	Supplier H	A private company incorporated in China with RMB10 million registered capital, which was established in 2017 and principally engages in provision of measurement and calibration of instruments and equipment, testing and inspecting services.	Equipment maintenance service	2021	Payment on demand	by bank transfer	77	5.6
Five largest supplier/subcontractors combined							853	61.9
All other suppliers/subcontractors							525	38.1
Total purchases							<u>1,378</u>	<u>100.0</u>

## BUSINESS

6M2024

Rank	Supplier/ Subcontractors	Business Profile	Products/service provided to our Company	Year of commencement of business relationship	Credit terms	Payment method	Purchases by us from the supplier/subcontracting costs from the subcontractors	
							RMB'000	%
1.	Subcontractor A <sup>(1)</sup>	A sole proprietor business established in China in 2017 which principally engages in provision of pile foundation core drilling services.	Core drilling service	2017	Payment upon issuance of payment notification	Bank transfer	284	23.8
2.	Supplier I	A private company incorporated in China in 2014 with RMB100,000 registered capital which principally engaged in sales of laboratory instruments and chemical products, etc.	Testing consumables and direct materials	2024	Within 10 working days after receipt of invoice	Bank transfer	260	21.8
3.	Supplier J	A private company incorporated in China in 2024 with RMB2 million registered capital which principally engaged in sales of chemical products, instruments and meters, office equipment and consumables, etc.	Testing consumables and direct materials	2024	Payment upon delivery	Bank transfer	255	21.4
4.	Supplier C	A private company incorporated in China in 1995 with RMB1 million registered capital which principally engaged in manufacturing of hydraulic and pneumatic power machinery and component and sale, leasing, repair and maintenance of machinery and equipment.	Equipment maintenance service	2009	Within 10 working days after receipt of invoice	Bank transfer	71	6.0
5.	Subcontractor E	A private company incorporated in China with RMB500 thousand registered capital, which was established in 2016 and principally engages in provision of cleaning services and pile foundation core drilling service.	Core drilling service, equipment maintenance service and direct material	2019	Quarterly settlement	Bank transfer	62	5.1
Five largest supplier/subcontractors combined							932	78.1
All other suppliers/subcontractors							263	21.9
Total purchases							<u>1,195</u>	<u>100.0</u>

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## BUSINESS

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*Notes:*

1. In 2017, in view of the increasing number of foundation testing service orders and the need of external assistance during the foundation and geotechnical drilling process, our Company decided to expand our supplier base for core drilling services. A then customer of our Company, which was a state owned enterprise in China, was aware that our Company was looking for subcontractors to provide core drilling services, and they introduced the owner of Subcontractor A to our Company during our provision of testing service to the then customer.

To the best knowledge of our Directors, Subcontractor A was a sole proprietor based in Xinyi City with eight staff members which principally engaged in provision of pile foundation core drilling services and our Company had been the sole customer of Subcontractor A during the period from January 2021 to March 2024. The owner of Subcontractor A is an Independent Third Party.

Our Directors confirm that the pricing of our Company's transactions with Subcontractor A are comparable to those charged to our Company by other independent subcontractors for similar services during the Track Record Period.

To the best knowledge of our Directors, there is no past or present relationship (including, without limitation, family, financing, employment or otherwise) between each of such the then customer, Subcontractor A and our Company, including our Shareholders, Directors, senior management, supervisors and their respective associates.

2. To the best knowledge of our Directors, the shareholders of Subcontractor B and Subcontractor F are brothers, however Subcontractor B and Subcontractor F are two separate entities operating independently from each other and neither Subcontractor B nor Subcontractor F is a direct or indirect subsidiary of either party.

To the knowledge of our Directors, save for the relationship between Subcontractor B and Subcontractor F, there are no relationship between any of our five largest customers and our five largest suppliers or subcontractors for each year/period during the Track Record Period.

None of our Directors, their close associates, or any Shareholders who to our Directors' knowledge owned more than 5% of the issued Shares as at the Latest Practicable Date had any interest in any of the five largest suppliers or subcontractors of our Company for each year/period during the Track Record Period. To the knowledge of our Directors, there is no past or present relationship (including, without limitation, family, financing, employment or otherwise) between each of our five largest suppliers or subcontractors for each year/period during the Track Record Period and our Company, including our Shareholders, Directors, senior management, Supervisors and their respective associates.

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## BUSINESS

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### RESEARCH AND DEVELOPMENT

We engage in the research and development solutions for our internal data centers and testing systems, aiming to continuously enhance our project management and elevate the customer experience when engaging with us. Through our research and development efforts, we aim to utilise technologies and systems to enhance the efficiency, reliability, and security of our data centers and testing system.

In 2020, we have independently developed our own integrated digital management system, which is an intelligent engineering monitoring and supervision platform. The system is designed for the management of our testing and inspection services, including project management, task distribution, task reporting, workload management, as well as machineries and equipment usage record management. The system enables our managers to easily and accurately supervise the implementation of testing and inspection services across different locations remotely. As at the Latest Practicable Date, our employees in our information technology department, which consists of three members, were, as part of their job duties, responsible for the research and development functions of our Company, including the maintenance of the management system. The research and development expenses recognised amounted to nil, nil, RMB0.1 million and RMB0.3 million for FY2021, FY2022, FY2023 and 6M2024 respectively.

### COMPETITION

The market size of the construction engineering testing and inspection industry in China reached RMB115.6 billion in terms of revenue in 2023, growing at a CAGR of 9.6% from 2019 to 2023. We compete primarily with the construction engineering testing and inspection companies in Western Guangdong, especially in Maoming, as a majority of testing and inspection companies in China exclusively provide services within their respective provinces or regions, demonstrating a strong emphasis on localisation. According to the CIC Report, there are currently more than 100 construction engineering testing and inspection companies in Western Guangdong. According to the CIC Report, the top five players with operations in Maoming commanded a combined market share of 40.8% in terms of revenue in 2023. Our Company ranked second among all independent construction engineering testing and inspection companies in Maoming, with a market share of 10.6%. See “Industry Overview” in this prospectus for more details.

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## **BUSINESS**

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### **INTELLECTUAL PROPERTIES**

As of the Latest Practicable Date, we were the registered owner of one domain name and one software copyright in China. As at the Latest Practicable Date, we had registered two trademarks in Hong Kong and five trademarks in China and were also in the process of applying for one trademark in Hong Kong and three trademarks in China. In addition, we are also applying for three patents in China. For details of our intellectual properties, see “Statutory and General Information” in Appendix VI to this prospectus. To safeguard our intellectual property, we primarily rely on legal frameworks encompassing trademark, patent, copyright, and trade secret laws. Our business overall reliance on specific intellectual property rights is not considered material. Throughout the Track Record Period, we have not encountered significant claims or disputes related to trademark, patent, or any other intellectual property infringement. Additionally, as at the Latest Practicable Date, no substantial adverse effects on our business or operational outcomes have resulted from any infringement of our intellectual property rights.

### **INSURANCE**

We maintain automobile insurance and personal injury insurance for our operations. We believe the insurance coverage of our Company is consistent with industry practice in China. For risks related to our lack of insurance coverage for professional liability, see “Risk Factors – Risks relating to our business and industry – Our insurance coverage may not be sufficient to cover all losses and we may incur substantial costs as a result of a severe business liability or disruption or other unexpected events ” in this prospectus.

As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. Our Directors believe that the insurance coverage maintained by us is consistent with our current business operation and industry practice.

### **PROPERTIES**

We are headquartered in Xinyi City, Maoming, Guangdong Province, China.

As at the Latest Practicable Date, we did not own any property and we operated our business through three leased properties in Xinyi City.

Our headquarters are located at 4 Xinshang Road of Xinyi City which were used as our main offices and laboratory unit. We also operate a laboratory unit and equipment warehouse on a piece of land located next to the Dabei Line Highway development land on the west side of the Xinyi City.

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## BUSINESS

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The following table summarises the information regarding our leased properties as of the Latest Practicable Date:

Address	Landlord	Gross floor area ( <i>m</i> <sup>2</sup> )	Use of the property	Rental	Expiry of lease
Office Building 4 Xinshang Road, Xinyi City (信宜市新尚路4號 辦公樓二樓)	Xinyi City Bureau of Housing and Urban-Rural Development	800	Use for office	RMB20,240 per month from October 2023 to March 2025	31 March 2029
				RMB21,859 per month from April 2025 to March 2027	
				RMB23,608 per month from April 2027 to March 2029	
Construction Bureau Compound, 4 Xinshang Road, Xinyi City (信宜市新尚路4號 建設局大院)	Xinyi City Bureau of Housing and Urban-Rural Development	669	Use for office and laboratory unit	RMB14,718 per month from October 2023 to February 2024	29 February 2028
				RMB15,896 per month from March 2024 to February 2026	
				RMB17,168 per month from March 2026 to February 2028	
Building 1 and 2 on 1 Xinyi Main Road South, Dingbao Town, Xinyi City (信宜市丁堡鎮信義大道南 1號1及2號樓) <sup>(Note)</sup>	Xinyi Xinye	17,802	Use for office and laboratory unit	RMB247,449 per month from 8 April 2024 to 7 April 2029, and a subsequent 5% increment for every five year	7 April 2044

*Note:* See “– Relocation plan” below in this subsection for more details.

Save as disclosed above, our Company did not have any other property interests as at the Latest Practicable Date.

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## BUSINESS

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### Potential procedural and documentary defect relating to Dabei Line Land

#### *Background*

On 16 January 2014, our Company entered into a land leasing agreement (the “**Land Leasing Agreement**”) with an independent third party (the “**Lessor**”), pursuant to which our Company, as lessee, leased a piece of land located at Pikoudong, Tangchakou and next to the Dabei Line Highway development land (埤口垌、塘岔口、達北線公路開發用地邊外的土地) (the “**Dabei Line Land**”) with a floor area of 6,000 m<sup>2</sup> from the Lessor from 1 March 2014 to 31 August 2032.

Our Company has obtained a certificate issued on 8 November 2013 by the Cooperative of Changtang Neighborhood, Dongzhen District, Xinyi City (信宜市東鎮街長塘社區長塘經濟合作社), the ultimate lessor of the Dabei Line Land (the “**Ultimate Lessor**”), confirming that the Dabei Line Land was leased to the Lessor and the Ultimate Lessor had no objection on the Lessor sub-leasing the Dabei Line Land to our Company.

On 13 January 2016, our Company received a request from the community cooperative and resident committee of the community at which the Dabei Line Land was located. It was requested that our Company should sub-lease the Dabei Line Land for the purpose of building a kindergarten hereon.

On 6 July 2016, our Company, the Lessor and Xinyi City Arts Kindergarten (信宜市藝術幼兒園) (now known as Jixiang Kindergarten (吉祥幼兒園)), the “**Kindergarten**”) entered into a sub-leasing agreement (the “**Sub-leasing Agreement**”), pursuant to which our Company would sub-lease part of the Dabei Line Land with a floor area of 4,000 m<sup>2</sup> to the Kindergarten, whereas our Company would keep a floor area of 2,000m<sup>2</sup> for our own use. Since the subleasing until 31 August 2023, our Company was entitled to an aggregate rental payment of RMB2,646,000 from the Kindergarten.

Our Company has built certain temporary buildings and structures (the “**Buildings**”) on the Dabei Line Land mainly as laboratories and warehouses with a gross floor area of 1,020 m<sup>2</sup>. Our Company has been using the Dabei Line Land and the Buildings thereon as part of the operations of our testing and inspection business.

Our Company’s revenue generated from the use of the Dabei Line Land and the Buildings thereon for FY2021, FY2022, FY2023 and 6M2024 were approximately RMB842,000, RMB488,000, RMB997,000 and RMB452,000 respectively, accounting for 2.1%, 2.4%, 2.4% and 2.0% of the total revenue of our Company for the corresponding periods.

To facilitate the execution of our relocation plan, see “– Relocation plan” below in this sub-section for details, on 31 August 2023, our Company, the Lessor and the Kindergarten entered into a termination agreement (as supplemented by the supplemental agreements dated 25 November 2023 and 28 April 2024), pursuant to which it was confirmed that the Land Leasing Agreement and the Sub-leasing Agreement would be terminated on 31 August 2023, and thereafter the Kindergarten would directly lease the Dabei Line Land from the Lessor. Further, our Company was granted a transition period until 31 July 2024 to remove the fixtures and fittings in the Buildings located on the Dabei Line Land and relocate our operations from the Dabei Line Land. During the transition period, our Company could continue to use the Dabei Line Land and was not required to make any rental payment. The relocation of our operations from the Dabei Line Land was completed in July 2024.

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## BUSINESS

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The Lessor has also agreed to indemnify our Company against penalties or other losses arising from the breach of the warranties and undertakings given by the Lessor as regards his right and authority to lease the Dabei Line Land to our Company for operating our laboratories and testing and inspection business.

### ***Potential procedural or documentary defect regarding the leasing of the Dabei Line Land***

#### *Uncertainty regarding the authority of the Lessor to lease the Dabei Line Land*

Despite our Company has received a certification issued by the Ultimate Lessor confirming that the Dabei Line Land had been leased to the Lessor and the Ultimate Lessor had no objection on the Lessor sub-leasing the Dabei Line Land to our Company, our Company has not received any relevant documentary evidence of approval having been obtained from the members in a relevant village meeting or two-thirds or more of the village representatives of the Ultimate Lessor.

#### *Relevant PRC regulations*

As advised by our PRC Legal Advisers, with reference to the Land Administration Law (《土地管理法》) of the PRC and other related laws and regulations, the transfer or lease of collectively-owned land for business purposes must be approved by two-thirds or more of the members in a relevant village meeting or two-thirds or more of the village representatives. As there is no explicit PRC law or regulation to impose penalties on the lessee for failure to obtain the above-mentioned approval, it is unlikely that we would be subject to penalties due to the documentary defect regarding the approval from relevant village members.

#### ***Relevant certificates obtained by our Company from the regulatory authority***

Our Company has obtained a certificate dated 21 November 2023 issued by the Xinyi City Natural Resources Bureau (信宜市自然資源局), which is responsible for real estate rights registration and land planning in Xinyi City.

Based on the certificate, it has been confirmed that:

- The Dabei Line Land falls within the jurisdiction of the Xinyi City Natural Resources Bureau.
- The Ultimate Lessor holds the exclusive legal ownership of the Dabei Line Land, which is designated as construction land.
- The use of the Dabei Line Land by our Company for operating laboratories and conducting testing services does not violate the Dabei Line Land's planned usage.
- Our Company was permitted to continue to use the Dabei Line Land for the abovementioned activities in accordance with the relevant contractual agreements.



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## BUSINESS

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### *Compliance regarding the Buildings*

#### *Non-compliance regarding the Buildings*

Our Company has constructed the Buildings on the Dabei Line Land. The Buildings are primarily used for testing laboratories and warehouses.

On 11 July 2014, our Company obtained the Construction Project Planning Permit (建設工程規劃許可證) (Permit No. Jianzi [2014] Lin 006) for part of the Buildings of a floor area of 306 m<sup>2</sup>. The permit was valid for two years and our Company did not apply for an extension.

For the building of the remaining portions of the Buildings, including laboratories and warehouses, our Company did not obtain the relevant Construction Project Planning Permit.

The Buildings have remained in place without being dismantled since their initial construction up to the date of cessation of operation on the Dabei Line Land.

#### *Relevant PRC regulations*

As advised by our PRC Legal Advisers, with reference to the Land Administration Law (《土地管理法》), the Urban and Rural Planning Law (《城鄉規劃法》), the Guangdong Province Urban and Rural Planning Regulations (《廣東省城鄉規劃條例》) and other relevant laws and regulations, temporary land use within urban planning areas must first be approved by the relevant administrative authority responsible for urban planning. Users of temporarily allocated land must adhere to the designated purpose specified in the temporary land use contract and are prohibited from constructing permanent buildings.

For temporary construction within urban and town planning areas, a temporary construction project planning permit shall be applied through the urban and rural planning department of the city or county government, or the town government designated by the provincial government. The duration of the temporary construction project planning permit cannot exceed two years. If an extension is required upon the expiration of the usage period, an extension application must be submitted to the original issuing authority at least 30 days before the expiration date. The extension period cannot exceed one year.

Temporary constructions must be dismantled, and the land must be restored to its original condition before the approved usage period expires. Failure to obtain approval for temporary construction, non-compliance with approved plans, or failure to dismantle temporary buildings or structures beyond the approved deadline will result in the urban or county government's urban and rural planning department ordering their removal within a specified timeframe. Additionally, a fine may be imposed, not exceeding the cost of the temporary construction project.

In the case of permanent buildings constructed on temporarily allocated land, the natural resources authority at or above the county level will direct their removal within a specified timeframe and impose a fine ranging from five to 10 times the land reclamation cost based on the occupied area. Failure to remove the buildings within the given timeframe may lead the enforcing agency, which made the administrative decision, to apply for compulsory enforcement through the court in accordance with the law.

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## BUSINESS

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In view of the foregoing, since the construction cost of the Buildings is approximately RMB1.34 million and the land reclamation cost for the Dabei Line Land shall not exceed RMB20,000 under current local policy, our Directors expect and our PRC Legal Advisers concur that the maximum penalty we may be subject to in relation to our leasing of, sub-leasing of and construction on the Dabei Line Land is approximately RMB1.54 million. The Buildings were temporary constructions and as confirmed and undertaken by the Lessor, any cost incurred in dismantling the Buildings and any penalty in relation to the Buildings shall be borne by the Lessor.

### *Relevant certificates obtained by our Company from the regulatory authority*

Our Company has obtained a certificate on 27 November 2023 issued by the Xinyi City Natural Resources Bureau and the Xinyi City Urban Management and Comprehensive Law Enforcement Bureau (信宜市城市管理和綜合執法局).

Based on the certificate, it was confirmed that:

- The Xinyi City Natural Resources Bureau is the authorised governing body responsible for the approval of temporary land use, temporary planning permits, and the construction of permanent buildings and structures on temporarily allocated land in Xinyi City; the Xinyi City Urban Management and Comprehensive Law Enforcement Bureau is the authorised governing body responsible for matters related to temporary construction, such as overdue removal of temporary buildings and structures, and holds the power to administer penalties.
- The Buildings fall under the jurisdiction of the Xinyi City Natural Resources Bureau and the Xinyi City Urban Management and Comprehensive Law Enforcement Bureau (the “**Relevant Authorities**”).
- Considering that (i) no complaints or reports concerning our Company have been received by the Relevant Authorities and that our Company has proactively reported the details of the Buildings and their usage; and (ii) our Company is relocating the relevant facilities and equipment from the Buildings to a new operating location (the “**Relocation**”) and plans to continue our existing business activities and operations at the new location and cease usage of the Buildings, in order to ensure the continuous provision of construction engineering testing and inspection services within the jurisdiction of the Relevant Authorities and to facilitate a smooth transition for the Relocation, the Relevant Authorities have granted approval for the ongoing use of the Buildings by our Company until the Relocation takes place. The Relevant Authorities will not require our Company to dismantle the Buildings during this period. See “– Relocation plan” below in this sub-section for details of the Relocation.
- The Relevant Authorities will not impose administrative penalties, initiate investigations, or initiate administrative dispute procedures against our Company regarding the non-compliance of our Company to obtain certain temporary construction permits, extensions of temporary construction permits, or the timely removal of temporary buildings.
- The aforementioned non-compliant issues of our Company do not constitute material non-compliance of the relevant laws and regulations.

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## BUSINESS

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### *View of our PRC Legal Advisers*

Our PRC Legal Advisers are of the view that:

- Based on the aforementioned certificates issued by the Xinyi City Natural Resources Bureau and the Xinyi City Urban Management and Comprehensive Law Enforcement Bureau, the risks of administrative penalties for our Company regarding the use of the Buildings, such as the lack of temporary construction permits, extensions, or timely removal, are remote.
- Due to the absence of documentation to prove that the consent of the village meeting or the village representatives of the Ultimate Lessor in respect of the lease of the Dabei Line Land to the Lessor has been obtained, there is a risk that the validity of the lease of the Dabei Line Land by our Company could be challenged by the village meeting or the village representatives, and our Company may not be able to continue to use the Dabei Line Land.
- In accordance with the agreement between our Company and the Lessor, if the Lessor breaches his obligation to provide a legally leased property obtained through appropriate legal procedures, as well as the right to sub-lease the Dabei Line Land to our Company for laboratory and testing operations, resulting in our inability to use the Dabei Line Land lawfully or incurring administrative penalties or other losses, the Lessor is obligated to fully compensate our Company.

### *View of our Directors*

Our Directors concur with the view of our PRC Legal Advisers that the risks of administrative penalties for our Company regarding the use of the Buildings, such as the lack of temporary construction permits, extensions, or timely removal, are remote.

Although the absence of documentary evidence of the consent of the village meeting or village representatives of the Ultimate Lessor to lease the Dabei Line Land to the Lessor may expose our Company to the risk of not being able to continue to use the Dabei Line Land, based on our Company's plan of the Relocation and that the revenue generated from our Company with the Dabei Line Land and the Buildings during the Track Record Period accounted for a relatively small proportion of our Company's total revenue, the defects concerning the Dabei Line Land and the Buildings are not anticipated to have a significant adverse impact on our business operations.

In addition, our Directors are of the view that the abovementioned non-compliances regarding the Buildings are immaterial based on the below:

- Financially immaterial: The revenue generated with the Dabei Line Land and the Buildings during the Track Record Period accounted for only 2.0% to 2.4% of our total revenue in each financial year/period.
- No penalty is anticipated: The Relevant Authorities have confirmed that they will not impose administrative penalties, initiate investigations, or initiate administrative dispute procedures against our Company regarding the non-compliances.

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## BUSINESS

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- No material operational impact: Our Company was permitted to continue to use the Dabei Line Land and the Buildings for its operations, as agreed or confirmed by the Lessor and the Relevant Authorities, until 31 July 2024. As part of our Company's expansion plan, our Company entered into a leasing agreement regarding the lease of a new building in April 2024, see "– Relocation plan" below in this sub-section for details. Our Directors are of the view that the new building would be sufficient to accommodate the operations originally located on the Dabei Line Land.
- One-off incident: Saved for the Dabei Line Land and the Buildings, there were no similar issues with respect to other properties leased by our Company; accordingly the non-compliances are not recurring.
- Indemnity from the lessor of the Dabei Line Land: The Lessor has agreed to indemnify our Company against penalties or other losses arising from the breach of the warranties and undertakings given by him as regards his right and authority to lease the Dabei Line Land to our Company for operating our laboratories and testing and inspection business.

### Relocation plan

As part of our expansion plan, we have been looking for a suitable location to accommodate all our existing offices and laboratories and support our growing operations.

In April 2024, we entered into a leasing agreement (the "New Leasing Agreement") with Xinyi Xinye, pursuant to which Xinyi Xinye has agreed to lease a premises (the "New Building") to our Company from 8 April 2024 to 7 April 2044.

The New Building is located on 1 Xinyi Main Road South, Dingbao Town, Xinyi City (信宜市丁堡鎮信義大道南1號) with a total floor area of 17,802 sq.m. The monthly rental payment for the first five year of lease of the New Building shall be RMB13.9 per sq.m (RMB247,449 in total), with an increment of 5% for every five year.

Xinyi Xinye is a wholly-owned subsidiary and thus an associate of Xinyi Xinhui, a substantial Shareholder. Hence Xinyi Xinye is a connected person of our Company. Our Directors consider that the terms and conditions of the New Leasing Agreement were arrived at after arms' length negotiations between the parties and are on normal commercial terms that are considered fair and reasonable and in the interest of our Company and our Shareholders as a whole. The monthly rental payment during the leasing terms of the New Building were determined with reference to the prevailing market prices.

As at the Latest Practicable Date, we have obtained the necessary licences and permits to carry out laboratory operations in the New Building. We have commenced to move our business operations by phases into the New Building, the relocation of our laboratory units on the Dabei Line Land to the New Building was completed as at the Latest Practicable Date. We expect that all of our operations including our office and all laboratories units shall be transited to the New Building and the relocation shall be completed in the third quarter of 2024.

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## BUSINESS

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As we are relocating all our operations by phases from around April 2024 until the third quarter of 2024, our Directors do not expect any material disruption to our operations arising from our relocation plan. The two properties which we leased on 4 Xinshang Road, Xinyi City for office and laboratory units will remain operational and serve our business needs during the relocation period. Therefore we believe our business to continue without potential material disruptions during the relocation period.

As we expected to complete the relocation of our entire business to the New Building in the third quarter of 2024, we expect not to continue the rental of the two properties on 4 Xinshang Road, Xinyi City after the third quarter of 2024. Pursuant to the term of the leases, our Company is entitled to terminate the leases with three months' notice in advance without payment of any termination fee or charges by us.

After the relocation, the new office space and laboratories in the New Building will support the development of our existing operations of the provision of construction engineering testing and inspection services. It will also provide the additional space required to diversify our testing and inspection services beyond construction engineering and expanding into areas including transportation, food and agricultural, and fire protection. See “– Business strategies” in this section and “Future Plans and Use of Proceeds” in this prospectus for details.

The estimated total expenditure to relocate to the New Building is estimated to be RMB2.0 million, which includes the relevant labour costs, purchase of office furniture, new equipment and other materials.

## EMPLOYEES

Our people are at the core of our success, and we attribute much of our achievements to them. We place great emphasis on cultivating and retaining a robust workforce. When recruiting new personnel, we evaluate various criteria such as professional experience, educational qualifications, and alignment with the specific requirements of our open positions. Moreover, we are committed to offering our employees ongoing development through training programs to enhance their skill sets and expand their knowledge base. As of the Latest Practicable Date, we had 106 employees in total, all of which are located in Xinyi City, Maoming. The table below illustrates the distribution of our employees across different functions as of the Latest Practicable Date:

<b>Function</b>	<b>Number of Employees</b>
Management	7
Finance	3
Administration	19
On-site testing personnel	44
Laboratories technicians	22
Quality control	9
Information technology	2
<b>Total</b>	<b>106</b>

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## BUSINESS

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Our 106 employees hold a total of 179 testing qualifications issued and approved by the Guangdong Association for Quality and Safety Testing and Appraisal of Construction Projects, which are essential in order to conduct proficient testing and inspection process in China. Among them, 55 are qualified engineers specialising in construction engineering in China. By leveraging this broad range of expertise and the collective knowledge and skills of our team, we are able to provide reliable and accurate testing services that contribute to the success and safety of different types of construction projects. As at the Latest Practicable Date, we also had three qualified engineers specialising in food and agriculture in China.

We have maintained certain number of employees to fulfil the corresponding personnel requirements in relation to our certificates for construction engineering testing and inspection services. See “Regulatory Overview – Qualifications” in this prospectus for details. We have taken a number of measures to ensure sufficient and qualified employees to comply with those statutory personnel requirements during the Track Record Period and up to the Latest Practicable Date. First of all, we have maintained a Quality Manual in accordance with relevant laws and regulations, which sets out our management requirements for personnel including, among others, licenses required for our testing personnel, the implementation of an induction qualification assessment system for personnel in key positions, and requirements and qualifications for the authorized signatory. Secondly, we have compiled procedural guides related to personnel management, including the Management Procedures for Recruitment, the Training and Assessment of Personnel, the Management Procedures for Recruitment of Personnel and Confirmation of Competence, the Management Procedures for Quality Supervision and the Competence Monitoring. Thirdly, we have designated our comprehensive management department to assist the person in charge of quality to coordinate the establishment of personnel files. In addition to retaining personnel files, such as academic certificates, technical curriculum vitae, certificates of competency training, certificates and qualifications, we have established and updated technical files of our technicians regularly. Fourthly, our quality person in charge has been responsible for the annual training and examination program for our technicians to ensure that we have sufficient reserves of technical personnel. Furthermore, our Company conducted an annual evaluation of our integrated management system and personnel qualifications in order to make sure we comply with relevant statutory personnel requirements.

According to the written confirmations issued by the Xinyi City Administration for Market Regulation, the Xinyi City Bureau of Housing and Urban-Rural Development, and the Maoming City Bureau of Housing and Urban-Rural Development on 20 November 2023, 21 November 2023, 19 March 2024, 28 March 2024 and 11 July 2024, our Company possessed necessary conditions and capacities for provision of testing and inspection businesses, and had been in possession of requisite and qualified personnel and conditions for our construction engineering testing and inspection businesses since we obtained our first Construction Engineering Quality Inspection Agency Qualification Certificate from 6 November 2015 and our first Inspection and Testing Agency Qualification Certificate from 6 November 2001.

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## BUSINESS

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Our Company also places a strong emphasis on staff training and development to ensure our team possesses the necessary skills and expertise to deliver high-quality testing and inspection services. We invest in comprehensive training programs for our testing and inspection personnel and technicians that encompass both technical knowledge and practical skills relevant to our industry. Our training initiatives cover various aspects, including industry regulations, testing methodologies, equipment handling, safety protocols, and quality control measures. We regularly update our training curriculum to stay abreast of the latest advancements and best practices in the field of testing and inspection. By investing in staff training and development, we ensure that our team is equipped with the necessary expertise to handle diverse testing and inspection projects.

Our employee compensation package comprises several components, including base salary and bonuses. The determination of employee compensation takes into account various factors such as individual performance, qualifications, position, and seniority. We adhere to the social insurance contribution plans established by the local governments in China. In accordance with national and local laws and regulations governing social welfare and housing reserve funds, we fulfill our responsibility of paying monthly social insurance premiums on behalf of our employees. These premiums cover essential areas such as basic pension insurance, basic medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing reserve fund. By meeting these obligations, we ensure that our employees have access to the necessary social security benefits as mandated by the relevant authorities.

Our Directors consider that we have maintained good relationship with our employees. We have not experienced any significant disputes with our employees or any disruption to our operations due to labour disputes. In addition, we have not experienced any difficulties in recruitment and retention of experienced core staff or skilled personnel during the Track Record Period.

## ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

### Governance

We acknowledge our responsibilities on environmental protection, social responsibilities and is aware of the climate-related issues that may have impact on its business operation. We are committed to complying with the environmental, social and governance (“ESG”) reporting requirements upon Listing. We have established an ESG policy (the “ESG Policy”) in accordance with the standards of Appendix C2 to the GEM Listing Rules, which outlined, among others, (i) the appropriate risk governance on ESG matters, including climate-related risks; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governance structure; (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators (“KPIs”), the relevant measurements and mitigating measures.



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## BUSINESS

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Our ESG policy also sets out the respective responsibility and authority of different parties in managing the ESG matters. Our Board has an overall responsibility for overseeing and determining our Company's environmental, social, and climate-related risks and opportunities impacting our Company, establishing and adopting the ESG policy and targets of our Company, reviewing our Company's performance annually against ESG-related targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

Our Board has established an ESG working group that comprises of the deputy general manager, a staff from the finance department and a staff from the legal department. The ESG working group serves as a supportive role to the Board in implementing the agreed ESG policy, targets and strategies; taking involvement into the annual enterprise risk assessment; conducting materiality assessments of ESG areas and assess how our Company adapts its business in light of climate change; collecting ESG data from different parties while preparing for the ESG report; and continuous monitoring of the implementation of measures to address our Company's ESG related risks. The ESG working group is also responsible for the investigation of deviation from targets and liaise with the relevant functional department to take prompt rectification actions for such deviation. The ESG working group has to report to our Board on a semi-annually basis via board meetings on the ESG performance of our Company and the effectiveness of the ESG systems.

### **Strategies in addressing ESG-related risks**

We will conduct enterprise risk assessment at least once a year to cover the current and potential risks faced by our Company, including, but not limited to the risks arising from the ESG aspects and strategic risk around disruptive forces such as climate change. Our Board will assess the risks and review our Company's existing strategy, target and internal controls, and necessary improvement will be implemented to mitigate the risks. Our Board, Audit Committee and the ESG working group will maintain oversight of our Company's approach to risk management, including climate-related risks and risks are monitored as part of the standard operating processes to ensure the appropriate mitigations are in place as part of the regular management reviews. The decision to mitigate, transfer, accept or avoid a risk is resulted after our enterprise risk assessment process and directly influence the mitigating steps of those identified risks. Our Company will incorporate climate-related issues, including physical and transition risk analysis, into our risk assessment processes and risk appetite setting. If the risk and opportunities are considered to be material, our Company will make reference to them in the course of the strategy and financial planning process. Upon annual review of the ESG-related risks, and our Company's performance in addressing the risks, we may revise and adjust the ESG strategies as appropriate.



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## BUSINESS

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We have adopted various strategies and measures to evaluate and manage the material ESG related areas and to ensure our compliance with the Stock Exchange's requirements on ESG, including but not limited to, discussing among our management team from time to time to ensure all the material ESG areas are recognised and reported, and ensuring the recommendations and the requirements on ESG under the GEM Listing Rules are complied with. For ESG reporting purpose, our Board has also conducted stakeholder engagement through different communication channels, and materiality assessment on ESG areas to identify the key ESG areas towards our Company and our stakeholders in accordance with the standards of Appendix C2 to the GEM Listing Rules. During the materiality assessment, our Company has identified several key ESG areas, including environmental and resources management, occupational health and work safety, service quality, supply chain management and anti-corruption. We have established a set of ESG policies to mitigate risks in these areas to ensure that we comply with local laws and regulations. These key ESG areas may present a variety of risks and opportunities for our Company and our Company will continue to monitor related performances.

### Impacts of ESG-related risks

In assessing the materiality of ESG risk factors, our Company has taken aspects and extents of impacts of the issues on the daily operation of our Company as a major consideration as shown below:

<b>Material ESG-related risks</b>	<b>Potential impacts</b>
Environmental and resources management (short and long term)	<p>Climate-related risks may reduce revenue and increase our operating cost. See “– Tackle with climate change” below for details.</p> <p>Lack of monitoring for energy and water consumption may increase operating cost.</p> <p>Improper or delayed treatment or leakage of various wastes may cause adverse impacts on surrounding environment, resulting in complaints and environmental penalties.</p>
Occupational health and work safety (short term)	<p>Our testing process carries out on site and in laboratories. Failure to maintain safe work conditions and a lack of protective gears may cause occupational hazards with fine and compensation to employee.</p>
Service quality (long term)	<p>Failure of or non-compliance with our quality control measures may result in unreliable or inaccurate test results, which may in turn damage our reputation and affect the demand for our services.</p>

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## BUSINESS

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Supply chain management (short term)      Our Company contract with suppliers for testing consumables for conducting testing services and subcontractors for certain physically demanding works for foundation testing service.

Our Company may fail to provide quality service in light of inappropriate selection of suppliers/subcontractors and unsatisfactory performance and/or unavailability of our subcontractors may adversely affect our operations and profitability because of cannot providing timely and accurate test results.

Anti-corruptions (long term)      Violation of business ethics by our employees with customers or suppliers/subcontractors may damage our reputation and materially and adversely affect our business, financial conditions and results of operations.

### **Mitigating steps to addressing ESG-related risks**

#### *Environmental and Resources Management*

Our operations are subject to the relevant environmental protection laws and regulations promulgated by the PRC Government, a summary of which is set out in “Regulatory Overview – Laws and Regulations Relating to Environmental Protection” in this prospectus. Given the nature of our business that does not relate to manufacturing and production, our operational activities do not directly generate industrial pollutants and thus our Directors are of the view that our Company’s operational activities do not significantly pose negative impact to the environment and our Company is not aware of any material environmental liability risk or compliance costs during the Track Record Period. Our Directors also expect that we will not incur significant costs for the compliance with applicable environmental protection rules and regulations in the future. However, as a supporter of environment protection, we advocate for green environment practices to reduce our carbon footprint, constantly raise the awareness of environmental protection among our employees and take into account of the resources and materials we uses in daily operation.

#### *Waste management*

During the testing process of construction materials in our laboratories, we generate noise, waste gases, liquid waste and solid waste pollutants. Set forth below are the major governance measures towards our major environmental related risks.

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## BUSINESS

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### Solid waste

We would separate the solid waste into two categories:

- hazardous solid waste such as polychlorinated (brominated) biphenyl waste generated from testing process of asphalt raw materials; and
- non-hazardous solid waste such as waste construction materials sample (i.e. scrap iron, cement and geosynthetic materials) and domestic waste.

We have engaged qualified third-party service providers for centralised disposal of our solid wastes. For hazardous solid waste, they are required to be sealed and stored in special bottles before disposal. Routine domestic waste generated from the daily operation is stored according to the local garbage classification requirements and then will be transferred to waste treatment plant by the local environment and hygiene authority.

### Liquid waste

Our liquid waste is mainly generated from testing process of asphalt raw materials and is required to be sealed and stored in special bottles before collecting by qualified third-party service providers. Domestic wastewater is treated by our sewage purification equipment to make sure the wastewater is discharged after being treated legally.

### Waste gases and dust

Waste gases and dust generated during our testing process are mainly treated by air purification equipment before discharge.

### Noise control

Noise may be generated during our testing process with the use of our laboratory equipment. We minimise our noise emission by purchasing hearing protection devices for testing personnel and installing soundproofed doors and soundproofing and vibration reduction measures in our laboratory equipment to reduce the level of noise.

During the Track Record Period, as confirmed by the relevant competent government authorities, we had complied with applicable environmental laws and regulations in the PRC, and no administrative sanctions, penalties or punishments have been imposed upon us for material violation of any environmental laws or regulations in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof. Our cost in relation to environmental protection was not significant for FY2021, FY2022 and 6M2024. The expenses of RMB0.2 million incurred during FY2023 was mainly for purchasing and installing those environmental protection equipment and facilities in our new laboratories.

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## BUSINESS

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### *Resources management*

Our energy consumption is mainly derived from electricity consumption in our headquarters, laboratories and warehouses during our daily operation. We endeavour to proactively conserve energy in response to the government's initiatives and thus we have implemented measures to increase energy efficiency in our operations to fulfil our environmental and social responsibility. See “– Metrics and targets of ESG-related risks” below for our measures taken for saving energy.

### *Metrics and targets of ESG-related risks*

Greenhouse gas (“GHG”) emissions are closely related to climate change, which presents businesses with both long-term risks and opportunities. To better understand, quantify and manage the carbon and climate change related impacts, risks, and opportunities in our operation, it is integral to measure and disclose our carbon footprint as a first step in our ESG journey.

GHG emissions mainly consist of scope 1 direct emissions from consumption of unleaded petrol and diesel by daily use of vehicles, scope 2 indirect emissions derived from electricity consumption in our headquarters, laboratories and warehouses during our daily operation and scope 3 other indirect emissions that mainly arise from business travel of employees. Regarding scope 3 other indirect emissions, such emissions are mainly arising from purchased goods and services, business travel, employee commuting, and other categories of activities in our value chain, all of which are counted as scope 3 emissions in ESG disclosures, which tends to be reported voluntarily to avoid double counting. Carbon emissions may be emitted by our suppliers and service providers in our value chain that may not be environmental-friendly. To mitigate our indirect impact through third-party suppliers and service providers, we plan to strengthen our ESG practices and actively research the carbon footprint of our third-party suppliers and service providers and enlist environmental protection capability as one of our assessment elements when evaluating such suppliers and service providers to ensure that our suppliers and service providers are fully competent in carrying out sustainable operations and exerts continuous effort to minimize environmental impact. When screening those suppliers and service providers in the future, low carbon (i.e. evidenced with environmental compliance history and certification in environmental protection) will be our top priority criteria with evaluation metrics emphasizing environmental impact, energy and resource utilization, use of renewable energy and other innovative means for producing a smaller carbon footprint. Besides, we have a long practice of encouraging our employees to make their travelling and commuting as energy efficient as possible. For instance, our practice requires our employees to select economy class as a preference for business travel.

Although scope 3 other indirect emissions arising from our daily operation are expected to be not significant as 1) most of our major suppliers, service providers and customers are located within Guangdong Province of the PRC with relatively short distance logistic, 2) business trip by management and employees during COVID-19 period was limited and 3) strict selection of suppliers and service providers implemented as mentioned above, we are aware of the significance of reducing our scope 3 other indirect emissions, by implementing practical measures in our daily operation during the Track Record Period as mentioned above, which we plan to commence relevant data collection and calculation in accordance with the Guidance on Climate Disclosures and expand the disclosure of scope 3 other indirect emissions in our ESG report with reference to the latest amendments to the GEM Listing Rules in the first half of 2025.

## BUSINESS

Regarding climate-related metrics, assets especially all items under category of “Property, Plant and Equipment” in the balance sheets are materially exposed to flooding and storms (physical risks). Besides, all items of machinery equipment under category of “Property, Plant and Equipment” in the balance sheets are materially exposed to shifts in customer preferences for our testing services (transition risks). All items under category of “Property, Plant and Equipment”, “Trade and other receivables and prepayments” and “Cash and cash equivalents” in the balance sheets are aligned with increase in revenue and business expansion in the future if local authorities are enforcing higher standards for construction projects to meet safety and environmental requirements, which also drive the demand for testing and inspection services (climate-related opportunities). Our Directors expect that amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities are not significant in light of our measures taken to address climate-related risk. See “– Tackle with climate change” below for details.

The table below sets forth the quantitative disclosure of GHG emissions, energy consumption, water consumption and waste generation during the Track Record Period of our operation in the PRC.

	FY2021	FY2022	FY2023	6M2024
<b>GHG emissions<sup>(note)</sup></b>				
Scope 1 direct emissions ( <i>tonnes CO<sub>2</sub> equivalent</i> )	21.88	16.84	29.59	16.31
Scope 2 indirect emissions ( <i>tonnes CO<sub>2</sub> equivalent</i> )	70.29	70.23	84.20	38.63
Total ( <i>tonnes CO<sub>2</sub> equivalent</i> )	92.17	87.07	113.79	54.94
Intensity ( <i>tonnes CO<sub>2</sub> equivalent/Revenue RMB'000</i> )	0.002	0.004	0.003	0.002
<b>Energy consumption</b>				
Unleaded petrol ( <i>kWh</i> )	60,637.52	46,984.90	81,474.25	45,493.79
Diesel ( <i>kWh</i> )	20,368.49	15,369.86	28,140.22	14,864.56
Purchased electricity ( <i>kWh</i> )	115,218.00	115,106.00	138,015.80	63,320.31
Total ( <i>kWh</i> )	196,224.01	177,460.76	247,630.27	123,678.66
Intensity ( <i>kWh/Revenue RMB'000</i> )	4.93	8.89	5.97	5.42
<b>Water consumption</b>				
Usage ( <i>tonnes</i> )	412.00	275.00	295.00	132.00
Intensity ( <i>tonnes/Revenue RMB'000</i> )	0.01	0.01	0.01	0.01
<b>Waste generation</b>				
Hazardous waste ( <i>kg</i> )	–	–	2,600.00	7,000.00
Non-hazardous waste ( <i>kg</i> )	1,250.00	1,250.00	2,012.50	1,112.50
Total ( <i>kg</i> )	1,250.00	1,250.00	4,612.50	8,112.50
Intensity ( <i>kg/Revenue RMB'000</i> )	0.03	0.06	0.11	0.36

*Note:* Scope 3 other indirect emissions arising from our daily operation are not significant as mentioned above.

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## BUSINESS

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Going forward, we plan to control the consumption of energy, GHG emissions, water consumption and waste generation and aim to maintain relevant levels per RMB1,000 revenue at 90% to 110% compared to that of 2024 over the next three years. In order to achieve the above target, we have adopted an array of measures in mitigating GHG emissions, energy consumption and generation of wastes during the course of our operations, including but not limited to:

- implementing recycling policy to ensure solid waste and liquid waste will be collected and recycled by qualified third-party service providers;
- requiring employees to turn off lights, machinery, equipment, and other electronic devices when the devices are not in operation and before they leave the premises;
- using lighting products that are more energy-efficient, such as LED lighting and automatic temperature control air-conditioning system;
- implementing the use of online system for internal administrative procedures to reduce the use of paper documents and avoid waste of paper by promoting printing on both sides;
- conducting regular inspection and monitoring of water-pipe and metre to avoid leakage;
- procuring electronic devices that are more energy efficient, such as those with Grade 1 or 2 energy label; and
- conducting regular inspection and maintenance of vehicles, machinery and equipment to ensure that they are running at optimal conditions with highest energy efficiency.

Our Company will continue to monitor emission of various waste regularly and our administration department will continue to keep record of pollutant emissions.

### *Tackle with climate change*

In terms of major climate change related impact that may affect us, we make reference to the Task Force on Climate-Related Financial Disclosures (“TCFD”) framework to evaluate the magnitude of the climate impact. The potential climate change risks can be categorised into (a) transition risks: being the risks arising from compliance with the applicable environmental laws and regulations and the stringent environmental protection standards; and (b) physical risks: being the risks for the damages arising from acute weather-related events and longer-term chronic shifts in climate patterns.

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## BUSINESS

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Set forth below is a summary of the climate-related risks our Company identified over the short, medium and long term.

<b>Risks</b>	<b>Sources</b>	<b>Potential Impacts</b>
Physical risks (actual)	– Extreme weather conditions such as flooding and storms (Short term)	– Reduced revenue from damage to assets  – Increased operating expenses
Transition risks (potential)	– Change in climate-related regulations (Medium to long term)  – Shifts in customer preferences (Long term)	– Increased operating expenses  – Reduced demand for our services

Regarding physical risks, we have purchased adequate insurance to safeguard us and our employees against any climate change or extreme weather conditions like typhoons and storms that would materially and adversely affect our business and operations. See “– Insurance” in this section for details.

In response to transition risks, particularly (i) the evolving environmental and climate regulatory requirements and (ii) the shifts in customer preferences that could lead to negative financial impact such as increase our environmental compliance costs, we have adopted a series of measures to minimise the risks of environment pollution and non-compliance with the applicable environmental laws and regulations. For details, See “– Environmental, Social and Corporate Governance – Environmental and Resources Management” in this section. During the Track Record Period, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

### ***Occupational health and work safety***

We have in place stringent internal safety policies to ensure our safe operations and ensure our compliance with relevant PRC laws and regulations. Our Company has implemented various precautions and safety measures including but not limited to:

- formulating safety policies for on-site testing and laboratory testing;
- providing safety training to our employees;
- requiring all employees to wear appropriate personal protective equipment for on-site testing and laboratory testing;

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## BUSINESS

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- placing warning signs and labelling the containers in our laboratories holding the dangerous substance legibly with the name of the substance, hazard classification and symbol, particular risks inherent in the substance, and required safety precautions; and
- prohibiting smoking in the work areas.

During the Track Record Period, as confirmed by the relevant competent government authorities, we had complied with applicable occupational health and work safety laws and regulations in the PRC, and did not involve in work safety accidents. During the Track Record Period, we did not record any accidents that had a material impact on our business or operations.

### *Supply Chain Management*

Our Company aims to minimise the environmental and social risks of its suppliers and subcontractors by setting criteria for supplier/subcontractors selection. Suppliers and subcontractors should comply with all relevant local and international laws and regulations regarding anti-bribery, anti-corruption and other unethical business practices. In addition, our Company will prioritise local suppliers/subcontractors or suppliers/subcontractors that are geographically closer and more accessible to our Company to reduce carbon footprint (i.e. scope 3 upstream emission from logistics).

Our Company evaluates supplier/subcontractor by various criteria such as quality, timeliness of delivery, after-sales services and qualification during the supplier/subcontractor selection process. Only supplier/subcontractor that meet our criteria may be added to an approved list for further considerations. Supplier/subcontractor who are found to be non-compliant with our Company's policy will be terminated and removed from the approved list until the situation has been improved.



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## BUSINESS

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### *Social matters*

We have adopted policies on compensation and dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. See “– Employees” in this section for more details. We are committed to building a diversified and inclusive working environment. The following table sets forth the composition of our employees in the PRC by gender and age as at the Latest Practicable Date:

	<b>Number of staff</b>	<b>% of total</b>
<b>By gender</b>		
Male	67	63.2
Female	39	36.8
Total	<u>106</u>	<u>100</u>
<b>By age group</b>		
30 or below	37	34.9
31–40	55	51.9
41–50	11	10.4
51 or above	3	2.8
Total	<u>106</u>	<u>100</u>

For further discussion on the other key ESG areas we have identified, namely, the areas of service quality and anti-corruption, see “– Quality Control” and “– Risk Management and Internal Controls” in this section.

To sum up, we attach great importance to our ESG management and recognize that an effective and efficient ESG management requires our continuous efforts and investment and contribution from a variety of departments. We endeavor to further improve the environmental and social data metrics. Furthermore, we plan to prepare and launch our first ESG report in accordance with the standards of Appendix C2 to the GEM Listing Rules which will include more qualitative and quantitative ESG information and analysis by the first half of 2025.

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# BUSINESS

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## APPROVALS, LICENCES AND PERMITS

As advised by our PRC Legal Advisers, as of the Latest Practicable Date, our Company had obtained all the requisite approvals, licences and permits from the relevant regulatory authorities for our operation in China and all of them are in force as of the Latest Practicable Date. For details of the requisite approvals, licences and permits, see “Regulatory Overview” in this prospectus.

A summary of our approvals, licences and permits is as follows:

<b>Approval/License/Permit</b>	<b>Issuing Organisation</b>	<b>Issuing Date</b>	<b>Expiry Date</b>
The Construction Engineering Quality Inspection Agency Qualification Certificate <sup>(1)</sup>	Guangdong Provincial Department of Housing and Urban-Rural Development	20 December 2023	5 November 2024 <sup>(2)</sup>
The Inspection and Testing Agency Qualification Certificate <sup>(1)</sup>	Guangdong AMR	31 July 2024	25 March 2030

*Notes:*

- (1) The Construction Engineering Quality Inspection Agency Qualification Certificate is governed by the Administrative Measures for the Quality Inspection of Construction Engineering promulgated by the Ministry of Construction on 28 September 2005 which was re-promulgated by the MOHURD on 29 December 2022 and became effective on 1 March 2023, the Notice on Issuance of Qualification Standards of Construction Engineering Quality Inspection Agencies issued and implemented by the MOHURD on 31 March 2023, together with other regulations. As at the Latest Practicable Date, our Company has obtained both the qualification of special inspection agency and the qualification of evidential inspection agency under the relevant Administrative Measures.

The Inspection and Testing Agency Qualification Certificate is governed by the Administrative Measures for the Qualification Accreditation of Inspection and Testing Agencies promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 9 April 2015 and amended on 2 April 2021 by the SAMR, together with other relevant regulations.

See “Regulatory Overview” in this prospectus for details.

- (2) Our Company will apply for a new certificate under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, according to which a new qualification standard for the Construction Engineering Quality Inspection Agency Qualification Certificate shall be introduced comprising the Comprehensive Qualification and Specialised Qualifications. As at the Latest Practicable Date, the Implementation Rules have not yet been officially released and therefore the application process for obtaining the new certificate under the new standard has not yet been made available. Existing construction engineering quality inspection agency is granted a transition period till 31 October 2024 to apply for a new qualification certificate according to such standard. See “Regulatory Overview” in this prospectus for details.

Neither our Directors nor our PRC Legal Advisers foresaw difficulties in obtaining six out of the nine Specialised Qualifications as described in “– Business Strategies – Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services.” in this section, fulfilling the application requirements and meeting the above-mentioned transition deadline. See “– Business Strategies” in this section for details.

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## BUSINESS

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### MATERIAL AWARDS

During the Track Record Period, we have obtained a number of recognitions in respect of our services and operations, a summary of which is as follows:

Award/Certificate	Issuing Organisation	Issuing Date	Expiry Date
Comparative test for “Low strain in foundation piles.” (“基樁低應變”對比試驗項目結果為滿意)	Guangdong Construction Engineering Quality and Safety Inspection and Appraisal Association	30 October 2023	N/A
Comparative test for “Waterproofing membrane (tensile strength, elongation at break)” (“防水卷材(拉伸強度、拉斷伸長率)”對比試驗項目結果為滿意)	Guangdong Construction Engineering Quality and Safety Inspection and Appraisal Association	20 October 2022	N/A
Comparative test for “Sand chloride ion content” (“砂氯離子含量”對比試驗項目結果為滿意)	Guangdong Construction Engineering Quality and Safety Inspection and Appraisal Association	20 October 2022	N/A
Guangdong Province (Yue) Hainan Province (Qiong) “Chuang’er Cup” Cement Inspection Comparative Physical Performance Inspection – Qualified Unit 2022 (2022廣東省(粵)海南省(瓊)“創爾杯”水泥檢驗大對比物理性能檢驗 – 合格單位)	Guangdong Quality Supervision Cement Inspection Station (Guangzhou)	15 November 2021	N/A
Guangdong Province (Yue) Hainan Province (Qiong) “Chuang’er Cup” Cement Inspection Comparative Physical Performance Inspection – Qualified Unit 2021 (2021廣東省(粵)海南省(瓊)“創爾杯”水泥檢驗大對比物理性能檢驗 – 合格單位)	Guangdong Quality Supervision Cement Inspection Station (Guangzhou)	18 November 2021	N/A

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## BUSINESS

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### EFFECT OF THE COVID-19 PANDEMIC

The initial outbreak of COVID-19 in China during the first quarter of 2020, followed by subsequent resurgences of the virus in certain major cities throughout 2022, has resulted in the implementation of several measures to mitigate the spread of the pandemic. These measures include imposing lockdowns, suspending construction activities, implementing travel restrictions, and enforcing strict social distancing and quarantine protocols. In particular, the construction personnel in Maoming have faced the challenges of intermittent isolation periods throughout the pandemic. Various companies in Guangdong Province including Maoming periodically required employees to undergo nucleic acid testing for COVID-19 and employees infected or identified as close contacts shall be isolated, which affected their normal work operations. Both our Company and our customers experienced increased abnormal working hours and reduced normal working hours due to the aforementioned reasons. For instance, our Company had arranged several rounds of collective nucleic acid tests for our employee in FY2022, and the total number of days off due to the pandemic was 206 person-day, as compared to nil in FY2021. These necessary precautions have disrupted the regular workflow and caused delays in the progress of various construction and infrastructure projects, which led to a direct impact on our testing and inspection operations.

With the construction schedules being pushed back, our customers' demand on our construction engineering testing and inspection services had been postponed. As a result, the revenue for FY2022 has experienced a decline compared to previous years. The reduced revenue has put additional strain on our net profit as a result of the presence of fixed costs and expenses, which remain relatively inflexible.

Meanwhile, measures imposed by the PRC Government in relation to the pandemic had also affected our customers' settlement progress. As a result, the trade receivables turnover day of our Company for FY2022 has increased significantly from 271 days in FY2021 to 639 days in FY2022. Attributable to the prolonged settlement cycle due to the pandemic, combined with the decrease in net profit, our Company recorded negative cash flows from operating activities for FY2022.

Overall, the combination of the slow settlement from customers, reduced revenue, and fixed costs and expenses has led to a challenging financial situation for our Company in FY2022, impacting various vital financial metrics and requiring prudent management and adaptation in response to the circumstances. As of the Latest Practicable Date, the impact of the COVID-19 pandemic on our operation has diminished and our Company's operation has already resumed to normal level. Our Directors are of the view that the COVID-19 pandemic will not cause material adverse impact on our financial performance and its business operation.

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## BUSINESS

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### LEGAL PROCEEDINGS AND COMPLIANCE

#### Legal Proceedings

We are subject to legal proceedings, investigations and claims incidental to the regular operations of our business from time to time. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our directors that could have a material adverse effect on our business, financial condition or results of operation.

#### Non-compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in China. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any non-compliance that, in the opinion of our Directors, is likely to have a material adverse effect on our business, financial condition or results of operation. Our Directors are of the view, and our PRC Legal Advisers concur, that during the Track Record Period and up to the Latest Practicable Date, we had complied with applicable PRC laws and regulations that are essential to our business operations in all material respects.

### RISK MANAGEMENT AND INTERNAL CONTROLS

#### Risk management

We are exposed to various risks during our operation. For more details, see “Risk Factors” in this prospectus. We have implemented various policies and procedures to ensure effective risk management at each aspect of our operation, including the provision of on-site testing and inspection, performance of analytical tests in our laboratories, administration of daily operation, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection and workplace safety.

We have also in place anti-corruption, anti-bribery and anti-money laundering policies to safeguard against any such activity. The policy explains potential conduct prohibited under our anti-corruption, anti-bribery and anti-money laundering policies and the relevant measures to be adopted pursuant to such policies. In particular, our key anti-corruption and anti-bribery measures include:

- our Board and our risk control and audit department are responsible for anti-corruption and anti-bribery works;
- the management of our Company is responsible for advocating the corporate culture of honesty and integrity and creating an anti-corruption and anti-bribery corporate culture environment, assessing the risk of fraud and establishing specific control procedures and mechanisms to reduce the chances of fraud occurring, establishing mechanisms for receiving, investigating, reporting and proposing opinions on the handling of reports of fraud, as well as accepting supervision from our Board and our risk control and audit department;

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## BUSINESS

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- our risk control and audit department is responsible for organising and executing cross-departmental and company-wide anti-corruption and anti-bribery work including assisting in the establishment of anti-corruption and anti-bribery mechanisms and paying reasonable attention to and checking possible fraudulent behaviours in the process of internal auditing, assisting the management and different departments in conducting the annual risk assessment, assisting in carrying out anti-corruption and anti-bribery publicity activities, and accepting fraud reports, conducting relevant investigations and reporting;
- we conduct background checks on personnel who are prepared to be hired or promoted to important positions, such as educational background, work history and criminal records;
- we provide anti-fraud and ethics training to our new employees and distribute our anti-corruption and anti-bribery policies to all employees through employee handbooks, rules and regulations and quality manual;
- we strictly prohibit our management and employees to accept bribes in any of our business operations;
- any unethical and non-honest behaviours can be reported through our reporting channels, either in real names or anonymously. For anonymous reports involving ordinary employees and middle management, our risk control and audit department shall make a preliminary assessment before deciding whether or not to report to the management; for reports in real names involving ordinary employees and middle management, our risk control and audit department shall report to our Board for further action within ten working days from the receipt of the reports. For anonymous reports or reports in real names involving senior management, our risk control and audit department shall report to our Board for further action within seven working days from the receipt of the reports. When conducting the relevant investigation, our risk control and audit department may also collaborate with other relevant departments within our Company or engage external experts to participate in the investigation as necessary. Regardless of whether an investigation is initiated, our risk control and audit department is required to provide feedback to the whistleblower on the results of the actions.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with anti-corruption and anti-bribery laws and regulations in the PRC, and were not subject to any administrative penalties or investigations from any regulatory authorities in respect of such activities.

Our Board oversees and manages the overall risks associated with our operation. We have prepared written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the Corporate Governance Code as set out in Appendix C1 to the GEM Listing Rules.

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## BUSINESS

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To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an audit committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members, namely Ms. Liu Hongge, who serves as the chairlady of the committee, Ms. Deng Dian and Mr. Luo Qiling. For the qualifications and experience of these committee members, see “Directors and Senior Management” in this prospectus;
- adopt various policies to ensure compliance with the GEM Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations; and
- attend training session by our Directors in respect of the relevant requirements of the GEM Listing Rules and duties of directors of companies listed in Hong Kong.

### **Internal control**

Our Directors are responsible for monitoring our internal control system and for reviewing its effectiveness. In accordance with the applicable PRC and Hong Kong laws and regulations, we will implement the following internal control procedures to ensure our compliance with legal or regulatory requirements in respect of our business operation:

- We have established a comprehensive list of standards, licences, and filings that are essential for the proper operation of our business. This list is regularly reviewed and updated to reflect our evolving experience with local authorities and the guidance provided by our external advisors.
- We will closely monitor the acquisition of licences and fulfill the necessary filings in accordance with the list referred to above and ensure that all relevant licences and filings are obtained and up-to-date.
- We will regularly communicate with our employees with regard to contributions to social insurance plans and housing reserve fund, and with local labor and housing reserve fund authorities with regard to specific local practice.

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## BUSINESS

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- We will organise internal training programs to be conducted by in-house or external experts to our Directors, senior management and relevant employees on updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

In preparation for the Listing, our Company has engaged an independent third party consultant (the “**Internal Control Consultant**”) to perform a review over selected areas of our internal controls over financial reporting in September 2023 (the “**Internal Control Review**”). The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Joint Sponsors and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls and business process level controls, including revenue and receivables, purchases and payables, payroll, fixed and intangible assets, inventory, treasury, insurance, financial reporting, taxes, legal management and general controls of information technology.

The Internal Control Consultant performed the follow-up reviews in November 2023 to review the status of the management actions taken by our Company to address the findings of the Internal Control Review (the “**Follow-up Review**”). The Internal Control Consultant did not have any further recommendation in the Follow up Review.

The Internal Controls Review and the Follow-up Review were conducted based on the information provided by our Company and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.



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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING**

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### **RELATIONSHIP WITH XINYI CITY CEQS CENTER**

As at the Latest Practicable Date, Xinyi City CEQS Center directly held 80% of our issued share capital, thus the Controlling Shareholder of our Company under the GEM Listing Rules. Immediately following the completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised), Xinyi City CEQS Center will hold 56% of our enlarged issued share capital. As such, Xinyi City CEQS Center will continue to be the Controlling Shareholder immediately following the completion of the Share Offer.

Xinyi City CEQS Center is a public institution of the Xinyi City People's Government, under the Xinyi City Bureau of Housing and Urban-Rural Development, which is principally responsible for the implementation of the policies, laws and regulations in relation to the quality of construction works and construction safety in the PRC, the supervision and management of building construction and infrastructure projects, supervision and inspection of the quality of construction works and construction safety, issuance of project quality supervision report, safety evaluation letter and safety supervision report; educating and provision of training to parties involved in the construction projects to establish and improve the construction safety system in Xinyi City. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Xinyi City CEQS Center does not engage in any commercial business or operate any commercial entity. As such, Xinyi City CEQS Center constitutes a PRC Governmental Body under the GEM Listing Rules. As at the Latest Practicable Date, to the best knowledge, information and belief of our Directors after making reasonable enquiries, Xinyi City CEQS Center does not carry out or control any other business and directly or indirectly invested in other companies.

According to the Regulations on the Quality Supervision and Management of Housing Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程質量監督管理規定》), spot checks will be conducted by Xinyi City CEQS Centre on major construction materials, building components and engineering entity during the project quality supervision process. Given that Xinyi City CEQS Center does not have the qualification to perform construction engineering inspection, it would engage qualified inspection agencies, such as our Company, to conduct testing and inspection of construction materials on its behalf. As such, our Company was engaged by Xinyi City CEQS Center to conduct testing and inspection of construction materials used in the projects. During the Track Record Period and up to the Latest Practicable Date, save for the provision of said services to Xinyi City CEQS Center, our Company did not engage in any other transactions with Xinyi City CEQS Center.

Each of our Directors and Controlling Shareholder has confirmed that none of them nor any of their respective close associates has any interest in any business, apart from the business of our Company, which competes with, or is likely to compete with our business, whether directly or indirectly, which would otherwise require disclosure under Rules 11.04 of the GEM Listing Rules.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING

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### NON-COMPETITION UNDERTAKINGS

To ensure a clear delineation of the Restricted Business (as defined below) and the business of Xinyi City CEQS Center and its associates, on 13 August 2024, Xinyi City CEQS Center, being the covenantor, entered into the deed of non-competition (the “**Deed of Non-Competition**”) with our Company, pursuant to which, Xinyi City CEQS Center has, among other things, unconditionally and irrevocably undertaken and covenanted to our Company that during the Relevant Period (as defined below), Xinyi City CEQS Center shall (and shall procure its associate, excluding our Company, to):

- (a) not, directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement or as a principal or an agent, whether on their own account or on behalf of any person, firm or company or through any entities), invest in, be engaged in, participate in or hold any right or interest in any business or activity which will or may compete with the business engaged by our Company (the “**Restricted Business**”);
- (b) in respect of any business opportunity identified, being proposed or offered to participate by it and/or its associates for the carrying on, investment in or engagement in any principal business (the “**Business Opportunity**”) currently and from time to time engaged by our Company, refer, or shall procure its associates to refer (where such Business Opportunity has been proposed or offered to it and/or its associates by a third party), such Business Opportunity to our Company by giving a written notice (which shall contain all information of, and the relevant terms and conditions for, the Business Opportunity obtained thereby) (the “**Referral Notice**”) within 14 days after it and/or its associates has identified, has been proposed or offered to participate in the Business Opportunity, and our Directors who are not the directors of any associates of Xinyi City CEQS Center and have no actual or potential material interest in the Business Opportunity, directly or indirectly, will decide whether or not to take up such opportunity. Any Director who is a director of any associates of Xinyi City CEQS Center or has actual or potential material interest in the Business Opportunity shall abstain from voting at, and shall not be counted in the quorum for, any Board meeting convened to consider such Business Opportunity. The factors that will be taken into consideration in making the decision shall include whether taking up the Business Opportunity is in line with the business strategy and future business development of our Company and hence the overall interests of our Shareholders. If it is decided that our Company shall take up such Business Opportunity, our Directors shall take all actions as may be necessary, including passing the requisite resolutions, to give full effect to such decision;
- (c) if a Business Opportunity is refused by our Company, Xinyi City CEQS Center or its associates may take up such opportunity if (i) a notice is received by Xinyi City CEQS Center from our Company confirming that the Business Opportunity is not accepted or Xinyi City CEQS Center or its associates have not received from our Company a notice confirming that the Business Opportunity is accepted within 30 days after the Referral Notice is given to our Company; (ii) the principal terms of which Xinyi City CEQS Center or its associates carry on, invest or engage in are no more favourable than those made available to our Company; and (iii) it would not result in a breach of any provisions of the Deed of Non-Competition;

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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING**

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- (d) If there is any material change in the nature, terms or conditions of such Business Opportunity pursued by Xinyi City CEQS Center or its associates, it (or they) shall and shall procure its (or their) associates to refer such Business Opportunity as so revised to our Company as if it were a new Business Opportunity; and
  
- (e) provide to our Company and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for an annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-Competition. Such review results will be disclosed in our Company's annual reports after Listing. Xinyi City CEQS Center has also undertaken to allow our Directors, their respective representatives and the auditors of our Company to have sufficient access to the relevant records of Xinyi City CEQS Center and its associates to ensure their compliance with the terms and conditions of and for monitoring the performance of the Deed of Non-Competition. Xinyi City CEQS Center has also undertaken to issue an annual confirmation to our Company on compliance with the terms of the Deed of Non-Competition, and consenting to the disclosure of such confirmation in the annual reports of our Company, thereby enabling our Company to keep monitoring the compliance with the Deed of Non-Competition by Xinyi City CEQS Center.

For the purpose of the Deed of Non-Competition, Xinyi City CEQS Center and its close associates are allowed to hold shares in a company or business which engages in the Restricted Business, provided that the aggregate interest of Xinyi City CEQS Center and its close associates is less than 30% or any lower percentage which would trigger the mandatory general offer obligations under the applicable rules of the relevant stock exchange, and do not have power to control the majority of the relevant board of directors; and the "Relevant Period" with respect to Xinyi City CEQS Center means the period commencing from the Listing Date and expiring on the earlier of the date on which (i) that entity and its close associates (individually or taken as a whole) cease to own 30% or more of the then issued share capital of our Company directly or indirectly or Xinyi City CEQS Center ceases to be considered as the Controlling Shareholder (within the meaning ascribed to it under the GEM Listing Rules from time to time) of our Company and do not have power to control the majority of the Board; and (ii) the H Shares cease to be listed on the Stock Exchange.

Our Directors (including our independent non-executive Directors) are allowed to engage professional advisers at our costs for advices on matters relating to the Business Opportunity or if and when they think necessary in the course of reviewing the compliance with the Deed of Non-Competition.

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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING**

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### **INDEPENDENCE FROM XINYI CITY CEQS CENTER**

Having considered the following factors, our Directors are of the view that our Company is capable of carrying on our business independently from our Controlling Shareholder and its close associates following the completion of the Share Offer, details of which are set out below:

#### **Management Independence**

Our Board comprises four executive Directors, two non-executive Directors and three proposed independent non-executive Directors and our board of supervisors consists of five Supervisors. The non-executive Directors will not be involved in the major decision making of our Company and only participate in board meetings of our Company where decisions are collectively made by members of our Board. The independent non-executive Directors will be appointed in accordance with the requirements under the GEM Listing Rules to ensure that they will be able to bring independent judgment to the decision-making process of our Board and the decision of our Board are made only after due consideration of independent and impartial opinions. None of our Directors, Supervisors or the members of our senior management team holds any position at our Controlling Shareholder or its close associates.

Having considered the above factors, our Directors are of the view that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from Xinyi City CEQS Center after the Listing.

#### **Operational Independence**

Our Company holds all of the relevant material licences, qualifications and permits required for conducting our business. We have access to customers and suppliers independent of Xinyi City CEQS Center. We have our own accounting and financial department, and human resources and administration department which have been in operation and are expected to continue to operate separately and independently from Xinyi City CEQS Center and its close associates. We have also established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business.

In light of the above, we believe that we are capable of carrying on our business independently of Xinyi City CEQS Center and its associates. Our Directors confirmed that our Company will be able to operate independently from Xinyi City CEQS Center and its associates upon the Listing.

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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING

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### Financial Independence

We have our own internal control and financial and accounting departments and respective systems, which are independent from those of Xinyi City CEQS Center and its close associates. Accounting functions and financial decision making will be carried out by our Company independently and according to our business needs and financial conditions. In addition, we have in place independent internal control and independent treasury function for cash collection and payment.

Our Directors confirmed that, as at the Latest Practicable Date, our Company did not provide any loans, guarantees or pledges to Xinyi City CEQS Center and its close associates and vice versa. Save for capital injection by Xinyi City CEQS Center for subscription of the registered capital of our Company, our source of funding was independent of Xinyi City CEQS Center and none of Xinyi City CEQS Center or its associates, financed our operations during the Track Record Period and as at the Latest Practicable Date.

### CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the GEM Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Company and Xinyi City CEQS Center:

- (a) where a shareholders’ meeting is to be held for considering proposed transactions in which Xinyi City CEQS Center or its associates has a material interest, Xinyi City CEQS Center will not vote on the resolutions and shall not be counted in the quorum in the voting. If necessary, our Company will engage external professionals, such as financial advisers, valuers and other advisers, to give advice;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with any of Xinyi City CEQS Center or its associates, our Company will comply with the relevant provisions under Chapter 20 of the GEM Listing Rules including, where applicable, the announcement, reporting, annual review and independent Shareholders’ approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the GEM Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Company and Xinyi City CEQS Center (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;

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## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER AND NON-COMPETITION UNDERTAKING**

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- (d) Xinyi City CEQS Center has undertaken to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) the independent non-executive Directors will review, on an annual basis, all information necessary to our Company and our Directors with regard to Xinyi City CEQS Center's compliance with the terms of the Deed of Non-Competition and the enforcement of the undertakings contained therein by each of them;
- (f) Xinyi City CEQS Center will produce an annual declaration on its compliance with the Deed of Non-Competition in the annual report of our Company and confirm that the disclosure of details of the compliance with and the enforcement of the Deed of Non-Competition is constant with the principles of disclosure under the Corporate Governance Code enclosed in Appendix C1 to the GEM Listing Rules;
- (g) we are committed to ensuring that the Board has a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors to ensure that there is a strong independent element on our Board, which can efficaciously exercise independent judgement and will be able to deliver neutral and professional advice to safeguard the interest of the minority Shareholders; and
- (h) we have appointed Yue Xiu Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the GEM Listing Rules, including various requirements relating to corporate governance, directors' duties and internal control.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Company and Xinyi City CEQS Center, and to protect minority Shareholders' interests after the Listing.

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## CONTINUING CONNECTED TRANSACTIONS

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### OVERVIEW

Pursuant to Chapter 20 of the GEM Listing Rules, the Directors, substantial shareholders, chief executive officer, Supervisors, any person who was a Director within 12 months pending the Listing Date and any of their associates will become a connected person of our Company upon Listing. Upon Listing, transactions between our Company and our connected persons will constitute connected transactions or continuing connected transactions under Chapter 20 of the GEM Listing Rules.

### CONNECTED PERSON

Xinyi Xinhui is a substantial shareholder of our Company and therefore a connected person of our Company.

### PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Framework Service Agreement with Xinyi Xinhui

On 13 August 2024, our Company entered into a framework agreement with Xinyi Xinhui (the “**Framework Service Agreement**”), pursuant to which our Company agreed to provide construction engineering testing and inspection services to Xinyi Xinhui and its subsidiaries.

The Framework Service Agreement will become effective on the Listing Date and is valid until 31 December 2026 or the date on which Xinyi Xinhui ceases to be our connected person, whichever comes earlier.

Subject to the provision of the Framework Service Agreement, our Company will enter into specific agreements with Xinyi Xinhui to set out the specific terms and conditions in respect of the provision of construction engineering testing and inspection services.

#### Reasons for the transactions

Provision of construction engineering testing and inspection services forms our ordinary business. In particular, as a leading construction engineering testing and inspection service provider in Maoming according to the CIC Report, we are in a competitive position in securing service contract of the said services from Xinyi Xinhui and its subsidiaries, including Xinyi Xinye, which has been our valued customer since 2021. We expect to continue to provide services to Xinyi Xinhui and its subsidiaries (including Xinyi Xinye) upon Listing.

## CONTINUING CONNECTED TRANSACTIONS

### Pricing policy

The pricing in a specific service agreement under the Framework Service Agreement will be determined based on arm's length negotiation with reference to (i) an internal service price list of our Company which will be reviewed and updated where necessary by our finance department annually based on the current market price; (ii) the required specifications, technical complexities, expected costs, market conditions and prevailing prices for similar services; and (iii) the service fees of similar or same testing and inspection services offered to Independent Third Parties, and we will only enter into such a specific service agreement if (i) the terms and conditions are fair and reasonable and based on normal or no less favourable commercial terms as compared to our provision of similar service to other customers who are Independent Third Parties; and (ii) it is in the best interests of our Company and the Shareholders as a whole. Prior to any specific service agreement is entered into, our finance department will review the pricing terms of the agreement and compare with at least three other recent transactions with independent customers in order to ensure the terms of such agreement are consistent with and no less favourable to our Company than the terms on which we provide similar services to independent customers.

### Historical transaction amounts

The amounts of transactions in respect of provision of construction engineering testing and inspection services for the three years ended 31 December 2023 and six months period ended 30 June 2024 were set out below:

	For the year ended 31 December			For the six months period ended
	2021	2022	2023	30 June 2024
Provision of construction engineering testing and inspection services	RMB21,005	–	RMB2,506,160	RMB869,798

### Annual caps on future transaction amounts

	For the year ending 31 December		
	2024	2025	2026
Provision of construction engineering testing and inspection services	RMB3,000,000	RMB3,000,000	RMB3,000,000



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## CONTINUING CONNECTED TRANSACTIONS

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In determining the above annual caps, the Directors have considered:

- (1) the historical transactions amount for the services provided by our Company to Xinyi Xinhui and its subsidiaries for FY2023 and 6M2024 of approximately RMB2.5 million and RMB0.9 million, respectively; and
- (2) our Company's expectation of the demand of our services with reference to several construction projects to be undertaken by Xinyi Xinhui and its subsidiaries in the coming years. According to the investment forecast provided by Xinyi Xinye in December 2023, Xinyi Xinye will take part in the construction of an apparel park, expansion of an industrial park, construction of a sewage treatment plant in Xinyi City, and the potential construction of ancillary facilities, in the next three years with a potential investment amount of around RMB1,168 million. Based on the potential investment to be made by Xinyi Xinye and with reference to the historical demand for our testing and inspection services in the construction projects invested by Xinyi Xinye, our Directors believe that the expected total contract sum to be awarded to our Company will be not less than RMB3.0 million for each of the three years ending 31 December 2026.

### **GEM Listing Rules implications**

As each of the applicable percentage ratios in respect of the annual cap for the Framework Service Agreement is less than 25% and the aggregate amount is less than HK\$10,000,000, the transactions contemplated under the Framework Service Agreement will be subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

### **OUR DIRECTORS' VIEW**

Our Directors, including the independent non-executive Directors, are of the view that the partially exempt continuing connected transactions described above, which have been and shall be entered into in the ordinary and usual course of business of our Company, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the shareholders of our Company as a whole. Our Directors, including the independent non-executive Directors, are of the view that the proposed annual caps for the partially exempt continuing connected transaction described in this section are fair and reasonable and in the interests of our Company and the shareholders of our Company as a whole.

### **CONFIRMATION FROM THE JOINT SPONSORS**

The Joint Sponsor are of the view that the partially exempt continuing connected transactions described above have been and shall be entered into in the ordinary and usual course of business of our Company, are on normal commercial terms, are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and that the proposed annual caps for these transactions referred to in this section are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

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## CONTINUING CONNECTED TRANSACTIONS

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### WAIVER APPLICATION

In relation to the continuing connected transactions described under “Partially exempt Continuing Connected Transactions” in this section, since the highest applicable percentage ratio for the three financial years ending 31 December 2024, 2025 and 2026 calculated for the purpose of Chapter 20 of the GEM Listing Rules is expected to be less than 25% and the aggregate amount is less than HK\$10,000,000, such transactions will, upon Listing, constitute partially exempt continuing connected transactions of our Company subject to annual reporting, annual review, and announcement requirements but are exempt from the independent shareholders’ approval requirement under Chapter 20 of the GEM Listing Rules.

As the above partially exempt continuing connected transactions are expected to continue after the Listing on a recurring and continuing basis and have been fully disclosed in the prospectus, the Directors consider that strict compliance with announcement requirement would be impractical, and such requirements would lead to unnecessary administrative costs and would be unduly burdensome to us. Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement pursuant to Rule 20.103 of the GEM Listing Rules, provided that the total value of transactions for each of the three financial years ending 31 December 2024, 2025 and 2026 will not exceed the relevant annual caps set forth above. We shall strictly comply with other relevant requirements under Chapter 20 of the GEM Listing Rules. Our independent non-executive Directors will review whether the partially exempt continuing connected transactions have been entered into based on the principal terms and pricing policies under the relevant agreements as disclosed in this section. The Company will engage its auditor to report on the continuing connected transactions every year. The confirmations of our independent non-executive Directors and our auditor will be disclosed annually, as required by the GEM Listing Rules.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. As at the Latest Practicable Date, our Board consisted of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. The information of the current members of our Board is set out as follows:

Name	Age	Position(s)	Time of joining our Company	Date of appointment as Director	Roles and responsibilities
<b>Executive Directors</b>					
Mr. Lai Feng (賴鋒)	45	Chairman of our Board, executive Director and general manager of our Company	January 2013	7 July 2023	Overall business strategies and operations of our Company
Mr. Huang Fei (黃飛)	48	Executive Director and deputy general manager of our Company	August 2015	26 October 2023	Overall operations of the Engineering Monitoring and Mapping Department (工程監測與測繪部) and Structural Engineering Inspection Department (結構工程檢測部) of our Company
Ms. Mai Jiayu (麥家瑜)	36	Executive Director and deputy general manager of our Company	January 2014	7 July 2023	Overall day-to-day management of the business operations of our Company, the Corporate General Management Department and overall operations of the Road, Bridge and Water Resources Inspection Department (路橋與水利檢測部) of our Company
Mr. Zhang Xihua (張喜華)	36	Executive Director and deputy general manager of our Company	August 2010	26 October 2023	Overall operations of the Foundation Testing Department I (地基基礎檢測一部) of our Company

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position(s)	Time of joining our Company	Date of appointment as Director	Roles and responsibilities
<b>Non-executive Directors</b>					
Ms. Zou Chan (鄒嬋)	34	Non-executive Director and head of Foundation Testing Department I (地基基礎檢測一部部長)	March 2013	7 July 2023	Supervision of the management of our Company and day-to-day operations of the Foundation Testing Department I (地基基礎檢測一部) of our Company
Mr. Chen Guangfu (陳光富)	40	Non-executive Director	October 2023	26 October 2023	Supervision of the management of our Company
<b>Independent Non-executive Directors</b>					
Ms. Liu Hongge (劉紅哥)	54	Independent non-executive Director	August 2024	13 August 2024	Supervising and providing independent judgement to our Board
Ms. Deng Dian (鄧點)	40	Independent non-executive Director	August 2024	13 August 2024	Supervising and providing independent judgement to our Board
Mr. Luo Qiling (羅啟靈)	47	Independent non-executive Director	August 2024	13 August 2024	Supervising and providing independent judgement to our Board

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Lai Feng (賴鋒)**, aged 45, is the chairman of our Board, executive Director and the general manager of our Company and joined our Company in January 2013. He is responsible for the overall business strategies and operations of our Company. Mr. Lai was appointed as a Director on 7 July 2023 and re-designated as an executive Director on 26 October 2023. He has been the legal representative of our Company since January 2013.

Mr. Lai has 24 years of experience in business management and quality engineering in the construction industry. From January 2013 to July 2023, Mr. Lai was a station manager of our Company. From July 2023 till now, Mr. Lai has been the chairman of the Board and the general manager of our Company. Prior to joining our Company, Mr. Lai served as a supervisor of Guangdong Xizhu Architectural Design Co., Ltd. (廣東悉築建築設計有限公司) from August 2000 to July 2003 and was responsible for construction site supervision. From August 2003 to December 2012, Mr. Lai was a cost estimator of Xinyi City Bureau of Housing and Urban-Rural Development and was responsible for cost estimation for construction projects. From March 2023 till now, Mr. Lai has been a director and a deputy general manager of Xinyi Xinhui and is responsible for overseeing the overall management and operations of the company.

Mr. Lai was the principal of the company below prior to its deregistration. Mr. Lai confirmed that there was no wrongful act on his part leading to the deregistration of the company below, which was solvent prior to its deregistration, and he is not aware of any actual or potential claim that has been or will be made against him as a result of the deregistration of this company.

Name of company	Place of establishment	Nature of business	Status	Reason for deregistration	Date of deregistration
Maoming Huixin Engineering Tendering Agency Xinyi City Branch (茂名市惠信工程招標代理事務所 信宜市分所)	PRC	Provision of bidding agency and consulting services for construction projects	Deregistration	Cessation of business	17 May 2011

Mr. Lai graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in January 2018. Mr. Lai qualified as an architectural technician in 2001 and assistant construction engineer in 2003 by the Xinyi Personnel Bureau (信宜市人事局) which was reformed into Human Resources and Social Security Bureau (人力資源和社會保障局) since August 2023. Mr. Lai also obtained a qualification certificate for Construction Costing Engineer in 2008 issued by the Maoming Municipal Personnel Bureau (茂名市人事局). He also obtained a qualification certificate for senior engineer in construction engineering management issued by the Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳) of the PRC in February 2018.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Huang Fei (黃飛)**, aged 48, is an executive Director and deputy general manager of our Company and joined our Company in August 2015. He is responsible for the overall operations of the Engineering Monitoring and Mapping Department (工程監測與測繪部) and Structural Engineering Inspection Department (結構工程檢測部) of our Company. Mr. Huang was appointed as an executive Director on 26 October 2023.

Mr. Huang has 11 years of experience in business management in the construction industry. From August 2015 to January 2016, Mr. Huang served as an inspector of our Company and was responsible for conducting testing and inspections on construction works and construction materials. From February 2016 to July 2023, Mr. Huang served as a deputy station manager of our Company and was responsible for overseeing the Engineering Monitoring and Mapping Department and Structural Engineering Inspection Department of our Company. From July 2023 till now, Mr. Huang served as a deputy general manager of our Company. Prior to joining our Company, Mr. Huang served as a staff member of Xinyi Bulk Cement Office (信宜市散裝水泥辦公室) from September 2012 to August 2015 and was responsible for general matters of the office.

Mr. Huang graduated from Zhanjiang Normal College (湛江師範學院) (currently known as Lingnan Normal University (嶺南師範學院)) in the PRC with an undergraduate degree in Chinese language and literature (distance learning) (漢語言文學專業本科(函授)) in January 2012. Mr. Huang also obtained the qualification for intermediate engineer in construction engineering management issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in May 2021.

**Ms. Mai Jiayu (麥家瑜)** (former name: **Mai Hanlian (麥漢連)**), aged 36, is an executive Director and a deputy general manager of our Company and joined our Company in January 2014. She is responsible for the overall day-to-day management of the business operations of our Company, the Corporate General Management Department and overall operations of the Road, Bridge and Water Resources Inspection Department (路橋與水利檢測部) of our Company. Ms. Mai was appointed as a Director on 7 July 2023 and re-designated as an executive Director on 26 October 2023.

Ms. Mai has 10 years of experience in construction engineering management and quality engineering in the construction industry. From January 2014 to August 2021, Ms. Mai served as an inspector of our Company and was responsible for conducting testing and inspections on construction works and construction materials. From August 2021 to July 2023, Ms. Mai served as a deputy station manager of our Company and was responsible for overseeing the overall operations of our Company. From July 2023 till now, Ms. Mai has been serving as a deputy general manager of our Company.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Ms. Mai was a supervisor of the company below prior to its deregistration. Ms. Mai confirmed that there was no wrongful act on her part leading to the deregistration of the company below, which was solvent prior to its deregistration, and she is not aware of any actual or potential claim that has been or will be made against her as a result of the deregistration of this company.

Name of company	Place of establishment	Nature of business	Status	Reason for deregistration	Date of deregistration
Xinyi Yulimu Catering Co., Ltd. (信宜市御里木餐飲有限公司)	PRC	Catering business	Deregistration	Cessation of business	12 October 2018

Ms. Mai graduated from China University of Geosciences (中國地質大學) with an undergraduate degree in civil engineering (distance learning) in January 2013. Ms. Mai obtained a qualification for assistant engineer in construction engineering management issued by the Xinyi City Human Resources and Social Security Bureau (信宜市人力資源和社會保障局) in December 2015. Ms. Mai obtained a qualification for intermediate geotechnical engineer issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in May 2019. She also obtained a qualification certificate for senior engineer in construction engineering management issued by the Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳) of the PRC in August 2023.

**Mr. Zhang Xihua (張喜華)**, aged 36, is an executive Director and a deputy general manager of our Company and joined our Company in August 2010. He is responsible for supervising and monitoring the overall operations of the Foundation Testing Department I (地基基礎檢測一部) of our Company. Mr. Zhang was appointed as an executive Director on 26 October 2023.

Mr. Zhang has 14 years of experience in quality engineering in the construction industry. From August 2010 to August 2021, Mr. Zhang was an inspector of our Company and was responsible for conducting testing and inspections on construction works and construction materials. From September 2021 to July 2023, Mr. Zhang was a deputy station manager of our Company and was responsible for overall management of foundation testing projects. From July 2023 till now, Mr. Zhang has been a deputy general manager of our Company and is responsible for supervising and monitoring the overall operations of the Foundation Testing Department I (地基基礎檢測一部).

Mr. Zhang graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in January 2014. Mr. Zhang also obtained a qualification for top laboratory engineer issued by the JYPC National Vocational Qualification Examination and Certification Center (JYPC全國職業資格考試認證中心) in January 2016 and a qualification certificate for senior engineer in construction engineering management issued by the Department of Human Resources and Social Security of Guangdong Province (廣東省人力資源和社會保障廳) of the PRC in August 2023.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Non-executive Directors

**Ms. Zou Chan (鄒嬋)**, aged 34, is a non-executive Director and the head of the Foundation Testing Department I of our Company and joined our Company in March 2013. She is responsible for the supervision of the management of our Company and day-to-day operations of the Foundation Testing Department I of our Company. Ms. Zou was appointed as a Director of our Company on 7 July 2023 and re-designated as a non-executive Director on 26 October 2023.

Ms. Zou has 11 years of experience in quality engineering in the construction industry. From March 2013 to August 2021, Ms. Zou served as an inspector of our Company and was responsible for conducting testing and inspections on construction works and construction materials. From September 2021 to July 2023, Ms. Zou was the head of the Foundation Testing Unit 3 and was responsible for coordinating the inspection operations of the unit. From July 2023 till now, Ms. Zou has been serving as the head of the Foundation Testing Department I of our Company and is responsible for overseeing its day-to-day operations.

Ms. Zou graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in July 2023. Ms. Zou also obtained a qualification certification for intermediate geotechnical engineer issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in April 2020.

**Mr. Chen Guangfu (陳光富)**, aged 40, is a non-executive Director and joined our Company in October 2023. Mr. Chen is responsible for supervision of the management of our Company. Mr. Chen was appointed as a non-executive Director on 26 October 2023.

Mr. Chen has 17 years of experience in project management and financial industry. Prior to joining our Company, from December 2006 to April 2013, Mr. Chen served as a project manager of the pledging and finance center of the China Material Storage & Transportation Guangzhou Company (中國物資儲運廣州公司) and he was responsible for project management, product development, client management and provision of employee training. From May 2013 to September 2022, Mr. Chen served as a product manager of transaction banking department of the Guangdong South Guangdong Bank Co., Ltd. (廣東南粵銀行股份有限公司) and he was responsible for developing, maintaining and promoting asset products and corresponding systems, assisting and supervising branch business marketing, risk asset control and overall operational analysis of the transaction banking department. From July 2023 till now, Mr. Chen served as a manager of finance and capital management department of Xinyi Xinhui and he is responsible for establishing and maintaining communication and cooperative relations with financial institutions and relevant government authorities, conducting industrial research and formulating the investment and financing procedures and systems.

Mr. Chen graduated from Huizhou College (惠州學院) in the PRC with a bachelor's degree in economics in June 2006. Mr. Chen also obtained a vocational qualification certificate of foreign trader issued by the Ministry of Commerce of the PRC in December 2005 and an intermediate qualification certificate of speciality and technology in business administration issued by the Ministry of Human Resources and Social Security of the PRC in February 2013.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Independent Non-executive Directors

**Ms. Liu Hongge (劉紅噐)**, aged 54, is an independent non-executive Director who is responsible for supervising and providing independent judgment to our Board. Ms. Liu joined and was appointed as an independent non-executive Director on 13 August 2024.

Ms. Liu has 29 years of experience in business management in the finance industry. From September 1994 to August 1996, Ms. Liu was a business assistant of the securities department of China Vanke Co., Ltd. (萬科企業股份有限公司), company listed on the Stock Exchange (stock code: 2202), and was responsible for assisting the secretary of the board in managing investor relation and engaging in equity investment. From September 1999 to March 2002, Ms. Liu served as a senior manager of the research department, CITIC Securities Company Limited (中信証券股份有限公司), a company dually listed on the Shanghai Stock Exchange (stock code: 600030) and the Stock Exchange (stock code: 6030), and was responsible for conducting macroeconomic and capital market research. From August 2004 to November 2006, Ms. Liu served as a co-director of Corporate Ratings, Fitch Ratings (惠譽評級公司) and was responsible for overseeing the corporate ratings department in Greater China. From December 2006 to August 2008, Ms. Liu served as a director of Anglo Chinese Investment Banking Group, Hong Kong, China (中國香港英高投資銀行集團) and was responsible for assisting companies in China to go public in Hong Kong. From October 2008 to April 2013, Ms. Liu worked at CCB International (China) Limited (建銀國際(中國)有限公司) with her last held position as a senior analyst and was responsible for financial analysis of the company. From May 2013 to November 2014, she served as a deputy head of research division of CCB International Securities Limited and was responsible for financial research and analysis of the company. From November 2014 to July 2017, Ms. Liu served as an assistant managing director of CCB International Capital Limited and was responsible for overseeing the investment banking business in Hong Kong. From March 2018 to March 2020, Ms. Liu served as a director and general manager of Taikang Healthcare Investment Holdings Co., Ltd. (泰康健康產業投資控股有限公司) and was responsible for investment research and post-investment management. From May 2020 to July 2021, Ms. Liu served as an executive director of the sector team of the corporate finance department of Haitong International Securities Group Limited, Beijing Representative Office (香港海通國際證券集團有限公司北京代表處), shares of which were listed on the Stock Exchange (stock code: 665) until its privatisation on 11 January 2024, and was responsible for overall business strategies and operation of the team. From August 2021 to January 2023, Ms. Liu served as the chief financial officer of Shanghai Elite Healthcare Management Co., Ltd. (上海菁華醫療管理有限公司) and was responsible for the financial and investment management of the company. Ms. Liu joined HitGen Inc. (成都先導藥物開發股份有限公司), company whose shares are listed on the Shanghai Stock Exchange (stock code: 688222), and been serving as their chief financial officer since January 2023 and was responsible for the financial management of the company.

Ms. Liu graduated from the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in the PRC with a doctorate degree in economics in July 1999. She also graduated from Judge Business School, University of Cambridge with an MBA in July 2009. She graduated from Southwest University of Finance and Economics (西南財經大學) in the PRC with a bachelor's degree in economics in July 1991 and a master's degree in economics in June 1994. She also obtained a qualification of chartered financial analyst issued by the Chartered Financial Analyst Institution in September 2006.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Ms. Deng Dian (鄧點)**, aged 40, is an independent non-executive Director who is responsible for supervising and providing independent judgement to our Board. Ms. Deng joined and was appointed as an independent non-executive Director on 13 August 2024.

Ms. Deng has 16 years of experience in corporate finance industry. She is currently the managing director of Maxa Capital Limited (邁時資本有限公司) and is responsible for advising on corporate finance regulated activities as defined under the SFO. Prior to that, she served as an executive of Anglo & International Corporate Finance, Limited, the London office of the Anglo Chinese Group from January 2008 to September 2008, and was responsible for financial analysis. From October 2008 to April 2020, she worked at Anglo Chinese Corporate Finance, Limited (英高財務顧問有限公司), the Hong Kong headquarter of the Anglo Chinese Group, with her last held position as its director since January 2016, and was responsible for advising on corporate finance regulated activities as defined under the SFO and overseeing the overall operation of the company.

Ms. Deng graduated from the University of Oxford with a degree of master of science in management research in September 2007 and graduated from Nanjing University (南京大學) with a degree of bachelor in business administration in June 2006.

**Mr. Luo Qiling (羅啟靈)**, aged 47, is an independent non-executive Director who is responsible for supervising and providing independent judgment to our Board. Mr. Luo joined and was appointed as an independent non-executive Director on 13 August 2024.

Mr. Luo has 21 years of experience in research and engineering in the construction industry. From March 2003 to August 2006, he served as the director of technical department and an engineer of the Research Institute of Structural Engineering, Shenzhen University (深圳大學結構工程研究所), and was responsible for scientific research on the durability of concrete structures and testing of construction materials. From September 2006 till now, he served as a professorate senior engineer and senior experimenter of the College of Civil and Transportation Engineering, Shenzhen University (深圳大學土木與交通工程學院), the deputy director of Guangdong Provincial Key Laboratory of Durability for Marine Civil Engineering (廣東省濱海土木工程耐久性重點實驗室), the head of quality of the Research Institute of Structural Engineering, Shenzhen University (深圳大學結構工程研究所) and was engaged in research on the civil engineering and construction related topics.

Mr. Luo graduated from Shenzhen University (深圳大學) with a master's degree, majoring in architecture and civil engineering in December 2008. He also graduated from Chongqing University (重慶大學) in July 2000, majoring in inorganic non-metallic materials. Mr. Luo is studying Ph.D. in Civil and Hydraulic Engineering in the School of Civil Engineering of Tianjin University (天津大學).

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### SUPERVISORS

In accordance with the PRC Company Law, all joint stock companies are required to establish a supervisory committee (the “**Supervisory Committee**”), responsible for supervising the Board and senior management on fulfilling their respective duties, financial performance, internal control management and risk management of the corporation. The Supervisory Committee consists of five members, comprising two employee representative Supervisors and three Supervisors.

The detailed information of our Supervisors are listed below.

Name	Age	Time of joining our Company	Position	Date of appointment as Supervisor	Responsibilities
Wu Weiyuan (吳威源)	31	January 2021	President of the Supervisory Committee and Supervisor	7 July 2023	Presiding the work of the Supervisory Committee, supervising the Board and the senior management of our Company
Chen Haibin (陳海濱)	35	September 2017	Employee representative Supervisor	7 July 2023	Supervising the Board and the senior management of our Company
Zhou Kelin (周科霖)	31	June 2016	Employee representative Supervisor	7 July 2023	Supervising the Board and the senior management of our Company
Zhang Zhihang (張志航)	37	March 2022	Supervisor	7 July 2023	Supervising the Board and the senior management of our Company
Chen Shende (陳深德)	32	February 2013	Supervisor	7 July 2023	Supervising the Board and the senior management of our Company

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Wu Weiyuan (吳威源)**, aged 31, is our Supervisor and the president of the Supervisory Committee and joined our Company in January 2021. Mr. Wu is primarily responsible for presiding the work of the Supervisory Committee, supervising the Board and the senior management of our Company.

Mr. Wu has nine years of experience in the property development and construction industry. Mr. Wu joined our Company in January 2021 as an inspector. From January 2021 till now, Mr. Wu has been serving as an inspector of our Company and was responsible for conducting testing and inspections on construction works and construction materials. Since 7 July 2023, Mr. Wu has been a Supervisor. Prior to joining our Company, Mr. Wu served as a general staff of Dongguan Zhongzheng Real Estate Development Co., Ltd. (東莞市中正房地產開發有限公司) from July 2015 to October 2020 and was responsible for leasing activities.

Mr. Wu graduated from Guangdong Institute of Science and Technology (廣東科技學院) in the PRC with a bachelor's degree in marketing in June 2015. Mr. Wu also obtained a qualification for assistant engineer, building inspection issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in September 2023.

**Mr. Chen Haibin (陳海濱)**, aged 35, is our Supervisor and joined our Company in September 2017. Mr. Chen is primarily responsible for supervising the Board and the senior management of our Company.

Mr. Chen has six years of experience in business management in the construction industry. Mr. Chen joined our Company since September 2017 as an office staff and is responsible for the day-to-day administrative affairs of our Company. Since 7 July 2023, Mr. Chen has been our Supervisor.

Mr. Chen graduated from Nankai University (南開大學) in the PRC with an undergraduate degree in Chinese language and literature (distance learning) in January 2023. Mr. Chen also obtained a qualification for technician, building inspection issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in September 2023.

**Mr. Zhou Kelin (周科霖)** (former name: **Zhou Xiangyun (周祥雲)**), aged 31, is our Supervisor and joined our Company in June 2016. Mr. Zhou is primarily responsible for supervising the Board and the senior management of our Company.

Mr. Zhou has eight years of experience in quality engineering in the construction industry. From June 2016 to August 2021, Mr. Zhou served as an inspector of our Company and was responsible for conducting testing and inspection on construction works and construction materials. In September 2021, he became the head of Structural Engineering Inspection Unit 2, responsible for coordinating and managing the inspection work of the Unit. From September 2023 till now, Mr. Zhou has been serving as the deputy head of Structural Engineering Inspection Department and is responsible for overseeing its overall operations. Since 7 July 2023, Mr. Zhou has been a Supervisor of our Company.

Mr. Zhou graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in January 2023. Mr. Zhou also obtained a qualification for assistant engineer, building inspection issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in December 2022.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Ms. Zhang Zhihang (張志航)**, aged 37, is our Supervisor and joined our Company in March 2022. Ms. Zhang is primarily responsible for supervising the Board and the senior management of our Company.

Ms. Zhang has 13 years of experience in project management in the construction industry. From December 2022 till now, Ms. Zhang has been serving as the deputy head of the Road, Bridge & Water Resources Inspection Department of our Company and was responsible for the management of inspection projects. Since 7 July 2023, Ms. Zhang has been a Supervisor. From March 2011 to February 2022, Ms. Zhang served as a project manager of Maoming Xinyi Construction Engineering Company (茂名市信宜建築工程公司) and was responsible for staff management and monitoring safety of construction projects.

Ms. Zhang was a manager of the company below prior to its deregistration. As confirmed by Ms. Zhang, (i) this company was solvent at the time of their deregistration; and (ii) to her best knowledge, the deregistration of this company was not due to her own fault or involved any integrity issue of herself, and did not result in any punishment imposed on her by any administration bureaus for industry and commerce, nor any liability or obligation being imposed against her.

Name of company	Place of establishment	Nature of business	Status	Reason for deregistration	Date of deregistration
Xinyi Maoxin Construction Labor Service Co., Ltd. (信宜市茂信建築勞務有限公司)	PRC	Provision of construction labor hire services	Deregistration	Cessation of business	5 September 2023

Ms. Zhang graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in July 2015. Ms. Zhang also obtained a qualification for intermediate municipal road and bridge construction engineer issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in December 2015.

**Mr. Chen Shende (陳深德)**, aged 32, is our Supervisor and joined our Company in February 2013. Mr. Chen is primarily responsible for supervising the Board and the senior management of our Company.

Mr. Chen has 11 years of experience in quality engineering in the construction industry. From February 2013 to September 2021, Mr. Chen served as an inspector in our Company and was responsible for conducting testing and inspections on construction works and construction materials. From September 2021 till now, Mr. Chen has been serving as the Head of the Engineering Monitoring and Mapping Department our Company and was responsible for the overall operations of the department. Since July 2023, Mr. Chen has been our Supervisor.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Chen graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in January 2023. Mr. Chen also obtained a qualification for intermediate geotechnical engineer issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in July 2023.

Save as disclosed in this section, each of our Directors and Supervisors (i) did not hold other positions in our Company as at the Latest Practicable Date; (ii) had no other relationship with any Directors, Supervisors, senior management or substantial or Controlling Shareholder of our Company as at the Latest Practicable Date; (iii) did not hold any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date; and (iv) there is no other matter in respect of our Directors and Supervisors that needs to be brought to the attentions of our Shareholders and there is no other information about our Directors and Supervisors that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

### SENIOR MANAGEMENT

The table below shows certain information in respect of members of our senior management of our Company:

Name	Age	Time of joining our Company	Existing position in our Company	Date of appointment as senior management	Responsibilities
Mr. Lai Feng (賴鋒)	45	January 2013	Chairman of our Board, executive Director and general manager our Company	21 January 2013	Overall business strategies and operations of our Company
Mr. Huang Fei (黃飛)	48	August 2015	Executive Director and deputy general manager of our Company	5 February 2016	Overall operations of the Engineering Monitoring and Mapping Department (工程監測與測繪部) and Structural Engineering Inspection Department (結構工程檢測部) of our Company

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Time of joining our Company	Existing position in our Company	Date of appointment as senior management	Responsibilities
Ms. Mai Jiayu (麥家瑜)	36	January 2014	Executive Director and deputy general manager of our Company	10 August 2021	Overall day-to-day management of the business operations of our Company, the Corporate General Management Department and overall operations of the Road, Bridge and Water Resources Inspection Department (路橋與水利檢測部) of our Company
Mr. Zhang Xihua (張喜華)	36	August 2010	Executive Director and deputy general manager of our Company	1 September 2021	Overall operations of the Foundation Testing Department I (地基基礎檢測一部) of our Company
Mr. Liu Dongxue (劉冬雪)	37	November 2023	Chief financial officer	24 November 2023	General financial management of our Company
Ms. Zhang Yue'e (張月娥)	40	June 2010	Head of Quality (質量負責人)	1 May 2020	Overseeing the operations of the Commonly-used Materials Inspection Department (常用材料檢測部) of our Company
Mr. Lu Feihua (陸飛華)	37	May 2013	Deputy General Manager and Head of Technology (技術負責人)	5 February 2016	Overseeing the operations of the Foundation Testing Department II (地基基礎檢測二部) and operation of inspection technology of our Company

For the biographical details of Mr. Lai Feng, Mr. Huang Fei, Ms. Mai Jiayu and Mr. Zhang Xihua, see “– Board of Directors – Executive Directors” in this section.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Liu Dongxue (劉冬雪)**, aged 37, is the chief financial officer of our Company and joined our Company on 16 November 2023. He is responsible of the financial management of our Company.

Mr. Liu has nearly 11 years of experience in accounting and financial management in the property management industry. From February 2013 to September 2014, Mr. Liu worked at Tianjin Xinronghong Real Estate Development Company Limited (天津欣榮宏房地產開發有限公司) with his last held position as the finance supervisor, and he was responsible for the company's overall accounting, internal control management and day-to-day financial management. He studied for a master's degree in business management in Tianjin University of Finance and Economics (天津財經大學) from September 2014 to December 2016. From March 2016 to January 2022, Mr. Liu worked at the Beijing Ziguang Technology Service Group Co. (北京紫光科技服務集團有限公司) with his last held position as the chief financial officer of Suzhou Ziguang Kecheng Technology Development Co. (蘇州紫光科城科技發展有限公司) and was responsible for audit account processing and statements, developing and improving financial management and accounting. From June 2022 to October 2022, Mr. Liu served as the general manager of the financial management department of the Jiangsu Yunhu Modern Service Industry Group Co. (江蘇雲湖現代服務產業集團有限公司) and was responsible for corporate financing, accounting, tax planning and reporting. From March 2023 to November 2023, Mr. Liu served as the chief accountant of Tianjin Hebei District Heat and Gas Supply Co. (天津市河北區供熱燃氣有限公司) and was responsible for finance and administration management.

Mr. Liu graduated from Tianjin University of Finance and Economics in the PRC with a master's degree in business management in December 2016. Mr. Liu also graduated from Binhai College of Nankai University (南開大學濱海學院) in June 2011, majoring in financial management and subsequently obtained a bachelor's degree in management from Nankai University (南開大學). Mr. Liu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since March 2022. He also obtained qualification of an intermediate accountant issued by the Tianjin Occupational Title Work Office (天津市職稱工作辦公室) in September 2016. He also obtained license of the securities practitioner's licence in October 2010, a licensee of the futures practitioner's licence in November 2011 and a licensee of the fund practitioner's licence in March 2011.

**Ms. Zhang Yue'e (張月娥)**, aged 40, is the head of Quality of our Company since May 2020 and joined our Company in June 2010. Ms. Zhang is primarily responsible for overseeing the operations of the Commonly-used Materials Inspection Department (常用材料檢測部) of our Company.

Ms. Zhang has 13 years of experience in quality engineering in the construction industry. Ms. Zhang joined our Company in June 2010 as an inspector. From June 2010 to May 2020, Ms. Zhang served as an inspector of our Company. From May 2020 till now, Ms. Zhang has been serving as the head of Quality of our Company and is primarily responsible for overseeing the operations of the Commonly-used Materials Inspection Department.

Ms. Zhang graduated from China University of Geosciences (中國地質大學) in the PRC with an undergraduate degree in civil engineering (distance learning) in July 2023. Ms. Zhang also obtained a qualification for intermediate engineer, construction project management issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in May 2019.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Mr. Lu Feihua (陸飛華)**, aged 37, is the deputy general manager and the head of Technology of our Company and joined our Company in May 2013. Mr. Lu is responsible for overseeing the operations of the Foundation Testing Department II (地基基礎檢測二部) and operation of inspection technology of our Company.

Mr. Lu has 14 years of experience in technology operations. From May 2013 to January 2016, Mr. Lu served as an inspector of our Company and was responsible for conducting testing and inspections on construction works and construction materials. From February 2016 to July 2023, Mr. Lu served as a deputy station manager of our Company and was responsible for overseeing the operations of the Foundation Testing Department II. From May 2020 till now, Mr. Lu has been serving as the head of Technology of our Company. From July 2023 till now, he has been serving as a deputy general manager of our Company. Prior to joining our Company, Mr. Lu served as a technician of Guangdong Hangxiao Steel Structure Co., Ltd. (杭蕭鋼構(廣東)有限公司), a wholly-owned subsidiary of Hangxiao Steel Structure Co., Ltd. (杭蕭鋼構股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600477) from July 2010 to April 2013 and was responsible for providing technical support.

Mr. Lu graduated from Guangzhou University (廣州大學) in the PRC with a bachelor's degree in civil engineering in April 2013. Mr. Lu also obtained a qualification for intermediate geotechnical engineer issued by the Maoming Municipal Human Resources and Social Security Bureau (茂名市人力資源和社會保障局) in December 2017.

### JOINT COMPANY SECRETARIES

**Ms. Cheung Lai Ha (張麗霞)** was appointed as a joint secretary with effect from the Listing Date. She is an assistant vice president of Governance Services of Computershare Hong Kong Investor Services Limited, a professional services provider specializing in corporate services. She has over 14 years of experience in corporate governance area including providing services to listed companies, corporate management and compliance. Ms. Cheung obtained a bachelor's degree in business administration from the Lingnan University in Hong Kong in November 2002 and a master's degree in corporate governance from the Hong Kong Metropolitan University, formerly known as the Open University of Hong Kong in June 2011. Ms. Cheung has been admitted as an associate member of the Hong Kong Chartered Governance Institute and an associate member of the Chartered Governance Institute in the United Kingdom in July 2013.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed in this section, there is no additional matter with respect to the appointment of our senior management members that needs to be brought to the attention of the Shareholders, and none of our senior management members held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date.

Mr. Liu Dongxue, our chief financial officer, was appointed as one of our joint company secretaries with effect from the Listing Date. For details of his background, see “– Senior Management” above in this section.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **BOARD COMMITTEES**

#### **Audit Committee**

We have established an audit committee to be effective from the Listing Date with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision D.3.3 of the CG Code as set out in Appendix C1 to the GEM Listing Rules. The audit committee comprises three members, namely Ms. Liu Hongge, Mr. Luo Qiling and Ms. Deng Dian, all being our independent non-executive Directors. The audit committee is chaired by Ms. Liu Hongge.

The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of the financial reporting process, risk management and internal control systems of our Company, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

#### **Remuneration committee**

We have established a remuneration committee to be effective from the Listing Date with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and code provision E.1.2 of the CG Code as set out in Appendix C1 to the GEM Listing Rules. The remuneration committee comprises three members, namely Ms. Liu Hongge, Mr. Luo Qiling and Ms. Deng Dian. The remuneration committee is chaired by Ms. Liu Hongge.

The primary duties of the remuneration committee include (but without limitation): (a) making recommendations to our Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our Directors and senior management; (c) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (d) considering and approving the grant of share options to eligible participants pursuant to any share option scheme.

#### **Nomination committee**

We have established a nomination committee to be effective on the Listing Date with written terms of reference in compliance with Rule 5.36A of the GEM Listing Rules and code provision B.3.1 of the CG Code as set out in Appendix C1 to the GEM Listing Rules. The nomination committee comprises three members, namely Mr. Lai Feng, Mr. Luo Qiling and Ms. Liu Hongge. The nomination committee is chaired by Mr. Lai Feng.

The primary duties of the nomination committee include, among others, reviewing the structure, size and composition of our Board and selecting or making recommendations on the selection of individuals nominated for directorships.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes and other allowances, benefits in kind and discretionary bonuses which were paid by our Company to our Directors for the FY2021, FY2022, FY2023 and 6M2024 was approximately nil, nil, RMB1,065,000 and RMB550,000, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes and other allowances, benefits in kind and discretionary bonuses which were paid by our Company to the five highest paid individuals for FY2021, FY2022, FY2023 and 6M2024 excluding nil, nil, three and two directors, respectively, was approximately RMB989,000, RMB1,032,000, RMB427,000 and RMB545,000. No remuneration was paid by our Company to the Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office in FY2021, FY2022, FY2023 and 6M2024. Further, none of our Directors waived any remuneration during the same period.

Under arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes and other allowances and benefits in kind) of our Directors for the year ending 31 December 2024 is estimated to be around RMB1.1 million.

### BOARD DIVERSITY AND POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to our Board Diversity Policy, we seek to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of appointment will be based on merit and the contribution which the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, accounting and financial management, and research and development. We have three independent non-executive Directors with different industry backgrounds, representing one-third of our Board. Our Board Diversity Policy is also well implemented as evidenced by the fact that our Board has a wide range of age, ranging from 34 years old to 54 years old, and comprises of four female Directors and five male Directors.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Our Nomination Committee is responsible for ensuring the diversity of our Board members and compliance with relevant codes governing board diversity under the Corporate Governance Code as set forth in Appendix C1 to the GEM Listing Rules. We will continue to apply the principle of appointments based on merits with reference to our Board Diversity Policy as a whole and are committed to provide career development opportunities for female staff. Under our Board Diversity Policy, our Company intends to promote gender diversity when recruiting staff at mid to senior level so that our Company will have a pipeline of female members at senior management level and also potential successors to our Board. Under our Board Diversity Policy, we also plan to offer all-rounded trainings to female employees whom we consider to have suitable experience, relevant skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development. Our Directors are of the view that such strategy will offer opportunities for our Board to identify capable female employees to be nominated as members of our Board in the future with the aim to providing our Board with a pipeline of female candidates to achieve gender diversity in our Board in the long run. Moreover, our Nomination Committee is delegated by our Board to take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments so as to achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommended best practices. Our Nomination Committee will aim to recommend at least one female Director candidate to the Board for its consideration at least once per year.

Our Nomination Committee will review our Board Diversity Policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. We will also disclose in our corporate governance report about the implementation of our Board Diversity Policy on an annual basis.

We are also committed to adopting similar approach to promote diversity, including but not limited to gender diversity, at all other levels of our Company from the Board downwards to enhance the effectiveness of our corporate governance as a whole.

### **CORPORATE GOVERNANCE**

Our Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Company for achieving effective accountability. Our Company has adopted the code provisions stated in the CG Code as set forth in Appendix C1 to the GEM Listing Rules. Our Company is committed to the view that our Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

Our Directors are aware of that upon Listing, we are expected to comply with such code provision. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in the interim report and the annual report in respect of the relevant period. We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole and will comply with the code provisions set out in the CG Code in Appendix C1 to the GEM Listing Rules after the Listing.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Save for the deviation from code provision C.2.1 of the CG Code as disclosed below, our Company's corporate governance practices have complied with the CG Code.

### **Code Provision C.2.1 of the CG Code**

The roles of the chairman and the chief executive officer of our Company have not been separated as required by Code Provision C.2.1 of the CG Code. The roles of the chairman of our Board and general manager of our Company are both performed by Mr. Lai Feng, an executive Director. Our Board believes that vesting the roles of both chairman and general manager in the same individual enables our Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. Furthermore, in view of Mr. Lai Feng's extensive industrial experience and significant role in the historical development of our Company, our Board believes that it is beneficial to the business prospects of our Company that Mr. Lai Feng continues to act as the chairman and general manager of our Company following the Listing Date, and that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors, non-executive director and independent non-executive Directors.

### **COMPLIANCE ADVISER**

Our Company has appointed Yue Xiu Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules and Yue Xiu Capital Limited assumes responsibility for acting as our Company's compliance adviser. Pursuant to Rule 6A.19 of the GEM Listing Rules, the compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate (if any) or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry to us regarding unusual movements in the price or trading volume of our listed securities under Rule 17.11 of the GEM Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the Share Offer (without taking into account any H Shares which may be issued upon the exercise of the Offer Size Adjustment Option), have interests or short positions in our H Shares or underlying H Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholders	Class of Shares held after the Share Offer	Capacity/ Nature of interest	As at the Latest Practicable Date		Immediately following completion of the Share Offer <sup>(Note 3)</sup>	
			Number of Shares held/ interested	Approximate percentage of shareholding in our Company	Number of Shares held/ interested	Approximate percentage of shareholding in our Company
Xinyi City CEQS Center <sup>(Note 1)</sup>	Unlisted Shares	Beneficial owner	19,000,000	80%	19,000,000	56%
Xinyi Xinhui <sup>(Note 2)</sup>	Unlisted Shares	Beneficial owner	4,750,000	20%	4,750,000	14%

*Notes:*

1. Xinyi City CEQS Center (formerly known as Xinyi City Construction Engineering Quality Supervision Station (信宜市建設工程質量監督站)) is a public institution under the Xinyi City Bureau of Housing and Urban-Rural Development.
2. Xinyi Xinhui is a limited liability company incorporated in the PRC on 24 August 2022. Xinyi Xinhui is wholly owned by Xinyi City Bureau of Finance (信宜市財政局), a department of the Xinyi County People's Government (信宜市人民政府).
3. The calculation is based on the total number of 23,750,000 Unlisted Shares and 10,179,000 H Shares in issue immediately following completion of the Share Offer and assuming that the Offer Size Adjustment Option is not exercised at all.

Save as disclosed in this section, our Directors are not aware of any other persons who will, immediately following completion of the Share Offer, have interests or short positions in our H Shares or underlying H Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

## SHARE CAPITAL

As at the date of this prospectus, the share capital of our Company is RMB23,750,000, divided into 23,750,000 Shares with a nominal value of RMB1.00 each.

On 7 March 2024, we obtained the CSRC approval for the issue of not more than 11,705,000 H Shares assuming the Offer Size Adjustment Option will be exercised in full with a nominal value of RMB1.00 per H Share under the Share Offer. As a result, a total of 23,750,000 Unlisted Shares with nominal value of RMB1.00 each will be in issue upon the Listing.

Assuming the Offer Size Adjustment Option is not exercised, the share capital of our Company immediately after the Share Offer will be as follows:

Number of Shares	Description of shares	Approximate percentage to total share capital
23,750,000	Unlisted Shares	70%
<u>10,179,000</u>	H Shares to be issued under the Share Offer	<u>30%</u>
<u><u>33,929,000</u></u>	Shares	<u><u>100%</u></u>

Assuming the Offer Size Adjustment Option is exercised in full, the share capital of our Company immediately after the Share offer will be as follows:

Number of Shares	Description of shares	Approximate percentage to total share capital
23,750,000	Unlisted Shares	67%
<u>11,705,000</u>	H Shares to be issued under the Share Offer	<u>33%</u>
<u><u>35,455,000</u></u>	Shares	<u><u>100%</u></u>

The above table assumes the Share Offer becomes unconditional and is completed.

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## SHARE CAPITAL

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### Our Shares

Upon completion of the Share Offer, our Unlisted Shares and H Shares are both ordinary shares in our Company. H Shares may only be subscribed for and traded in HK\$. Unlisted Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC or via Shanghai-Hong Kong Stock Connect (滬港通) or Shenzhen-Hong Kong Stock Connect (深港通), H Shares generally cannot be subscribed for by or traded by legal or natural persons of the PRC. Unlisted Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC. We must pay all dividends in respect of H Shares in HK\$ and all dividends in respect of Unlisted Shares in RMB.

Under the PRC Company Law, in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange.

Except as described in this prospectus and in relation to the despatch of notices and financial reports to our Shareholders, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are provided for in the Articles of Association and summarised in Appendix V to this prospectus, our Unlisted Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Unlisted Shares is subject to such restrictions as PRC law may impose from time to time.

Save for the Share Offer, we do not propose to carry out any public or private issue or to place securities simultaneously with the Share Offer or within the next six months. We have not approved any share issue plan other than the Share Offer.

### CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Upon Listing, we will have two classes of ordinary shares, H Shares and Unlisted Shares. Our Unlisted Shares are unlisted Shares which are currently not listed or traded on any stock exchange.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Unlisted Shares may be converted into overseas listed shares, and such converted shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.



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## SHARE CAPITAL

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If any of our Unlisted Shares are to be converted and to be traded as H Shares on the Stock Exchange, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Unlisted Shares on the Stock Exchange as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. However, we are generally required to make filings with the CSRC for the offering and listing of the additional shares pursuant to applicable PRC laws and regulations.

Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed conversion. The relevant procedural requirements for the conversion of the Unlisted Shares to H Shares are:

- (1) The holder of Unlisted Shares shall obtain the requisite approval of CSRC or the authorised securities approval authorities of the State Council for the conversion of all or part of its Unlisted Shares into H Shares.
- (2) The holder of Unlisted Shares shall issue to us a removal request in respect of a specified number of the Shares attaching the relevant documents of title.
- (3) Subject to obtaining the approval of the Board, we would then issue a notice to the H Share Registrar with instructions that, with effect from a specified date, our H Share Registrar is to issue the relevant holders with H share certificates for such specified number of Shares.
- (4) Such specified number of Unlisted Shares to be converted to H Shares are then re-registered on the H share register maintained in Hong Kong on the condition that:
  - (a) our H Share Registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H share register and the due despatch of H share certificate; and
  - (b) the admission of the H Shares (converted from Unlisted Shares) to trade in Hong Kong will comply with the GEM Listing Rules and the General Rules of HKSCC and the HKSCC Operational Procedures in force from time to time.

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## SHARE CAPITAL

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- (5) Upon completion of the conversion, the shareholding of the relevant holder of Unlisted Shares in our domestic share register will be reduced by such number of Unlisted Shares transferred and the number of H Shares in the H share register will correspondingly be increased by the same number of Shares.
- (6) We will comply with the GEM Listing Rules to inform our Shareholders and the public by way of an announcement of such fact not less than three days prior to the proposed effective date.

### **LOCK-UP OF SHARES**

The PRC Company Law provides that in relation to the Share Offer of a company, the shares issued by a company prior to the Share Offer shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to its statutory restriction and not be transferred within a period of one year from the Listing Date.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis in conjunction with our financial statements including the notes thereto, as set forth in the Accountant's Report included as Appendix I to this prospectus. The Accountant's Report has been prepared on the basis set out in Appendix I to this prospectus and in accordance with our accounting policies that are in conformity with HKFRS.*

*Our historical results do not necessarily indicate our performance for any future periods. The following discussion and analysis of our financial conditions and results of operations contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those discussed below due to a number of factors, including those set out in the sections headed "Risk Factors", "Forward-looking Statements", "Business" and elsewhere in this prospectus.*

*Potential investors should read the whole of the Accountant's Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.*

### OVERVIEW

Our Company is principally engaged in the provision of construction engineering testing and inspection services, serving mainly to customers in Maoming, Guangdong Province of China. Founded in 2000 and headquartered in Xinyi City, Maoming, we have grown significantly in terms of revenue generated from such services. Our service offerings include a range of construction engineering testing and inspection services, covering different types of testing and inspection processes involved in the industry. We primarily offer construction engineering testing services including foundation testing service, infrastructure and public roads testing service, construction material testing service, as well as building structure testing service. Additionally, we provide construction engineering inspection services including slope monitoring and foundation pit monitoring services. Since May 2024, as part of our expansion plan, while remaining our primary business focus on construction engineering testing and inspection services, we have commenced to diversify our service offerings and provide food testing service, which contributed 12.3% to our total revenue generated in 6M2024. Our customer base primarily consists of entities involved in the construction industry in China, including private and public sector entities such as property developers and construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus. These customers rely on our expertise to ensure the quality, safety and compliance of their construction or infrastructure projects. The primary focus of our testing and inspection services lies in private commercial and residential construction projects as well as public construction and infrastructure projects. We are committed to delivering high quality testing and inspection services to our customers.

Our revenue decreased from RMB39.8 million in FY2021 to RMB20.0 million in FY2022, representing a decrease of 49.8%. Our revenue grew substantially from RMB20.0 million in FY2022 to RMB41.5 million in FY2023, representing an increase of 107.9%. Our revenue increased from RMB16.3 million in 6M2023 to RMB22.8 million in 6M2024, representing an increase of 39.8%. Our gross profit decreased from RMB30.2 million in FY2021 to RMB11.5 million in FY2022, representing a decrease of 61.9%. Our gross profit grew significantly from RMB11.5 million in FY2022 to RMB29.8 million in FY2023, representing an increase of 159.1%. Our gross profit increased from RMB10.8 million in

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## FINANCIAL INFORMATION

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6M2023 to RMB16.2 million in 6M2024, representing an increase of 49.3%. Our net profit decreased from RMB17.7 million in FY2021 to RMB2.9 million in FY2022, representing a decrease of 83.6%. Our net profit increased from RMB2.9 million in FY2022 to RMB13.3 million in FY2023, representing an increase of 355.2%. Our net profit increased from RMB4.3 million in 6M2023 to RMB7.3 million in 6M2024, representing an increase of 71.4%.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We are actively engaged in the provision of construction engineering testing and inspection services in China. According to the CIC Report, this sector emerged with significant potential. The total market size of the construction engineering testing and inspection industry in China was RMB115.6 billion in 2023 and is expected to reach RMB157.4 billion in 2028, representing a CAGR of 6.4% from 2023 to 2028. Over the years, the industry has also demonstrated steady growth, mainly driven by the government's initiative for rapid infrastructure development. The construction engineering testing and inspection industry showcased an increase with the CAGR of 9.6% from 2019 to 2023, according to the CIC Report. This growth highlights the increasing importance placed on quality assurance, compliance, and safety standards within the construction sector in China, driving the demand for independent construction engineering testing and inspection services.

Since May 2024, we have also commenced to provide food testing service. According to the CIC Report, the food and agricultural products testing and inspection industry in China has experienced consistent revenue growth in recent years, with a 9.7% CAGR from 2019 to 2023, reaching RMB30.5 billion in 2023 and is expected to reach RMB49.2 billion in 2028, representing a CAGR of 10.1% from 2023 to 2028, driven by heightened concerns for food safety from both the PRC Government and consumers. For details, see "Industry Overview – Overview of the Independent Testing and Inspection Industry in China – The market size of the independent T&I industry in China" in this prospectus. In particular, our financial condition and results of operations in any given period are expected to be affected by the following factors.

#### Macroeconomic Environment

China's economy has experienced significant growth over the past several years, with its nominal GDP increasing from RMB99.1 trillion in 2019 to RMB125.1 trillion in 2023. As our customer base primarily consists of entities involved in the construction industry in China, including private and public sector entities such as property developers and construction companies, state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus, the growth or contraction of the China's construction industry will affect our business and results of operations.

China's construction industry value exhibited steady growth with a CAGR of 4.9% from 2019 to 2023. Due to the impact of COVID-19 in 2022, the overall output value of the construction industry contracted, leading to a decrease in revenue for the construction engineering testing and inspection industry. It is forecasted that the construction industry value will further increase to RMB10.4 trillion by 2028 at a CAGR of 3.9% from 2023 to 2028. With an ongoing demand for new construction projects and the resumption of previously halted initiatives, the construction industry is poised to contribute

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## FINANCIAL INFORMATION

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significantly to China's overall economic prosperity. In the future, the construction engineering testing and inspection industry is expected to recover and experience growth, which the revenue will reach an estimated RMB157.4 billion by 2028 with a CAGR of 6.4%.

As a result, our business operations and financial conditions are in part subject to the economic growth in China insomuch as it affects the development of the construction industry. Any economic downturn in China may have a negative impact on the development of the construction industry and the demand for the construction engineering testing and inspection services.

### **Development of Construction Engineering Testing and Inspection Industry**

The construction engineering testing and inspection industry is driven by the overall economic development in China and government regulations in downstream industries. Our business operations, financial condition and prospects are therefore subject to the future development of China's construction engineering testing and inspection industry. Over the years, there has been increasing importance placed on quality assurance, compliance, and safety standards within the construction sector in China, which has driven the demand for the independent construction engineering testing and inspection services from the downstream industries. China's construction engineering testing and inspection industry grew at a CAGR of 9.6% from 2019 to 2023 despite the overall slowdown of China's economy and construction industry in recent years.

During the Track Record Period, we successfully tapped into some of the 3rd to 5th tiers cities in Maoming including Gaozhou City and Huazhou City. These cities are undergoing rapid urbanisation and infrastructure development. As these cities expand, new construction projects emerge, including residential complexes, commercial buildings, industrial facilities, and transportation infrastructure. The need for testing and inspection services arises to ensure the quality, safety, and compliance of these projects. With the implementation of stricter regulations and building codes, these cities are placing greater emphasis on compliance and quality control. Local authorities are enforcing higher standards for construction projects to meet safety and environmental requirements, which also drives the demand for testing and inspection services.

The increasing demand for construction engineering testing and inspection services in 3rd to 5th tier cities is driven by urbanisation, regulatory compliance, quality assurance needs and government support. As these cities continue to grow and develop, the demand for reliable and comprehensive testing and inspection services is expected to further increase.

### **Ability to Control our Direct Labour Costs**

Our results of operations are affected by our ability to manage our direct labour costs, which are the largest component of our cost of sales. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, the direct labour costs among our cost of sales were RMB5.6 million, RMB5.6 million, RMB7.7 million, RMB3.4 million and RMB4.1 million, respectively, accounting for 58.2%, 66.3%, 65.5%, 61.6% and 61.5% of our total cost of sales for the same years/periods, respectively. Our direct labour costs consist primarily of salaries, bonuses and social insurance benefits paid to our operational staff such as on-site testing

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## FINANCIAL INFORMATION

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personnel and laboratories technicians. The increase in our direct labour costs reflected an increase in headcounts as a result of our business expansion during the Track Record Period. In addition, our ability to attract and retain key personnel, and in particular, qualified testing and inspection professionals and qualified engineers, is a critical aspect of our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our direct labour costs.

Our results of operations, financial condition and profitability may be materially and adversely affected if we cannot effectively manage our direct labour costs.

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations on our direct labour costs with all other factors remaining unchanged. Fluctuations are assumed to be 5% and 10% for each of FY2021, FY2022, FY2023 and 6M2024, which reflected the approximate historical fluctuations.

<b>Hypothetical fluctuations on our direct labour costs</b>	<b>+5%</b>	<b>-5%</b> (%)	<b>+10%</b>	<b>-10%</b>
<i>Impact on certain financial indicators for FY2021</i>				
Change in gross profit margin	-0.70	+0.70	-1.41	+1.41
Change in net profit margin	-0.53	+0.53	-1.05	+1.05
<i>Impact on certain financial indicators for FY2022</i>				
Change in gross profit margin	-1.41	+1.41	-2.81	+2.81
Change in net profit margin	-1.04	+1.04	-2.07	+2.07
<i>Impact on certain financial indicators for FY2023</i>				
Change in gross profit margin	-0.92	+0.92	-1.85	+1.85
Change in net profit margin	-1.18	+1.18	-2.36	+2.36
<i>Impact on certain financial indicators for 6M2024</i>				
Change in gross profit margin	-0.90	+0.90	-1.79	+1.79
Change in net profit margin	-1.11	+1.11	-2.21	+2.21

### **Effect of the COVID-19 Pandemic**

The initial outbreak of COVID-19 in China during the first quarter of 2020, followed by subsequent resurgences of the virus in certain major cities throughout 2022, has resulted in the implementation of several measures to mitigate the spread of the pandemic. These measures include imposing lockdowns, suspending construction activities, implementing travel restrictions, and enforcing strict social distancing

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## FINANCIAL INFORMATION

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and quarantine protocols. In particular, the construction personnel in Maoming have faced the challenges of intermittent isolation periods throughout the pandemic. Various companies in Guangdong Province including Maoming periodically required employees to undergo nucleic acid testing for COVID-19 and employees infected or identified as close contacts shall be isolated, which affected their normal work operations. Both our Company and our customers experienced increased abnormal working hours and reduced normal working hours due to the aforementioned reasons. For instance, our Company had arranged several rounds of collective nucleic acid tests for our employee in FY2022, and the total number of days off due to the pandemic was 206 person-day, as compared to nil in FY2021. These necessary precautions have disrupted the regular workflow and caused delays in the progress of various construction and infrastructure projects, which led to a direct impact on our testing and inspection operations.

With the construction schedules being pushed back, our customers' demand on our construction engineering testing and inspection services had been postponed. As a result, the revenue for FY2022 has experienced a decline compared to FY2021. The reduced revenue has put additional strain on our net profit as a result of the presence of fixed costs and expenses, such as direct labour costs and depreciation of fixed assets, which remain relatively inflexible.

Meanwhile, measures imposed by the PRC Government in relation to the pandemic had also affected our customers' settlement progress. As a result, the trade receivable turnover day of our Company for FY2022 has increased significantly from 271 days in FY2021 to 639 days in FY2022. Attributable to the prolonged settlement cycle due to the pandemic, combined with the decrease in net profit, our Company recorded negative cash flows from operating activities for FY2022.

Overall, the combination of the slow settlement from customers, reduced revenue, and fixed costs and expenses has led to a challenging financial situation for our Company in FY2022, impacting various vital financial metrics and requiring prudent management and adaptation in response to the circumstances. As at the Latest Practicable Date, the impact of the COVID-19 pandemic on our operation has diminished and our Company's operation has already resumed to normal level. Our Directors are of the view that the COVID-19 pandemic will not cause material adverse impact on our financial performance and its business operation.

### **BASIS OF PREPARATION**

Our Company was established as a joint-stock cooperative enterprise in Guangdong Province of the PRC on 28 March 2000. In July 2023, our Company was converted into a limited liability company wholly owned by Xinyi City CEQS Centre. Subsequently, in October 2023, in contemplation of the Listing, our Company was converted into a joint stock company with limited liability. Our Company is principally engaged in the provision of construction engineering testing and inspection services and food testing service in Xinyi City in Maoming in Guangdong Province, the PRC. Our Company's immediate holding company is Xinyi City CEQS Center, a public institution of the Xinyi City People's Government under the Xinyi City Bureau of Housing and Urban-Rural Development.



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## FINANCIAL INFORMATION

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The Historical Financial Information of our Company has been prepared in accordance with principal accounting policies as set out below which are in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the HKICPA. The principal accounting policies have been consistently applied to all the years presented, unless otherwise stated. The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Company’s accounting policies. For more details in relation to the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information, see Note 4 to the Accountant’s Report in Appendix I to this prospectus.

### **MATERIAL ACCOUNTING POLICY INFORMATION AND ESTIMATES**

We have identified certain accounting policies and estimates that are significant to the preparation of our financial statements. Our material accounting policies and estimates, which are important for an understanding of our financial condition and results of operations, are set forth in details in Notes 2, 4 and 30 to the Accountant’s Report in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgment relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of material accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We have identified the accounting policies, judgments and estimates that we believe are the most critical to our financial information and that involve the most significant estimates and judgments. Our Directors have confirmed that the estimates and judgments were accurate during the Track Record Period by comparing with actual results and have confirmed that these estimates and judgments did not change during the Track Record Period and do not expect to change materially in the future in light of our current business operations and future plans.

#### **Revenue recognition**

We generate revenue primarily from the provision of testing and inspection services. We enter into contracts that may involve multiple performance obligations among which we allocate transaction price on the basis of the standalone selling prices of each performance obligation. Standalone selling prices are generally determined based on the prices charged to customers. If it is not directly observable, the standalone selling price is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information, the data utilised, and considering our pricing policies and practices in making pricing decisions.

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. See Note 6 to the Accountant’s Report in Appendix I to this prospectus for more details.



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## FINANCIAL INFORMATION

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### **Impairment of financial assets**

Our Company performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, other receivables and cash and cash equivalents) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Assessments are done based on our Company’s historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For impairment on trade receivables, our Company applies the simplified approach prescribed by HKFRS 9 to measure expected credit losses which uses a lifetime expected losses allowance for all trade receivables. Significant customers with different credit risk profiles and higher risk of default (mainly comprised material receivables with substantial delayed settlement and without collateral) are assessed on an individual basis. The individual assessment focused on the customer payment history and current and future ability for payment taking into account the information specific to the customer. Individually impaired trade receivables represented customers with higher credit risk profile. To measure the expected credit losses, except for those individual receivables which loss allowance has been provided for, trade receivables have been grouped based on shared credit risk characteristics and aging periods. Future cash flows for each group of receivables are estimated on the basis of historical default rates, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

For impairment on other receivables, it is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been significant increase in credit risk since initial recognition.

For further details, see Notes 3.1(b) and 18 to the Accountant’s Report in Appendix I to this prospectus.

### **Depreciation of property, plant and equipment**

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives or, in case of leasehold improvements, the shorter of their useful life or the lease term.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period. For further details, see Note 13 to the Accountant’s Report in Appendix I to this prospectus.

## FINANCIAL INFORMATION

### STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth a summary of our statements of comprehensive income for the years/ periods indicated.

	FY2021	FY2022	FY2023	6M2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue	39,781	19,966	41,500	16,329	22,830
Cost of sales	<u>(9,605)</u>	<u>(8,472)</u>	<u>(11,719)</u>	<u>(5,494)</u>	<u>(6,658)</u>
<b>Gross profit</b>	30,176	11,494	29,781	10,835	16,172
General and administrative expenses	(4,726)	(6,383)	(10,157)	(3,703)	(5,485)
Research and development expenses	–	–	(113)	–	(280)
Net impairment losses on financial assets	(2,121)	(1,380)	(1,317)	(1,589)	(127)
Other income	548	417	620	317	60
Other losses	<u>–</u>	<u>(13)</u>	<u>(931)</u>	<u>–</u>	<u>(84)</u>
<b>Operating profit</b>	23,877	4,135	17,883	5,860	10,256
Finance income	100	97	70	33	49
Finance costs	<u>(254)</u>	<u>(281)</u>	<u>(219)</u>	<u>(142)</u>	<u>(488)</u>
Finance costs – net	<u>(154)</u>	<u>(184)</u>	<u>(149)</u>	<u>(109)</u>	<u>(439)</u>
<b>Profit before income tax</b>	23,723	3,951	17,734	5,751	9,817
Income tax expense	<u>(5,986)</u>	<u>(1,039)</u>	<u>(4,480)</u>	<u>(1,467)</u>	<u>(2,474)</u>
<b>Net profit</b>	<u><u>17,737</u></u>	<u><u>2,912</u></u>	<u><u>13,254</u></u>	<u><u>4,284</u></u>	<u><u>7,343</u></u>
<b>Other comprehensive income, net of tax</b>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Total comprehensive income</b>	<u><u>17,737</u></u>	<u><u>2,912</u></u>	<u><u>13,254</u></u>	<u><u>4,284</u></u>	<u><u>7,343</u></u>

## FINANCIAL INFORMATION

### Revenue

During the Track Record Period, we generated revenue primarily from (i) our comprehensive construction engineering testing and inspection services, including (a) testing services which primarily include foundation testing service, construction material testing service, building structure testing service, infrastructure and public roads testing service; and (b) inspection services which primarily include slope monitoring and foundation pit monitoring services and (ii) food testing service. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, our total revenue was RMB39.8 million, RMB20.0 million, RMB41.5 million, RMB16.3 million and RMB22.8 million, respectively. The following table sets forth the components of our revenue for the years/periods indicated.

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
<b>Construction engineering</b>										
<i>Testing services</i>										
Foundation testing service	29,743	74.8	11,232	56.2	24,619	59.3	10,683	65.4	14,112	61.8
Construction material testing service	5,185	13.0	2,955	14.8	3,888	9.4	1,831	11.2	2,409	10.5
Building structure testing service	2,649	6.7	759	3.8	1,682	4.0	657	4.0	810	3.5
Infrastructure and public roads testing service	893	2.2	456	2.3	5,837	14.1	2,037	12.5	1,408	6.2
	<u>38,470</u>	<u>96.7</u>	<u>15,402</u>	<u>77.1</u>	<u>36,026</u>	<u>86.8</u>	<u>15,208</u>	<u>93.1</u>	<u>18,739</u>	<u>82.0</u>
<i>Inspection services</i>										
Slope monitoring and foundation pit monitoring services	1,311	3.3	4,564	22.9	5,474	13.2	1,121	6.9	1,292	5.7
	<u>1,311</u>	<u>3.3</u>	<u>4,564</u>	<u>22.9</u>	<u>5,474</u>	<u>13.2</u>	<u>1,121</u>	<u>6.9</u>	<u>1,292</u>	<u>5.7</u>
	<u>39,781</u>	<u>100.0</u>	<u>19,966</u>	<u>100.0</u>	<u>41,500</u>	<u>100.0</u>	<u>16,329</u>	<u>100.0</u>	<u>20,031</u>	<u>87.7</u>
<b>Food testing service</b>	-	-	-	-	-	-	-	-	2,799	12.3
<b>Total</b>	<u>39,781</u>	<u>100.0</u>	<u>19,966</u>	<u>100.0</u>	<u>41,500</u>	<u>100.0</u>	<u>16,329</u>	<u>100.0</u>	<u>22,830</u>	<u>100.0</u>

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## FINANCIAL INFORMATION

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Our revenue from construction engineering testing services represented revenue mainly generated from the provision of foundation testing service, which accounted for 74.8%, 56.2%, 59.3%, 65.4% and 61.8% for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, and other construction engineering testing services including construction material testing service, building structure testing service and infrastructure and public roads testing service. Our revenue generated from the provision of construction engineering testing services decreased from RMB38.5 million in FY2021 to RMB15.4 million in FY2022, mainly attributable to the overall downturn in the real estate industry and the impact of the COVID-19 pandemic on real estate projects in FY2022, which resulted in delays in the construction progress of foundations and building structures of real estate projects. Our revenue from construction engineering testing services increased from RMB15.4 million in FY2022 to RMB36.0 million in FY2023, mainly attributable to (i) the lifting of COVID-19 restrictions, such as lockdown and quarantine, as a result, the total number of service orders we completed increased significantly in FY2023; and (ii) our increase in the number and scope of qualifications in infrastructure and public roads testing from 20 parameters under eight categories as at 31 December 2022 to 586 parameters under 11 categories as at 31 December 2023. Our revenue generated from the provision of construction engineering testing services increased from RMB15.2 million in 6M2023 to RMB18.7 million in 6M2024, primarily benefiting from (i) the overall growth in the construction engineering T&I industry in Maoming between 6M2023 and 6M2024 according to the CIC Report; and (ii) an increase in revenue generated from foundation testing service by RMB3.4 million from RMB10.7 million in 6M2023 to RMB14.1 million in 6M2024 primarily due to an increase in the average service order value for foundation testing service from RMB25,993 per service order in 6M2023 to RMB32,516 per service order in 6M2024 mainly because we had provided more foundation testing services with higher testing complexity to our customers in 6M2024.

Our revenue from construction engineering inspection services represented revenue generated from the provision of slope monitoring and foundation pit monitoring services. Our revenue generated from slope monitoring and foundation pit monitoring services was RMB1.3 million, RMB4.6 million, RMB5.5 million, RMB1.1 million and RMB1.3 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing 3.3%, 22.9%, 13.2%, 6.9% and 5.7% of our total revenue for the same years/ periods, respectively.

Since May 2024, we have also commenced to provide food testing service. Our revenue generated from food testing service was nil, nil, nil, nil and RMB2.8 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing nil, nil, nil, nil and 12.3% of our total revenue for the same years/ periods, respectively.

### **Construction engineering testing services**

#### ***Foundation testing service***

During the Track Record Period, we specialised in providing foundation testing service for construction, infrastructure, municipal, and transportation projects. We are involved in various aspects of foundation quality testing and evaluation works, as well as quality assessment of completed piles. We derived a majority of our revenue from foundation testing service during the Track Record Period. Our

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## FINANCIAL INFORMATION

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revenue generated from foundation testing service was RMB29.7 million, RMB11.2 million, RMB24.6 million, RMB10.7 million and RMB14.1 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing 74.8%, 56.2%, 59.3%, 65.4% and 61.8% of our total revenue for the same years/periods, respectively.

Revenue from our foundation testing service decreased by 62.2% from RMB29.7 million in FY2021 to RMB11.2 million in FY2022, primarily due to (i) the impact of the COVID-19 pandemic leading to delays in the construction progress of projects in the industry as construction had been temporarily suspended due to quarantine measures, unexceptionally that the construction progress of foundation works which usually require foundation testing service were also postponed; and (ii) our Company commenced shifting focus of our business strategies to customers in the public sector in FY2022 leading to decrease in our revenue generated from projects in private sector for our foundation testing service from RMB23.2 million in FY2021 to RMB6.8 million in FY2022. As a result, the number of service orders we completed for our foundation testing service decreased significantly from 819 in FY2021 to 338 in FY2022.

Revenue from our foundation testing service increased by 119.2% from RMB11.2 million in FY2022 to RMB24.6 million in FY2023, primarily due to (i) the lifting of COVID-19 restrictions leading to the resumption of previously suspended construction projects of our customers, including property developers and construction companies, and the total number of service orders we completed for our foundation testing service increased from 338 in FY2022 to 878 in FY2023; and (ii) an increase in revenue generated from our foundation testing service provided to projects in the public sector from RMB4.4 million in FY2022 to RMB9.8 million in FY2023, particularly driven by school projects which increased by RMB4.7 million in FY2023.

Revenue from our foundation testing service increased by 32.1% from RMB10.7 million in 6M2023 to RMB14.1 million in 6M2024, primarily due to an increase in the average service order value for foundation testing service from RMB25,993 per service order in 6M2023 to RMB32,516 per service order in 6M2024 mainly because we had provided more foundation testing services with higher testing complexity to our customers in 6M2024.

### *Construction material testing service*

Construction material testing is a crucial aspect of construction projects, aiming at analysing and evaluating the quality of various materials used in construction. Our customers usually provide samples of the construction materials from construction sites to us and we subject them to specialised laboratory tests in our laboratories. It involves conducting tests on materials such as sand, stone, cement, steel, concrete, mineral powder, geosynthetics, asphalt and plastic pipes, etc. These tests are designed to gather accurate and reliable data on the properties and performance of the construction materials. Our revenue generated from construction material testing service was RMB5.2 million, RMB3.0 million, RMB3.9 million, RMB1.8 million and RMB2.4 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing 13.0%, 14.8%, 9.4%, 11.2% and 10.5% of our total revenue for the same years/periods, respectively.

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## FINANCIAL INFORMATION

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Revenue from our construction material testing service decreased by 43.0% from RMB5.2 million in FY2021 to RMB3.0 million in FY2022, primarily due to the impact of the COVID-19 pandemic leading to delays in the construction progress of projects requiring construction material testing service, for example, the construction of foundation works stage and the initial building structure work stage. The decrease was mainly attributable to our construction companies customers, and revenue generated from them decreased from RMB5.1 million in FY2021 to RMB2.9 million in FY2022.

Revenue from our construction material testing service increased by 31.6% from RMB3.0 million in FY2022 to RMB3.9 million in FY2023, primarily due to the (i) lifting of COVID-19 restrictions leading to the resumption of previously suspended construction projects; and (ii) synergy among our service types, as our customers who required our infrastructure and public roads testing service also had demand for our construction material testing service in FY2023, which resulted in an increase of revenue aggregately generated from state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus from RMB6,000 in FY2022 to RMB1.3 million in FY2023. The increase of our revenue from construction material testing service from FY2022 to FY2023 was partially offset by the decrease in revenue generated from provision of construction material testing service to projects in private sector from RMB2.3 million in FY2022 to RMB2.1 million in FY2023.

Revenue from our construction material testing service increased by 31.6% from RMB1.8 million in 6M2023 to RMB2.4 million in 6M2024, primarily due to (i) an increase in revenue generated from our construction material testing service provided to projects in the public sector from RMB0.8 million in 6M2023 to RMB1.4 million in 6M2024, which was partially driven by the increased demand for our asphalt, soil and rocks testing services provided to municipal projects in 6M2024; and (ii) an increase in the number and scope of our qualifications in construction material testing from 1,548 parameters under 20 categories as at 30 June 2023 to 1,639 parameters under 20 categories as at 30 June 2024.

### ***Building structure testing service***

We provided our customers with building structure testing service during the Track Record Period. Building structure testing is important for building construction, focusing on evaluating the key components and parameters of the building's main structure above the zero point (typically ground level). The main testing types primarily include concrete strength, reinforcement diameter, thickness of protective layer, anchorage resistance and floor slab thickness. Our revenue generated from building structure testing service was RMB2.6 million, RMB0.8 million, RMB1.7 million, RMB0.7 million and RMB0.8 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing 6.7%, 3.8%, 4.0%, 4.0% and 3.5% of our total revenue for the same years/periods, respectively.

Revenue from our building structure testing service decreased by 71.3% from RMB2.6 million in FY2021 to RMB0.8 million in FY2022, primarily due to the impact of the COVID-19 pandemic on the construction progress of building construction projects in the industry which normally require building structure testing service throughout the building structure work stage. The delay in construction progress led to the significant decrease in revenue derived from construction companies customers from RMB2.3 million in FY2021 to RMB0.6 million in FY2022.

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## FINANCIAL INFORMATION

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Revenue from our building structure testing service increased by 121.6% from RMB0.8 million in FY2022 to RMB1.7 million in FY2023, primarily due to the lifting of COVID-19 restrictions which led to the resumption of previously suspended residential property development projects and therefore unleashed demands in building structure testing service as the projects are required to pass the building structure testing for further construction, and the total number of service orders we completed for our building structure testing service increased from 208 in FY2022 to 341 in FY2023. In particular, revenue generated from projects in private sector for our building structure testing service increased from RMB0.6 million in FY2022 to RMB1.4 million in FY2023.

Revenue from our building structure testing service increased by 23.3% from RMB0.7 million in 6M2023 to RMB0.8 million in 6M2024, primarily due to an increase in revenue generated from our building structure testing service provided to projects in public sector from RMB0.1 million in 6M2023 to RMB0.4 million in 6M2024, particularly driven by the increase in number of service orders completed by us for construction projects of schools and kindergartens from 22 in 6M2023 to 34 in 6M2024.

### *Infrastructure and public roads testing service*

We provide infrastructure and public roads testing service mainly to government infrastructure projects and municipal roadway projects, where physical testing is involved in assessing the quality and integrity of various pipelines and roadway components. Some common physical testing types used primarily include compaction testing, bending test, pipe closure test, and CCTV inspections. Our revenue generated from infrastructure and public roads testing service was RMB0.9 million, RMB0.5 million, RMB5.8 million, RMB2.0 million and RMB1.4 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing 2.2%, 2.3%, 14.1%, 12.5% and 6.2% of our total revenue for the same years/periods, respectively.

Revenue from our infrastructure and public roads testing service decreased by 48.9% from RMB0.9 million in FY2021 to RMB0.5 million in FY2022, primarily due to the substantial testing service work we provided to a water purification facility project in FY2021, which we recognised revenue in the amount of RMB0.4 million.

Revenue from our infrastructure and public roads testing service increased by 1,180.0% from RMB0.5 million in FY2022 to RMB5.8 million in FY2023, primarily attributable to (i) our increase in the number and scope of qualifications in infrastructure and public roads testing from 20 parameters under eight categories as at 31 December 2022 to 586 parameters under 11 categories as at 31 December 2023; and (ii) revenue generated from our provision of infrastructure and public roads testing service to several road construction projects aggregately amounted to RMB3.1 million and several water treatment and river management projects aggregately amounted to RMB2.3 million, respectively.

Revenue from our infrastructure and public roads testing service decreased by 30.9% from RMB2.0 million in 6M2023 to RMB1.4 million in 6M2024 despite an increase in the number of infrastructure construction projects that we provided testing services to in 6M2024. Such decrease was primarily because certain infrastructure and public roads testing services provided to several road construction projects and ecological environment improvement projects had not yet been fully completed as at 30 June 2024,



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## FINANCIAL INFORMATION

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and relevant revenue had not yet been recognised in 6M2024. As a result, despite the revenue from our infrastructure and public roads testing service decreased in 6M2024 as compared to that in 6M2023, our contract fulfillment costs associated with our ongoing infrastructure and public roads testing service increased by 102.9% to RMB1.2 million as at 30 June 2024 as compared to RMB0.6 million as at 30 June 2023. Relevant revenue is expected to be recognised once these works have been fully completed and our performance obligation has been satisfied.

### **Construction engineering inspection services**

#### *Slope monitoring and foundation pit monitoring services*

We also derived our revenue from construction engineering inspection services which involve providing slope monitoring and foundation pit monitoring services to our customers during the Track Record Period. Foundation pit monitoring involves regular or continuous inspections, measurements, monitoring, data collection, analysis, and feedback activities implemented during the construction and usage phases of an excavation pit or a building slope in a building project to assess the safety condition, changes, and development trends of the pit or slope and its surrounding environment. Slope monitoring involves regular or continuous inspections, measurements, monitoring, data collection, analysis, and feedback activities carried out during the construction, trial operation, and operational phases of a building slope to assess the safety condition, changes, characteristics, and development trends of the slope and its surrounding environment. The primary objectives of these monitoring services are to ensure the comprehensive evaluation of slope conditions, foundation pit stability, and early detection of potential risks. Our revenue generated from slope monitoring and foundation pit monitoring services was RMB1.3 million, RMB4.6 million, RMB5.5 million, RMB1.1 million and RMB1.3 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing 3.3%, 22.9%, 13.2%, 6.9% and 5.7% of our total revenue for the same years/periods, respectively.

Revenue from our slope monitoring and foundation pit monitoring services increased by 248.1% from RMB1.3 million in FY2021 to RMB4.6 million in FY2022, primarily due to the substantial monitoring service work we provided to a sewage network reconstruction project in the fourth quarter of 2022, which resulted in the recognition of revenue of RMB3.7 million. The customer of the sewage network reconstruction project is Customer F, our largest customer in FY2022, which is an entity commissioned by the People's Government of Xinyi City to undertake construction management work of government-invested construction projects and other assignments from the municipal party committee and the PRC Government. We commenced construction engineering inspection services for such project in May 2022 and completed our construction engineering inspection services in January 2023, and our testing report was issued in April 2023. Up to the Latest Practicable Date, we had not received additional service orders from this customer in connection with this sewage network reconstruction project. The contract sum of our construction engineering inspection services provided to this project was RMB3.7 million and the amount of revenue attributable to the project for FY2021, FY2022 and FY2023 was nil, RMB3.7 million and RMB8,000, respectively. Despite there was some disruption on construction progress of such project attributable to the COVID-19 pandemic, such sewage network reconstruction project continued and we provided our construction engineering inspection service as required by the customer and recognised majority of the revenue attributable to this project in FY2022.



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## FINANCIAL INFORMATION

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Revenue from our slope monitoring and foundation pit monitoring services increased by 19.9% from RMB4.6 million in FY2022 to RMB5.5 million in FY2023, which was mainly driven by the increase in the number of service orders completed from five in FY2022 to 10 in FY2023, particularly attributable to the services provided to an urban renewal project in Gaozhou City, Maoming, which generated revenue of RMB3.2 million in FY2023. The customer of the urban renewal project is Customer I, one of our five largest customers in FY2023. The contract sum of our construction engineering inspection services provided to this project was RMB3.2 million and had been recognised in full as revenue in FY2023.

Revenue from our slope monitoring and foundation pit monitoring services increased by 15.3% from RMB1.1 million in 6M2023 to RMB1.3 million in 6M2024, primarily due to an increase in revenue generated from our slope monitoring and foundation pit monitoring services provided to property developers for their projects in private sector from RMB0.2 million in 6M2023 to RMB0.3 million in 6M2024.

### Food testing service

We have commenced to provide food testing service since May 2024. Our revenue generated from food testing service was nil, nil, nil, nil and RMB2.8 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, representing nil, nil, nil, nil and 12.3% of our total revenue for the same years/periods, respectively. Our revenue generated from food testing service was attributable from a PRC government administrative bureau customer who engaged us to conduct government-mandated sampling tests on various types of food such as fruits, vegetables, tea leaves and eggs in 6M2024.

### Cost of Sales

Our cost of sales consists primarily of direct labour costs, depreciation of fixed asset and right-of-use asset, subcontracting fee and various other expenses related to our business. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, our cost of sales was RMB9.6 million, RMB8.5 million, RMB11.7 million, RMB5.5 million and RMB6.7 million, respectively, representing 24.1%, 42.4%, 28.2%, 33.6% and 29.2% of our revenue for the same years/periods, respectively. Our cost of sales decreased by 11.8% from RMB9.6 million in FY2021 to RMB8.5 million in FY2022, which was primarily due to a decrease in our subcontracting fee of RMB0.8 million in FY2022. Our cost of sales increased by 38.3% from RMB8.5 million in FY2022 to RMB11.7 million in FY2023, which was driven primarily by the expansion of our infrastructure and public roads testing service business, and therefore an increase in the number of qualified personnel and equipment. Our cost of sales increased by 21.2% from RMB5.5 million in 6M2023 to RMB6.7 million in 6M2024, which was primarily driven by (i) an increase in our direct labour costs of RMB0.7 million as a result of the increase in headcounts for our infrastructure and public roads testing service, slope monitoring and foundation pit monitoring services and food testing service; (ii) an increase in direct material costs of RMB0.3 million in 6M2024 mainly attributable to consumables utilised for our food testing service and slope monitoring and foundation pit monitoring services; and (iii) an increase in depreciation of fixed assets, right-of-use assets and amortisation of intangible assets of RMB0.3 million, as a results of the increase in depreciation expenses of right-of-use assets in association with the lease of the New Building.

## FINANCIAL INFORMATION

The following table sets forth the components of our cost of sales for the years/periods indicated.

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Direct labour costs	5,591	58.2	5,619	66.3	7,674	65.5	3,382	61.6	4,096	61.5
Depreciation of fixed assets, right-of-use assets and amortisation of intangible assets	1,206	12.6	1,038	12.3	1,491	12.7	799	14.5	1,117	16.8
Subcontracting fee	1,381	14.4	573	6.8	766	6.5	448	8.2	382	5.7
Office expenses	431	4.5	315	3.7	582	5.0	311	5.7	315	4.7
Equipment maintenance fee	448	4.7	307	3.6	398	3.4	187	3.4	127	1.9
Direct material costs	157	1.6	386	4.6	360	3.1	181	3.2	440	6.6
Taxes and surcharges	252	2.6	185	2.2	312	2.7	132	2.4	71	1.1
Other expenses	139	1.4	49	0.5	136	1.1	54	1.0	110	1.7
<b>Total</b>	<b>9,605</b>	<b>100.0</b>	<b>8,472</b>	<b>100.0</b>	<b>11,719</b>	<b>100.0</b>	<b>5,494</b>	<b>100.0</b>	<b>6,658</b>	<b>100.0</b>

During the Track Record Period, direct labour costs, depreciation of fixed assets, right-of-use assets and amortisation of intangible assets and subcontracting fee were the principal types of cost for our business. Direct material costs primarily include costs for consumables in relation to our foundation testing service, slope monitoring and foundation pit monitoring services and food testing service. Direct labour costs and depreciation of fixed assets, right-of-use assets and amortisation of intangible assets are major cost of sales that we considered as fixed costs, which represented 70.8%, 78.6%, 78.2%, 76.1% and 78.3% of our total cost of sales in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

### ***Direct labour costs***

Our direct labour costs primarily consist of salaries, bonuses and social insurance benefits paid to our operational staff such as on-site testing personnel and laboratories technicians. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, the direct labour costs were RMB5.6 million, RMB5.6 million, RMB7.7 million, RMB3.4 million and RMB4.1 million, respectively, which accounted for 58.2%, 66.3%, 65.5%, 61.6% and 61.5% of our cost of sales, respectively. Our direct labour costs remained relatively stable in FY2021 and FY2022 as we are required to maintain certain number of employees in order to fulfil our qualification requirements. The increase in our direct labour costs of 36.6% from RMB5.6 million in FY2022 to RMB7.7 million in FY2023 was mainly attributable to an increase in headcounts. The increase in our direct labour costs of 21.1% from RMB3.4 million in 6M2023 to RMB4.1 million in 6M2024 was primarily attributable to an increase in headcounts particularly for the provision of infrastructure and public road testing service, slope monitoring and foundation pit monitoring services and food testing service.

## FINANCIAL INFORMATION

### *Subcontracting fee*

Our subcontracting fee primarily represents subcontracting costs paid to drilling companies during our course of providing foundation testing service. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, the subcontracting fee were RMB1.4 million, RMB0.6 million, RMB0.8 million, RMB0.4 million and RMB0.4 million, respectively, which accounted for 14.4%, 6.8%, 6.5%, 8.2% and 5.7% of our cost of sales, respectively. The fluctuations in our subcontracting fee during the Track Record Period were primarily driven by the needs of our customers to apply the core drilling method in our foundation testing service.

### **Gross Profit and Gross Profit Margin**

For FY2021, FY2022, FY2023, 6M2023 and 6M2024, our gross profit was RMB30.2 million, RMB11.5 million, RMB29.8 million, RMB10.8 million and RMB16.2 million, respectively. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, our overall gross profit margin was 75.9%, 57.6%, 71.8%, 66.4% and 70.8%, respectively.

The following table sets forth our gross profit and gross profit margin by types of services for the years/periods indicated.

	FY2021		FY2022		FY2023		6M2023		6M2024	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
(unaudited)										
<b>Construction engineering</b>										
<i>Testing services</i>										
Foundation testing service	24,060	80.9	7,617	67.8	20,022	81.3	8,105	75.9	12,513	88.7
Construction material testing service	2,714	52.3	111	3.8	972	25.0	383	20.9	492	20.4
Building structure testing service	1,899	71.7	97	12.8	942	56.0	300	45.7	469	58.0
Infrastructure and public roads testing service	741	83.0	(243)	(53.3)	3,430	58.8	1,274	62.5	508	36.1
	<u>29,414</u>	<u>76.5</u>	<u>7,582</u>	<u>49.2</u>	<u>25,366</u>	<u>70.4</u>	<u>10,062</u>	<u>66.2</u>	<u>13,982</u>	<u>74.6</u>
<i>Inspection services</i>										
Slope monitoring and foundation pit monitoring services	762	58.1	3,912	85.7	4,415	80.7	773	69.0	476	36.9
	<u>762</u>	<u>58.1</u>	<u>3,912</u>	<u>85.7</u>	<u>4,415</u>	<u>80.7</u>	<u>773</u>	<u>69.0</u>	<u>476</u>	<u>36.9</u>
	<u>30,176</u>	<u>75.9</u>	<u>11,494</u>	<u>57.6</u>	<u>29,781</u>	<u>71.8</u>	<u>10,835</u>	<u>66.4</u>	<u>14,458</u>	<u>72.2</u>
<b>Food testing service</b>	-	-	-	-	-	-	-	-	1,714	61.2
<b>Total</b>	<u>30,176</u>	<u>75.9</u>	<u>11,494</u>	<u>57.6</u>	<u>29,781</u>	<u>71.8</u>	<u>10,835</u>	<u>66.4</u>	<u>16,172</u>	<u>70.8</u>

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## FINANCIAL INFORMATION

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Our gross profit decreased significantly from RMB30.2 million in FY2021 to RMB11.5 million in FY2022 and increased significantly from RMB11.5 million in FY2022 to RMB29.8 million in FY2023. Our gross profit increased from RMB10.8 million in 6M2023 to RMB16.2 million in 6M2024. The fluctuations in our gross profit were generally affected by the fluctuations in our revenue during the same years/periods. Our gross profit margin decreased from 75.9% in FY2021 to 57.6% in FY2022 mainly because majority of our cost of sales, such as direct labour costs and depreciation, are fixed cost, while our revenue decreased significantly in FY2022. The increase in our gross profit margin from 57.6% in FY2022 to 71.8% in FY2023 was primarily due to the increase in our revenue, especially from our foundation testing service and infrastructure and public roads testing service, as a result of business recovery after lifting of the COVID-19 restrictions. The increase in our gross profit margin from 66.4% in 6M2023 to 70.8% in 6M2024 was primarily driven by an increase in gross profit margin of construction engineering testing services from 66.2% to 74.6% due to the economies of scale we achieved as our revenue from the provision of construction engineering testing services had increased by RMB3.5 million or 23.2% in 6M2024 whilst the majority of our cost of sales, such as direct labour costs, are fixed costs.

Our gross profit margin of infrastructure and public roads testing service decreased significantly from 83.0% in FY2021 to -53.3% in FY2022 primarily because we strategically expanded our capabilities, leading to an increase in the number of employees who were responsible for the provision of infrastructure and public roads testing service by five qualified engineers with an associated costs of sales amounted to RMB0.3 million for enhancing our qualifications in the provision of infrastructure and public roads testing service, however the relevant revenue growth was only materialised subsequent to FY2022. Our gross profit margin of construction material testing service decreased significantly from 52.3% in FY2021 to 3.8% in FY2022 mainly due to an increase of RMB0.4 million or 15.1% in cost of sales from FY2021 to FY2022 driven by the slight increase in direct labour costs and equipment maintenance cost despite of the decrease of RMB2.2 million or 43.0% in revenue. Our gross profit margin of building structure testing service decreased significantly from 71.7% in FY2021 to 12.8% in FY2022, which was mainly due to the decrease in our revenue of RMB1.9 million or 71.3% from FY2021 to FY2022, whilst the cost of sales of building structure testing service only decreased slightly by RMB0.1 million or 11.7% from FY2021 to FY2022. The decrease in our gross profit margin of foundation testing service from FY2021 to FY2022 was generally consistent with the decrease in our revenue during FY2022.

Our gross profit margin of infrastructure and public roads testing service increased significantly from -53.3% in FY2022 to 58.8% in FY2023 mainly due to the significant increase in our revenue in FY2023 as a result of an increase in the number and scope of qualifications in infrastructure and public roads testing from 20 parameters under eight categories as at 31 December 2022 to 586 parameters under 11 categories as at 31 December 2023, which also leveraged out the increase in associated cost of sales and achieved gross profit in FY2023. Our gross profit margin of construction material testing service increased significantly from 3.8% in FY2022 to 25.0% in FY2023 mainly due to an increase of RMB0.9 million or 31.6% in revenue of construction material testing service from FY2022 to FY2023 whilst the relevant cost of sales only increased by RMB72,000. Our gross profit margin of building structure testing service increased significantly from 12.8% in FY2022 to 56.0% in FY2023 mainly due to an increase of RMB0.9 million or 121.6% in revenue of building structure testing service from FY2022 to FY2023 whilst the relevant costs of sales only increased by RMB78,000. Our gross profit margin of foundation testing service increased from 67.8% in FY2022 to 81.3% in FY2023 mainly due to an increase of RMB13.4 million or 119.2% in revenue of foundation testing service from FY2022 to FY2023 whilst relevant costs of sales only increased by RMB1.0 million.

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## FINANCIAL INFORMATION

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Our gross profit margin of infrastructure and public roads testing service decreased from 62.5% in 6M2023 to 36.1% in 6M2024 mainly due to a decrease in our revenue of RMB0.6 million or 30.9% in 6M2024 as discussed in “– Statements of Comprehensive Income – Revenue” in this section, whilst the relevant cost of sales increased by RMB0.1 million, which was primarily driven by the increase in relevant headcounts and therefore the increase in direct labour costs of infrastructure and public roads testing service by RMB0.1 million. Our gross profit margin of construction material testing service remained relatively stable at 20.9% in 6M2023 and 20.4% in 6M2024. Our gross profit margin of building structure testing service increased from 45.7% in 6M2023 to 58.0% in 6M2024 mainly due to an increase of RMB0.2 million or 23.3% in revenue of building structure testing service from 6M2023 to 6M2024 whilst the relevant cost of sales decreased slightly by RMB17,000. Our gross profit margin of foundation testing service increased from 75.9% in 6M2023 to 88.7% in 6M2024 mainly due to an increase by RMB3.4 million or 32.1% in revenue of foundation testing service from 6M2023 to 6M2024 whilst the relevant cost of sales decreased by RMB1.0 million primarily because certain of our staff who were principally responsible for other testing and inspection services had been assigned to also work on foundation testing services during 6M2023, as a result, part of their direct labour costs were recognised as cost of sales of foundation testing services, thereby increasing cost of sales of foundation testing service in 6M2023. In 6M2024, such arrangement ceased, hence direct labour costs of foundation testing service decreased and relevant cost of sales decreased accordingly.

Our gross profit margin of slope monitoring and foundation pit monitoring services increased from 58.1% in FY2021 to 85.7% in FY2022, which was mainly due to the increase in the revenue generated from slope monitoring and foundation pit monitoring services during the year. Our gross profit margin of slope monitoring and foundation pit monitoring services slightly decreased from 85.7% for FY2022 to 80.7% for FY2023 mainly due to the increase in direct labour costs of slope monitoring and foundation pit monitoring testing service by RMB0.3 million. Our gross profit margin of slope monitoring and foundation pit monitoring services decreased from 69.0% in 6M2023 to 36.9% in 6M2024, which was mainly due to an increase in the cost of sales of slope monitoring and foundation pit monitoring services by RMB0.5 million primarily driven by the increase in relevant headcounts and hence the increase in direct labour costs of slope monitoring and foundation pit monitoring services by RMB0.3 million.

During the Track Record Period, the gross profit margin of slope monitoring and foundation pit monitoring services in FY2021, 6M2023 and 6M2024 was relatively lower than that in FY2022 and FY2023 mainly due to the absence of service orders for sizeable projects like sewage network reconstruction project and urban renewal project from our customers which aggregately attributed to revenue of RMB3.7 million and RMB3.2 million in FY2022 and FY2023 respectively, leading to relatively lower revenue generated from slope monitoring and foundation pit monitoring services in FY2021, 6M2023 and 6M2024; meanwhile the costs of sales of slope monitoring and foundation pit monitoring services only increased slightly during the Track Record Period from RMB0.5 million in FY2021 to RMB0.7 million in FY2022 and further to RMB1.1 million in FY2023.

Since May 2024, we have commenced to provide food testing service and generated revenue of RMB2.8 million in 6M2024, whilst incurred cost of sales of RMB1.1 million which mainly consisted of direct labour costs, depreciation of fixed assets, right-of-use assets and amortisation of intangible assets and direct material costs. As a result, our gross profit margin of food testing services in 6M2024 was 61.2%.

## FINANCIAL INFORMATION

### General and Administrative Expenses

The following table sets forth the components of our general and administrative expenses for the years/periods indicated.

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employee remuneration	3,983	84.3	4,988	78.1	5,372	52.9	2,480	67.0	2,457	44.8
Depreciation of fixed assets and right-of-use assets	51	1.1	279	4.4	399	3.9	206	5.6	484	8.8
Office expenses	474	10.0	663	10.4	876	8.6	335	9.0	470	8.6
Listing expenses	-	-	-	-	1,779	17.5	-	-	887	16.2
Professional fees	57	1.2	322	5.0	1,237	12.2	657	17.7	891	16.2
Other expenses	161	3.4	131	2.1	494	4.9	25	0.7	296	5.4
<b>Total</b>	<b>4,726</b>	<b>100.0</b>	<b>6,383</b>	<b>100.0</b>	<b>10,157</b>	<b>100.0</b>	<b>3,703</b>	<b>100.0</b>	<b>5,485</b>	<b>100.0</b>

During the Track Record Period, our general and administrative expenses consist primarily of employee remuneration, depreciation of fixed assets and right-of-use assets, office expenses, listing expenses, professional fees and other expenses.

#### *Employee remuneration*

Our employee remuneration included salaries, bonuses and social insurance benefits paid to our employees. The increase in employee remuneration from RMB4.0 million for FY2021 to RMB5.0 million for FY2022 was primarily due to increase in employee salary as (i) we granted basic performance bonuses to our employees in FY2022, the amounts of which were associated with the job titles of our employees; and (ii) we promoted certain employees and managers in our back-office in FY2022, resulting in higher salaries for the relevant personnel. The basic performance bonus of RMB0.7 million that was included in general and administrative expenses in FY2022 had been granted to 31 employees who were mainly our senior management and staff from administration and finance departments in FY2022 to recognise their contribution and such bonus was mainly tied to individual achievement instead of our Company's financial performance. The employee remuneration increased from RMB5.0 million in FY2022 to RMB5.4 million in FY2023, which was primarily due to an increase in the number of our employees whose salaries were included in general and administrative expenses from 39 employees for FY2022 to 45 employees for FY2023. The employee remuneration remained relatively stable at RMB2.5 million and RMB2.5 million in 6M2023 and 6M2024, respectively.

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## FINANCIAL INFORMATION

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### *Professional fees*

Professional fees mainly represent professional services fees incurred for the advisory services provided to our Company by the IPO Consultant, which resulted in the increase from RMB57,000 in FY2021 to RMB0.3 million in FY2022 and a further increase to RMB1.2 million in FY2023. Professional fees increased from RMB0.7 million in 6M2023 to RMB0.9 million in 6M2024 partially due to human resources advisory service fee incurred in 6M2024.

The IPO Consultant entered into an exclusive capital and management consultancy service agreement with our Company in August 2022, pursuant to which the IPO Consultant shall provide, on an exclusive basis, consultancy and advisory services to our Company in relation to strategic development, management and corporate reorganisation, financial planning, corporate governance enhancement, equity and asset restructuring, and equity and debt financing in the PRC. The service period is two years commencing from 8 August 2022 and the service fee is RMB1.6 million.

### **Research and Development Expenses**

Our research and development expenses were nil, nil, RMB0.1 million, nil and RMB0.3 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The increase from nil in FY2022 to RMB0.1 million in FY2023 was primarily due to the increase in staff cost of our employees in information technology department and related office expenses. The increase from nil in 6M2023 to RMB0.3 million in 6M2024 was primarily due to the increase in staff cost of our employees in information technology department and depreciation of fixed assets and right-of-use assets.

### **Net Impairment Losses on Financial Assets**

We recorded net impairment losses on financial assets of RMB2.1 million in FY2021 which decreased to RMB1.4 million in FY2022, primarily representing the change in impairment provision made to trade receivables during the year. The net impairment losses on financial assets of RMB1.3 million in FY2023 remained relatively stable as compared to RMB1.4 million in FY2022. The net impairment losses on financial assets decreased from RMB1.6 million in 6M2023 to RMB0.1 million in 6M2024, primarily representing the change in impairment provision made to trade receivables during the period.

### **Other Income**

We recorded other income of RMB0.5 million, RMB0.4 million, RMB0.6 million, RMB0.3 million and RMB60,000 in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. Our other income consisted primarily of finance income from sublease, government subsidies, income from sales of scrap materials and interest income from a related party, of which interest income from a related party amounted to nil, nil, RMB0.3 million, RMB0.1 million and nil in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.



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## FINANCIAL INFORMATION

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### Other Losses

We recorded other losses of nil, RMB13,000, RMB0.9 million, nil and RMB84,000 in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The increase in other losses from FY2022 to FY2023 was primarily due to an early termination of our lease for the Dabei Line Land. The increase in other losses from 6M2023 to 6M2024 was primarily due to the exchange loss of RMB84,000 recognised in 6M2024.

### Finance Costs

We recorded net finance costs of RMB0.2 million, RMB0.2 million, RMB0.1 million, RMB0.1 million and RMB0.4 million in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, which consisted primarily of interest of lease liabilities. Our finance income was RMB0.1 million, RMB0.1 million, RMB0.1 million, RMB33,000 and RMB49,000 in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. We incurred finance costs of RMB0.3 million, RMB0.3 million, RMB0.2 million, RMB0.1 million and RMB0.5 million in FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

### Income Tax Expenses

Our income tax consists primarily of PRC enterprise income tax charged on our Company and deferred tax expenses arising from the timing difference between accounting and taxable profits. The following table sets forth our income tax expenses for the years/periods indicated.

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>6M2023</b>	<b>6M2024</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Current income tax	6,693	1,200	5,058	1,694	2,737
Deferred income tax credit	(707)	(161)	(578)	(227)	(263)
<b>Total income tax expenses</b>	<b>5,986</b>	<b>1,039</b>	<b>4,480</b>	<b>1,467</b>	<b>2,474</b>

Our Company was incorporated in the PRC. Enterprise income tax (“EIT”) was made on the estimated assessable profits of our Company and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC EIT rate is 25.0% during the Track Record Period.

For FY2021, FY2022, FY2023, 6M2023 and 6M2024, our income tax expenses were RMB6.0 million, RMB1.0 million, RMB4.5 million, RMB1.5 million and RMB2.5 million, respectively, and our effective tax rate during the same year was 25.2%, 26.3%, 25.3%, 25.5% and 25.2%, respectively, which was generally in line with the general PRC EIT rate of 25.0%.



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## FINANCIAL INFORMATION

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During the Track Record Period, we made all material tax filings and paid all material outstanding tax liabilities with the relevant tax authorities in China, and we are not aware of any outstanding or potential dispute with such tax authorities.

### **Profit for the Year/Period**

As a result of the foregoing, we had profit for the year of RMB17.7 million, RMB2.9 million, RMB13.3 million, RMB4.3 million and RMB7.3 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

## **RESULTS OF OPERATIONS**

### **6M2024 Compared to 6M2023**

#### *Revenue*

Our total revenue increased by 39.8% from RMB16.3 million in 6M2023 to RMB22.8 million in 6M2024. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Revenue” in this section.

#### *Cost of sales*

Our cost of sales increased by 21.2% from RMB5.5 million in 6M2023 to RMB6.7 million in 6M2024. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Cost of sales” in this section.

#### *Gross profit and gross profit margin*

Our gross profit increased by 49.3% from RMB10.8 million in 6M2023 to RMB16.2 million in 6M2024. Our gross profit margin increased from 66.4% in 6M2023 to 70.8% in 6M2024. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Gross Profit and Gross Profit Margin” in this section.

#### *General and administrative expenses*

Our general and administrative expenses increased by 48.1% from RMB3.7 million in 6M2023 to RMB5.5 million in 6M2024. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – General and Administrative Expenses” in this section.

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## FINANCIAL INFORMATION

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### *Research and development expenses*

Our research and development expenses increased from nil in 6M2023 to RMB0.3 million in 6M2024. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Research and Development Expenses” in this section.

### *Net impairment losses on financial assets*

We recorded net impairment losses on financial assets of RMB1.6 million in 6M2023 and which decreased to RMB0.1 million in 6M2024 primarily representing the change in impairment provision made to trade receivables during the year.

### *Other income*

Our other income decreased by 81.0% from RMB0.3 million in 6M2023 to RMB60,000 in 6M2024 primarily due to the decrease in (i) interest income from related party from RMB0.1 million in 6M2023 to nil in 6M2024; and (ii) rental income from RMB93,000 in 6M2023 to nil in 6M2024.

### *Finance costs*

Our net finance costs significantly increased by 302.8% from RMB0.1 million in 6M2023 to RMB0.4 million in 6M2024 primarily due to the incurrence of interest of lease liabilities in association with our lease for the New Building which commenced in April 2024.

### *Profit before income tax*

As a result of the foregoing, our profit before tax substantially increased by 70.7% from RMB5.8 million in 6M2023 to RMB9.8 million in 6M2024.

### *Income tax expenses*

Our income tax expenses substantially increased by 68.6% from RMB1.5 million in 6M2023 to RMB2.5 million in 6M2024, which was generally in line with the increase in profit before income tax.

### *Profit for the period*

As a result of the foregoing, our net profit increased by 71.4% from RMB4.3 million in 6M2023 to RMB7.3 million in 6M2024. The increase was primarily due to the increase in our total revenue from RMB16.3 million in 6M2023 to RMB22.8 million in 6M2024, which was partially offset by the increase in (i) our general and administrative expenses from RMB3.7 million in 6M2023 to RMB5.5 million in 6M2024; (ii) our research and development expenses from nil in 6M2023 to RMB0.3 million in 6M2024; (iii) our net finance cost from RMB0.1 million in 6M2023 to RMB0.4 million in 6M2024; and (iv) our income tax expenses from RMB1.5 million in 6M2023 to RMB2.5 million in 6M2024.

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## FINANCIAL INFORMATION

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### **FY2023 Compared to FY2022**

#### ***Revenue***

Our total revenue increased by 107.9% from RMB20.0 million in FY2022 to RMB41.5 million in FY2023. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Revenue” in this section.

#### ***Cost of sales***

Our cost of sales increased by 38.3% from RMB8.5 million in FY2022 to RMB11.7 million in FY2023. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Cost of sales” in this section.

#### ***Gross profit and gross profit margin***

Our gross profit increased by 159.1% from RMB11.5 million in FY2022 to RMB29.8 million in FY2023. Our gross profit margin increased from 57.6% in FY2022 to 71.8% in FY2023. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Gross Profit and Gross Profit Margin” in this section.

#### ***General and administrative expenses***

Our general and administrative expenses increased by 59.1% from RMB6.4 million in FY2022 to RMB10.2 million in FY2023. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – General and Administrative Expenses” in this section.

#### ***Research and development expenses***

Our research and development expenses increased from nil in FY2022 to RMB0.1 million in FY2023. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Research and Development Expenses” in this section.

#### ***Net impairment losses on financial assets***

Our net impairment losses on financial assets of RMB1.4 million in FY2022 and RMB1.3 million in FY2023 respectively, were relatively stable.

#### ***Other income***

Our other income increased by 48.7% from RMB0.4 million in FY2022 to RMB0.6 million in FY2023 primarily due to an increase in interest income from related party in FY2023.

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## FINANCIAL INFORMATION

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### *Finance costs*

We incurred net finance costs of RMB0.2 million in FY2022 and RMB0.1 million in FY2023 respectively, which were relatively stable.

### *Profit before income tax*

As a result of the foregoing, our profit before tax substantially increased by 348.9% from RMB4.0 million in FY2022 to a profit of RMB17.7 million in FY2023.

### *Income tax expenses*

Our income tax expenses substantially increased by 331.2% from RMB1.0 million in FY2022 to RMB4.5 million in FY2023, which was generally in line with the increase in profit before income tax.

### *Profit for the year*

As a result of the foregoing, our net profit substantially increased by 355.2% from RMB2.9 million in FY2022 to RMB13.3 million in FY2023. The increase was primarily due to the increase in our total revenue from RMB20.0 million in FY2022 to RMB41.5 million in FY2023, which was partially offset by the increase in (i) our general and administrative expenses from RMB6.4 million in FY2022 to RMB10.2 million in FY2023; (ii) our research and development expenses from nil in FY2022 to RMB0.1 million in FY2023; and (iii) our other losses from RMB13,000 in FY2022 to RMB0.9 million in FY2023.

## **FY2022 Compared to FY2021**

### *Revenue*

Our total revenue decreased by 49.8% from RMB39.8 million in FY2021 to RMB20.0 million in FY2022. For detailed discussion on the reasons of the fluctuations, see “– Statements of Other Comprehensive Income – Revenue” in this section.

### *Cost of sales*

Our cost of sales decreased by 11.8% from RMB9.6 million in FY2021 to RMB8.5 million in FY2022. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Cost of sales” in this section.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by 61.9% from RMB30.2 million in FY2021 to RMB11.5 million in FY2022. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – Gross Profit and Gross Profit Margin” in this section.

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## FINANCIAL INFORMATION

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### *General and Administrative expenses*

Our general and administrative expenses increased by 35.1% from RMB4.7 million in FY2021 to RMB6.4 million in FY2022. For detailed discussion on the reasons of the fluctuations, see “– Statements of Comprehensive Income – General and Administrative Expenses” in this section.

### *Net impairment losses on financial assets*

We recorded net impairment losses on financial assets of RMB2.1 million in FY2021 and which decreased to RMB1.4 million in FY2022 primarily representing the change in impairment provision made to trade receivables during the year.

### *Other income*

We had other income of RMB0.5 million and RMB0.4 million in FY2021 and FY2022 respectively, which was relatively stable.

### *Finance costs*

We incurred net finance costs of RMB0.2 million and RMB0.2 million in FY2021 and FY2022 respectively, which was relatively stable.

### *Profit before income tax*

As a result of the foregoing, our profit before tax decreased by 83.3% from RMB23.7 million in FY2021 to RMB4.0 million in FY2022.

### *Income tax expenses*

Our income tax expenses decreased by 82.6% from RMB6.0 million in FY2021 to RMB1.0 million in FY2022, which was generally in line with the decrease in our revenue. Our effective tax rate was 25.2% and 26.3% in FY2021 and FY2022, respectively.

### *Profit for the year*

As a result of the foregoing, our net profit decreased by 83.6% from RMB17.7 million in FY2021 to RMB2.9 million in FY2022. The decrease was primarily due to (i) the decrease in our total revenue from RMB39.8 million in FY2021 to RMB20.0 million in FY2022; and (ii) the increase in our general and administrative expenses from RMB4.7 million in FY2021 to RMB6.4 million in FY2022.

## FINANCIAL INFORMATION

### DISCUSSION OF CERTAIN ITEMS FROM THE STATEMENTS OF FINANCIAL POSITION

The following table sets forth our summary statements of financial position as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3,949	4,812	4,225	15,906
Right-of-use assets	1,953	2,974	1,688	37,362
Deferred tax assets	2,301	2,462	3,040	3,303
Intangible assets	79	69	116	339
Other receivables and prepayments	4,187	3,976	3,025	2,985
	<u>12,469</u>	<u>14,293</u>	<u>12,094</u>	<u>59,895</u>
<b>Current assets</b>				
Contract fulfilment costs	820	2,053	1,390	2,440
Inventory	–	–	–	233
Trade and other receivables and prepayments	36,599	35,843	46,201	55,304
Cash and cash equivalents	35,846	32,221	59,145	42,459
	<u>73,265</u>	<u>70,117</u>	<u>106,736</u>	<u>100,436</u>
<b>Total assets</b>	<u><u>85,734</u></u>	<u><u>84,410</u></u>	<u><u>118,830</u></u>	<u><u>160,331</u></u>

## FINANCIAL INFORMATION

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2024</i> <i>RMB'000</i>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Lease liabilities	4,995	5,786	1,494	37,119
	<u>4,995</u>	<u>5,786</u>	<u>1,494</u>	<u>37,119</u>
<b>Current liabilities</b>				
Trade payables	105	738	612	492
Contract liabilities	750	1,060	1,394	1,232
Lease liabilities	391	693	508	1,483
Current income tax liabilities	7,652	2,016	3,267	994
Other payables and accruals	4,853	4,786	8,970	9,083
	<u>13,751</u>	<u>9,293</u>	<u>14,751</u>	<u>13,284</u>
<b>Total liabilities</b>	<u>18,746</u>	<u>15,079</u>	<u>16,245</u>	<u>50,403</u>
<b>Net Assets</b>	<u><u>66,988</u></u>	<u><u>69,331</u></u>	<u><u>102,585</u></u>	<u><u>109,928</u></u>

### Property, Plant and Equipment

Our property, plant and equipment consist primarily of machinery equipment, leasehold improvements, office equipment and vehicles. We had property, plant and equipment of RMB3.9 million, RMB4.8 million, RMB4.2 million and RMB15.9 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. The increase as at 31 December 2022 from 31 December 2021 was primarily due to (i) the addition of machinery equipment, such as CCTV pipe robots and testing machines; (ii) the addition of leasehold improvements in our office building; and (iii) the addition of vehicles. The decrease as at 31 December 2023 from 31 December 2022 was primarily due to the depreciation charged for the year and partially offset by the addition of machinery equipment, vehicles and office equipment during FY2023. The increase as at 30 June 2024 from 31 December 2023 was primarily due to (i) the addition of machinery equipment, such as (a) intelligent testing system for compressive strength of concrete for our construction material testing service, (b) static load test reaction frame of building foundation pile for our foundation testing service and (c) machinery and other production equipment for our food testing service; (ii) the addition of leasehold improvements in our New Building; and (iii) the addition of vehicles. The following table sets forth a breakdown of the net book value of our property, plant and equipment as at the dates indicated.

## FINANCIAL INFORMATION

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2024</i> <i>RMB'000</i>
Machinery equipment	3,109	3,595	3,039	14,286
Leasehold improvements	451	578	380	624
Office equipment	345	333	302	252
Vehicles	44	306	504	744
<b>Total</b>	<b>3,949</b>	<b>4,812</b>	<b>4,225</b>	<b>15,906</b>

### Right-of-use Assets

Our right-of-use assets consist primarily of land use rights and properties. We had right-of-use assets of RMB2.0 million, RMB3.0 million, RMB1.7 million and RMB37.4 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. The following table sets forth a breakdown of the net book value of our right-of-use assets as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2024</i> <i>RMB'000</i>
Land use rights	1,030	933	–	–
Properties	923	2,041	1,688	37,362
<b>Total</b>	<b>1,953</b>	<b>2,974</b>	<b>1,688</b>	<b>37,362</b>

The increase as at 31 December 2022 from 31 December 2021 was primarily attributable to our lease of office building in FY2022. The significant decrease from 31 December 2022 to 31 December 2023 was due to the early termination of our lease for the Dabei Line Land. The increase as at 30 June 2024 from 31 December 2023 was primarily attributable to our lease for the New Building which commenced in April 2024.

### Deferred Tax Assets

Our deferred tax assets consist primarily of deferred tax in relation to the provision for credit loss of trade receivables and other receivables. We had deferred tax assets of RMB2.3 million, RMB2.5 million, RMB3.0 million and RMB3.3 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. The increase as at 31 December 2022 from 31 December 2021 was primarily due to the tax credited in relation to the provision for credit loss of trade receivables and other receivables and



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## FINANCIAL INFORMATION

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partially offset by tax charged in relation to payroll accrual. The increase as at 31 December 2023 from 31 December 2022 was primarily due to the tax credited to provision for credit loss of trade receivables and other receivables. The increase as at 30 June 2024 from 31 December 2023 was primarily due to the tax credited in relation to lease liabilities and partially offset by tax charged in relation to right-of-use assets.

### **Intangible Assets**

Our intangible assets primarily represented the carrying amount of our accounting software and material testing software. We had intangible assets of RMB79,000, RMB69,000, RMB116,000 and RMB339,000 as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. Our intangible assets remained relatively stable for FY2021 and FY2022. The increase of our intangible assets from RMB69,000 as at 31 December 2022 to RMB116,000 as at 31 December 2023 was primarily due to the acquisition of software in FY2023. Our intangible assets further increased to RMB339,000 as at 30 June 2024 primarily due to our purchase of the management system of the control cabinet in our New Building and the food and agricultural products testing.

### **Contract Fulfilment Costs**

Our contract fulfilment costs represented the asset recognised in relation to costs to fulfil contracts for testing services including foundation testing service, building structure testing service and infrastructure and public roads testing service.

Our contract fulfilment costs increased significantly to RMB2.1 million as at 31 December 2022 from RMB0.8 million as at 31 December 2021 primarily due to the increase in ongoing services provided by our Company as at 31 December 2022. Our contract fulfilment costs decreased from RMB2.1 million as at 31 December 2022 to RMB1.4 million as at 31 December 2023 primarily due to the decrease in the contract fulfilment costs of our foundation testing service. Our contract fulfilment costs increased from RMB1.4 million as at 31 December 2023 to RMB2.4 million as at 30 June 2024 primarily due to the increase in ongoing services, particularly our infrastructure and public roads testing service, provided by us as at 30 June 2024.

### **Inventory**

Our inventory primarily represented the testing consumables which were purchased but not yet utilised by us in 6M2024 for the purpose of our food testing service.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, we had inventory of nil, nil, nil and RMB0.2 million, respectively, which was primarily due to the commencement of our food testing service since May 2024, resulting in an increase in inventory of testing consumables as at 30 June 2024.

## FINANCIAL INFORMATION

### Trade Receivables

During the Track Record Period, our trade receivables primarily represented amounts receivable from our customers for our services provided in the ordinary course of business. As at 31 December 2021, 2022 and 2023 and 30 June 2024, we had trade receivables of RMB35.4 million, RMB34.5 million, RMB29.3 million and RMB32.9 million, respectively. The table below sets forth the details of our trade receivables as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2024</i> <i>RMB'000</i>
Trade receivables	44,479	44,983	41,165	44,842
Less: provision for credit loss of trade receivables	(9,068)	(10,438)	(11,840)	(11,968)
<b>Total</b>	<b>35,411</b>	<b>34,545</b>	<b>29,325</b>	<b>32,874</b>

We did not have standardised credit period for our customers prior to December 2023 and may grant credit period to customers on a case-by-case basis. Since December 2023, we have established credit term policy in order to standardise the procedures for granting credit period to our customers and we have implemented such policy since January 2024. For details of our credit term policy, see “– Our credit term policy” in this section. Our trade receivables as at 31 December 2021 and 31 December 2022 remained relatively stable at RMB35.4 million and RMB34.5 million, respectively. Our trade receivables decreased to RMB29.3 million mainly because we had strengthened and sped up the collection of our trade receivables from our customers in FY2023. Our trade receivables as at 30 June 2024 increased to RMB32.9 million, which was mainly attributable to the increase in trade receivables of RMB4.0 million due from our PRC government administrative bureaus customers as a result of the substantial increase in revenue generated from such customers in 6M2024. As at the Latest Practicable Date, RMB3.9 million, which accounted for 8.7% of our outstanding trade receivables as at 30 June 2024, were subsequently settled. Our top five trade receivables amounted to RMB22.2 million, RMB24.4 million, RMB14.1 million and RMB14.7 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, representing 49.9%, 54.2%, 34.3% and 32.7% of our total trade receivables before any provision of credit loss as at the respective dates. As at the Latest Practicable Date, RMB1.6 million or 10.7% of our outstanding trade receivables due from our top five trade receivables debtors as at 30 June 2024 were subsequently settled.

# FINANCIAL INFORMATION

## Analysis of trade receivables by customer type

The table below sets forth the analysis of trade receivables by customer types and corresponding impairment provision as at 31 December 2021, 2022 and 2023 and 30 June 2024, and the amount of subsequent settlement of trade receivables up to the Latest Practicable Date.

	As at 31 December						As at 30 June											
	2021		2022		2023		2024		2024									
	Total trade receivables RMB'000	% of total trade receivables	Total trade receivables RMB'000	% of total trade receivables	Total trade receivables RMB'000	% of total trade receivables	Total trade receivables RMB'000	% of total trade receivables	Total trade receivables RMB'000	% of total trade receivables	Less: impairment provision RMB'000	Net trade receivables RMB'000	Total trade receivables RMB'000	% of total trade receivables	Less: impairment provision RMB'000	Net trade receivables RMB'000	Less: amount subsequently settled up to the Latest Practicable Date RMB'000	Remaining balance up to the Latest Practicable Date RMB'000
Property developers	25,649	57.7	19,634	43.7	22,141	53.8	13,250	45.7	20,501	45.7	(8,891)	11,981	20,501	45.7	(8,520)	11,981	(623)	11,358
Construction companies	2,349	5.3	2,471	5.5	1,968	4.5	5,678	12.5	3,912	8.7	(1,393)	2,713	3,912	8.7	(1,199)	2,713	(1)	2,712
State-owned investment companies	12,573	28.3	14,214	31.6	11,999	27.5	4,509	10.2	6,163	13.8	(650)	5,379	6,163	13.8	(784)	5,379	(679)	4,700
PRC government institutions	2,391	5.4	6,113	13.6	5,440	12.5	4,916	11.1	7,401	16.5	(568)	6,883	7,401	16.5	(718)	6,883	(10)	6,673
PRC government administrative bureaus	513	1.2	2,049	4.6	1,835	4.2	398	0.9	4,806	10.7	(84)	4,397	4,806	10.7	(409)	4,397	(1,540)	2,857
Others <sup>5(a)</sup>	1,004	2.1	502	1.0	463	1.0	574	1.3	2,059	4.6	(254)	1,721	2,059	4.6	(338)	1,721	(1,058)	663
	44,479	100.0	44,983	100.0	34,545	100.0	29,325	100.0	44,842	100.0	(11,840)	29,325	44,842	100.0	(11,968)	32,874	(3,911)	28,963

Note: Including individuals involving in private construction or building works which require our testing services.

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## FINANCIAL INFORMATION

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### Reasons of our prolonged trade receivables settlement cycle

Different types of customers would have different settlement cycles. For property developers and construction companies, their settlement cycle typically depends on the progress of their construction projects; while for state-owned investment companies, PRC government institutions and PRC government administrative bureaus, their settlement cycle is generally subject to the length of approval process required by government financial departments such as Xinyi City Bureau of Finance. According to the CIC Report, the above practice are consistent with the testing and inspection industry norm in the PRC.

Our overall prolonged trade receivables settlement cycle during the Track Record Period are primarily due to:

(i) *Increasing proportion of the customers with longer settlement cycle*

According to the CIC Report, trade receivables due from state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus usually have a relatively long settlement cycle because projects undertaken by these customers are typically larger in terms of contract sum and the prolonged settlement review process mainly due to, among others (a) construction or development projects undertaken from state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus often come with special initiatives, and relevant fundings are specifically earmarked for dedicated use. Typically, stringent approvals procedures would be carried out by government financial departments resulting in relatively longer project timelines; (b) the involvement of the customer's management and/or the lengthy internal approval process of the finance department; and (c) some of the larger and/or complex projects require a longer period of time for inspection, which results in the need of a longer period of time to complete the internal review of the settlement.

With government ownership as a credit endorsement, our Directors believe that state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus generally have higher credibility, and it is likely that the trade receivables from such customers could finally be settled.

Specifically, we have provided foundation testing services to one of the sizeable infrastructure projects of our major customer, together with its immediate holding company and its wholly owned subsidiary, collectively being Customer D. Customer D, being one of our five largest customers during the Track Record Period, is a state-owned enterprise established in the PRC in 2017, with RMB610 million of registered capital and principally engages in engineering construction for buildings and urban real estate development and operation. That sizeable infrastructure project was considered as a key construction project in Maoming and Xinyi City, which primarily involved the construction of roads, flood drains, sewage, water supply, lighting, traffic and greening. We commenced our foundation testing services for such project in May 2019 and completed our foundation testing services for the project in December 2021.

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## FINANCIAL INFORMATION

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We had completed 92 service orders throughout that period and the relevant trade receivables attributed from such project amounted to RMB7.8 million. In view of the complexity in construction work and the massive investment cost involved the time taken for progress inspection would be comparatively longer and hence lengthen the approval time for settlement by Xinyi City Bureau of Finance for such project as a whole. Nonetheless the relevant trade receivables had been fully settled by August 2023.

**(ii) Impact of COVID-19 pandemic**

Maoming represents our primary market and substantially all of our revenue generated during the Track Record Period was attributable to the services provided in Maoming. See “Business – Our Business Model” in this prospectus for further details. As such, measures imposed by the Maoming Government in relation to the pandemic including imposing lockdowns, suspending construction activities, implementing travel restrictions, and enforcing strict social distancing and quarantine protocols had affected most of our customers, that resulted in delays in the progress of construction and infrastructure projects which has in turn affected the settlement progress of the trade receivables. For instance, among the total revenue of RMB20.0 million we generated in FY2022, there was RMB14.1 million outstanding as trade receivables as at 31 December 2022, representing 70.9% of the revenue for the year, showing that the settlement progress in FY2022 had been slowed down as compared to that in FY2021 of 56.7%. In addition, RMB30.8 million of trade receivables brought forward from 31 December 2021 (i.e. trade receivables aged over one year as at 31 December 2022) remained unsettled, which accounted for 69.3% of the total trade receivables as at 31 December 2021, as a result, there was a significant increase in the trade receivable turnover days from 271 days in FY2021 to 639 days in FY2022. As the impact of the COVID-19 pandemic gradually relieved in 2023, the trade receivable turnover days decreased to 281 days in FY2023 and further decreased to 248 days in 6M2024.

**(iii) Impact of the PRC property market downturn**

According to the CIC Report, property development in the PRC is capital intense and when the PRC regulatory authorities promulgated new financing rule of “Three Red Lines” in 2020 tightening the financing in the property development industry nationwide, coupled with the reduce in demand in the PRC property market, many property developers started to experience liquidity issue.

Property developers were one of our major customer types during the Track Record Period. Trade receivables from such property developer debtors accounted for 57.7%, 43.7%, 53.8% and 45.7% of our total trade receivables as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. The property market downturn and tightening in financing led to the settlement cycle of property developer debtors becoming comparatively longer. In FY2021, FY2022, FY2023 and 6M2024, the trade receivable turnover days of property developer debtors of our Company were 245 days, 939 days, 321 days and 250 days, respectively. In view of the above, we have negotiated settlement plans, including but not limited to extending the due date and formulating payment schedule and instalment amount, with certain property developer debtors and has been closely monitoring and following-up the settlement progress with these

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## FINANCIAL INFORMATION

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debtors. Nonetheless, based on our impairment policy, we recognised specific impairment provision in relation to trade receivables due from nine, nine, 17 and 17 property developer debtors as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, involving 21 projects of these property developers, which accounted for RMB4.3 million, RMB4.4 million, RMB7.7 million and RMB7.5 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, and fully reflected the relevant impact in our Statements of Comprehensive Income. For further details, see “Appendix I – Accountant’s Report – Historical Financial Information of the Company” in this prospectus.

### **Our credit term policy**

We have established credit term policy since December 2023 and have implemented such policy since January 2024 in order to standardise the procedures for granting credit period to our customers. Pursuant to our latest credit term policy, we grant different credit terms to our customers primarily considering the nature of enterprises, background of shareholders and sources of funding. We generally grant credit terms ranging from (i) 15 working days to 120 working days to customers that are mainly state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus; and (ii) 15 working days to 60 working days to customers that are mainly property developers, construction companies and others. The abovementioned credit terms begin from the date we complete the testing reports and inform our customers to collect them. According to the CIC Report, the credit terms we grant to our customers are in line with those granted by our peers in the testing and inspection industry.

We actively monitor and review the payment terms of our customers on a regular basis. For customers with long aging trade receivables (i.e. aged over one year), we are required to implement verification procedures for such customers on the credit terms and their payment capability and to maintain stricter control over uncollected trade receivables. As trade receivables due from state-owned investment companies, PRC government institutions and PRC government administrative bureaus usually have a relatively long settlement cycle, we will comprehensively conduct credit assessment on them based on the actual progress of different projects undertaken by such customers, and set a reasonable credit period and limit for them. We do not hold any collateral or other credit enhancements over our trade receivables balances, and our trade receivables are non-interest-bearing.

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## FINANCIAL INFORMATION

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### **Our credit assessment and impairment loss policy**

We are exposed to credit risk in relation to the outstanding trade receivables. In case of our trade receivables cannot be recovered or are not remitted by our customers to us on a timely basis and in full, we will have to make provision or write off the relevant trade receivables, which in turn may adversely affect our financial position and profitability.

We closely review the trade receivable balance and any overdue balances on an ongoing basis and assess the collectability of overdue balances. Pursuant to our latest credit term policy established in December 2023 and implemented in January 2024, on one hand, our finance department shall regularly update the settlement status and report any overdue balances in trade receivables to our general management department. On the other hand, our general management department is responsible for the assessment on the corporate credit and business operation condition of the customers, generally by obtaining background information of the customers in relation to their business condition, background of shareholders and financial status from public sources including information enquiry websites. After receiving the status and information of any overdue balances from our finance department, our general management department, under the supervision of our senior management, will coordinate with our business department to follow up on the progress of collection of trade receivables.

At the end of each reporting period, our management assess each debtor individually and identify any debtor who is in bankruptcy, liquidation, insolvency or in other situations with higher default risk. The impairment assessment on the trade receivables of the debtors with higher default risk mainly depended on the debtor's payment history and their current and future ability for payment taking into account the information specific to the debtors. The loss allowance provision made on such trade receivables on individual basis as at 31 December 2021, 2022 and 2023 and 30 June 2024 were RMB4.6 million, RMB4.7 million, RMB9.0 million and RMB8.8 million, respectively. For the remaining debtors that are not identified as debtors with higher default risk, our management would group their trade receivables based on shared credit risk characteristics and aging periods and estimate the future cash flows for each group of these trade receivables to determine their loss allowance provisions on a group basis. Our management takes into consideration the historical default rates, existing market conditions as well as forward-looking information on macroeconomic factors that will affect the ability of our debtors to settle the trade receivables when determining the expected credit loss rates of each group of trade receivables.

The loss allowance provisions made on a group basis as at 31 December 2021, 2022 and 2023 and 30 June 2024 were RMB4.5 million, RMB5.7 million, RMB2.8 million and RMB3.2 million, respectively. As a result, the provision of credit loss of trade receivables as at 31 December 2021, 2022 and 2023 and 30 June 2024 in aggregate were RMB9.1 million, RMB10.4 million, RMB11.8 million and RMB12.0 million, respectively, representing 20.4%, 23.2%, 28.8% and 26.7% of the trade receivables as at the respective dates. For further details of our impairment policy on trade receivables, see “– Material Accounting Policy Information and Estimates – Impairment of financial assets” in this section.



# FINANCIAL INFORMATION

## Aging analysis of trade receivables

The table below sets forth an aging analysis of our trade receivables based on the dates when the trade receivables are recognised as at the dates indicated and the subsequent settlement up to the Latest Practicable Date.

	As at 31 December					As at 30 June						
	2021		2022			2023			2024			
	Total trade receivables	Less: impairment provision	Less: amount subsequently settled up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Total trade receivables	Less: impairment provision	Less: amount subsequently settled up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date	Total trade receivables	Less: impairment provision	Less: amount subsequently settled up to the Latest Practicable Date	Remaining balances up to the Latest Practicable Date
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	22,544	(2,600)	(19,426)	458	14,146	(1,067)	(11,913)	1,166	27,950	(2,578)	(10,803)	14,569
1 year to 2 years	13,339	(2,749)	(11,016)	(426)	12,908	(2,602)	(9,765)	541	3,832	(1,130)	(1,695)	1,007
2 years to 3 years	6,985	(2,398)	(5,856)	(1,269)	11,743	(3,213)	(9,419)	(889)	3,327	(2,436)	(210)	661
3 years to 4 years	562	(320)	(290)	(48)	4,870	(2,349)	(3,741)	(1,220)	2,644	(2,264)	(320)	60
Over 4 years	1,049	(941)	(47)	61	1,316	(1,207)	(41)	68	3,392	(3,392)	(990)	(990)
	<u>44,479</u>	<u>(9,068)</u>	<u>(36,635)</u>	<u>(1,224)</u>	<u>44,983</u>	<u>(10,438)</u>	<u>(34,879)</u>	<u>(334)</u>	<u>41,165</u>	<u>(11,840)</u>	<u>(14,018)</u>	<u>15,307</u>
												<u>(3,911)</u>
												<u>28,963</u>

*Note:* Negative remaining balances up to the Latest Practicable Date indicate that there was certain impaired amounts had been subsequently settled. The subsequent settlement has been considered in the calculation of expected credit losses of the trade receivables in the respective year/period.

Our trade receivables aged over one year increased from RMB21.9 million as at 31 December 2021 to RMB30.8 million as at 31 December 2022 mainly due to delay in payment by our customers as a result of the impact of COVID-19 pandemic. Our trade receivables aged over one year decreased to RMB13.2 million as at 31 December 2023 mainly due to substantial settlement of our trade receivables aged over one year in FY2023 due to the lifting of the COVID-19 restrictions. Our trade receivables aged over one year slightly increased to RMB13.5 million as at 30 June 2024, which remained relatively stable as compared to RMB13.2 million as at 31 December 2023. Our net trade receivables as at 30 June 2024 were considered recoverable, taking into account that most of them were within one year, the financial standing of the relevant customers were reliable, our business relationship with the relevant customers were stable and they had no disputes or legal proceedings with our Company.



## FINANCIAL INFORMATION

As at 31 December 2021, 2022 and 2023 and 30 June 2024, RMB21.9 million, RMB30.8 million, RMB13.2 million and RMB13.5 million, representing 49.3%, 68.6%, 32.1% and 30.2% of our total trade receivables respectively, were aged over one year. As different types of customers would have different settlement cycles, for property developers and construction companies, their settlement cycle typically depends on the progress of their construction projects, while for state-owned investment companies, PRC government institutions and PRC government administrative bureaus, their settlement cycle is generally subject to the length of approval process required by government financial departments, therefore, we mainly consider, among others, (i) the nature and background of the customer's business including its shareholders and sources of funding of these customers; (ii) whether there are any negative news or lawsuits of these customers that we would cast doubt on their repayment capability; and (iii) the result of our comprehensive assessment performed on these customers after considering their historical repayment records, whether there are any existing settlement plans of such customers and their construction progress based on observation from on-site visits to these customers' projects which may indicate their liquidity and repayment capability, in order to assess the financial standings and measure the credit risks of such customers.

### *Trade receivables turnover days by customer type*

The table below sets forth the trade receivable turnover days by customer type for the years/periods indicated.

	FY2021	FY2022	FY2023	6M2024
Property developers	245	939	321	250
Construction companies	64	131	166	906
State-owned investment companies	997	2,025	515	214
PRC government institutions	222	350	280	508
PRC government administrative bureaus	419	229	130	98
Others	210	404	75	100
Overall trade receivable turnover days <sup>(1)</sup>	<u>271</u>	<u>639</u>	<u>281</u>	<u>248</u>

*Note:*

- (1) Trade receivable turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the relevant year multiplied by 365 days for FY2021, FY2022 and FY2023. Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the relevant period multiplied by 182 days for 6M2024.

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## FINANCIAL INFORMATION

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Our trade receivable turnover days increased significantly from 271 days in FY2021 to 639 days in FY2022, which was primarily due to (i) significant decrease in revenue and delay in payment by our customers, in particular for property developers, construction companies and state-owned investment companies, as a result of the impact of COVID-19 in FY2022; (ii) the significant increase in trade receivable turnover days of state-owned investment companies from 997 days in FY2021 to 2,025 days in FY2022, primarily attributable to a long outstanding trade receivable due from one of our major customers (which together with its immediate holding company and its wholly-owned subsidiary collectively is Customer D) amounted to RMB13.2 million as at 31 December 2022, of which RMB8.9 million was aged over two years, see “– Discussion of Certain Items from the Statements of Financial Position – Reasons of our prolonged trade receivables settlement cycle – (i) Increasing proportion of the customers with longer settlement cycle” in this section for details; and (iii) the PRC property market downturn and tightening in financing that resulted in the increase in the trade receivable turnover days of property developers from 245 days in FY2021 to 939 days in FY2022.

Our trade receivable turnover days decreased significantly from 639 days in FY2022 to 281 days in FY2023, which was mainly a combined result of (i) the gradually relieved impact of the COVID-19 pandemic in 2023 such that trade receivable turnover days of most of our customers types had been decreased; (ii) significant decrease in the trade receivable turnover days of state-owned investment companies from 2,025 days in FY2022 to 515 days in FY2023 as a substantial part of the aforementioned significant trade receivables due from that major customer had subsequently been settled during FY2023; and (iii) a slight increase in trade receivable turnover days of construction companies from 131 days in FY2022 to 166 days in FY2023 primarily because we had completed more orders and generated more revenue from our provision of foundation testing service and infrastructure and public road testing service to construction companies in FY2023 which we typically allowed a longer credit period than our construction material testing service, oppositely we mainly provided construction material testing service to construction companies in FY2022.

Our trade receivable turnover days decreased from 281 days in FY2023 to 248 days in 6M2024, which was mainly a combined result of (i) our efforts in strengthening and speeding up the collection of our trade receivables from our customers in 6M2024; (ii) an increase in payment from our property developer customers resulting in a decrease in the trade receivable turnover days of property developers from 321 days in FY2023 to 250 days in 6M2024; (iii) the settlements made by state-owned investment companies resulting in a decrease in trade receivable turnover days of state-owned investment companies from 515 days in FY2023 to 214 days in 6M2024; (iv) an increase in revenue generated from PRC government administrative bureaus in 6M2024 resulting in the decrease in its trade receivable turnover days from 130 days in FY2023 to 98 days in 6M2024; (v) a significant increase in trade receivable turnover days of construction companies from 166 days in FY2023 to 906 days in 6M2024, primarily attributable to a significant decrease in our revenue generated from construction companies in 6M2024; and (vi) a significant increase in trade receivable turnover days of PRC government institutions from 280 days in FY2023 to 508 days in 6M2024, primarily attributable to the lengthy approval process required by government financial departments for settlement.

## FINANCIAL INFORMATION

According to the CIC Report, prolonged payment cycle is a common phenomenon across the entire construction engineering testing and inspection industry. To certain extent, the length of trade receivable turnover days depends on the length of credit period granted to customers, the length of settlement cycle of customers and the amount of revenue recognised in the respective year, therefore trade receivable turnover days of market participants in the industry may vary differently.

### Other Receivables and Prepayments

Our other receivables and prepayments consist primarily of lease payments receivable, amount due from related parties, prepayments for property, plant and equipment, prepayments for professional services fee and deferred listing expenses. We had other receivables and prepayment of RMB1.2 million, RMB1.3 million, RMB16.9 million and RMB22.4 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other receivables</b>				
Lease payments receivable	5,021	4,748	559	559
Amount due from related parties	436	–	–	–
Others	485	640	548	404
	<u>5,942</u>	<u>5,388</u>	<u>1,107</u>	<u>963</u>
Less: allowance for credit loss of other receivables	(640)	(650)	(565)	(564)
	<u>5,302</u>	<u>4,738</u>	<u>542</u>	<u>399</u>
<b>Prepayments</b>				
Prepayments for property, plant and equipment	–	–	3,025	2,337
Prepayments for professional services fee	–	450	450	1,126
Prepayments for listing expense	–	–	133	50
Others	73	86	207	202
	<u>73</u>	<u>536</u>	<u>3,815</u>	<u>3,715</u>
Deferred listing expense	–	–	15,544	21,301
Less: Non-current portion of other receivables and prepayments	(4,187)	(3,976)	(3,025)	(2,985)
	<u>1,188</u>	<u>1,298</u>	<u>16,876</u>	<u>22,430</u>

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## FINANCIAL INFORMATION

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### Other receivables

Our other receivables decreased from RMB5.3 million as at 31 December 2021 to RMB4.7 million as at 31 December 2022 mainly due to (i) the decrease in lease payments receivable; and (ii) the decrease in amount due from related parties. The amount due from related parties as at 31 December 2021 represented the amount due from our immediate holding company, which amounted to RMB0.4 million and was non-trade in nature, unsecured and interest free. Such amount had been fully settled in December 2022.

Our other receivables decreased from RMB4.7 million as at 31 December 2022 to RMB0.5 million as at 31 December 2023 mainly due to the significant decrease in lease payments receivable from RMB4.7 million as at 31 December 2022 to RMB0.6 million as at 31 December 2023, which was mainly due to the early termination of our lease for the Dabei Line Land.

Our other receivables remained relatively stable at RMB0.5 million as at 31 December 2023 and RMB0.4 million as at 30 June 2024.

### Prepayments

The increase in our prepayments during the Track Record Period was primarily due to (i) the increase of prepayments for property, plant and equipment from nil as at 31 December 2022 to RMB3.0 million as at 31 December 2023, of which RMB2.8 million was due from Xinyi Xinye as Xinyi Xinye will purchase certain machinery equipment for us in association with our relocation plan; and (ii) the increase of deferred listing expenses from nil as at 31 December 2022 to RMB15.5 million as at 31 December 2023 and our deferred listing expenses further increased to RMB21.3 million as at 30 June 2024.

### Trade Payables

Our trade payables primarily represent amounts payable to suppliers and subcontractors. The table below sets forth the details of our trade payables as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
Trade payables	105	738	612	492

## FINANCIAL INFORMATION

Our trade payables amounted to RMB0.1 million, RMB0.7 million, RMB0.6 million and RMB0.5 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. Our trade payable was comparatively lower as at 31 December 2021 was primarily due to our substantial settlement of trade payables to our subcontractors in late 2021. As at the Latest Practicable Date, RMB0.3 million or 64.4% of our outstanding trade payables as at 30 June 2024 had been subsequently settled.

The carrying amount of trade payables approximated as their fair value due to their short-term maturity in nature. The table below sets forth the aging of trade payables based on the date of the goods and services received as at the dates indicated.

	<b>As at 31 December</b>			<b>As at</b>
	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2024</b>
				<i>RMB'000</i>
Within 1 year	105	738	489	492
1 year to 2 years	–	–	123	–
	<u>105</u>	<u>738</u>	<u>612</u>	<u>492</u>

The following table sets forth our trade payables turnover days for the years/periods indicated.

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>6M2024</b>
Trade payables turnover days <sup>(1)</sup>	<u>14</u>	<u>18</u>	<u>21</u>	<u>15</u>

*Note:*

- (1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by cost of sales for the relevant year multiplied by 365 days for FY2021, FY2022 and FY2023. Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by cost of sales for the relevant period multiplied by 182 days for 6M2024.

During the Track Record Period, our trade payables turnover days remained relatively stable and we did not default on any trade payables.

## FINANCIAL INFORMATION

### Other Payables and Accruals

Our other payables and accruals primarily represent salaries and welfare payables, tax payables and accruals for listing expenses. As at 31 December 2021, 2022 and 2023 and 30 June 2024, we had other payables and accruals of RMB4.9 million, RMB4.8 million, RMB9.0 million and RMB9.1 million, respectively. The table below sets forth the details of our other payables and accruals as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and welfare payables	1,617	1,616	998	608
Tax payables	2,935	1,825	1,655	1,401
Accruals for listing expenses	–	–	5,661	6,029
Payables for property, plant and equipment	231	720	–	368
Other payables	70	625	656	677
	4,853	4,786	8,970	9,083
	4,853	4,786	8,970	9,083

Our other payables and accruals remained relatively stable as at 31 December 2021 and 31 December 2022. The increase of RMB4.2 million in our other payables and accruals from RMB4.8 million as at 31 December 2022 to RMB9.0 million as at 31 December 2023 was primarily attributable to listing expenses accrued during the year. Our other payables and accruals slightly increased from RMB9.0 million as at 31 December 2023 to RMB9.1 million as at 30 June 2024, which was primarily attributable to the listing expenses accrued during the period and partially offset by the decrease in tax payables.

### Current Income Tax Liabilities

Our current income tax liabilities decreased from RMB7.7 million as at 31 December 2021 to RMB2.0 million as at 31 December 2022 mainly due to a decrease in our profit chargeable to tax in FY2022. Our current income tax liabilities increased to RMB3.3 million as at 31 December 2023 mainly due to the increase in our profit chargeable to tax during the year and partially offset by the income tax paid in FY2023. Our current income tax liabilities decreased from RMB3.3 million as at 31 December 2023 to RMB1.0 million as at 30 June 2024 was a combined effect of our profit chargeable to tax in 6M2024 and the income tax paid in 6M2024.

## FINANCIAL INFORMATION

### Contract Liabilities

Our contract liabilities primarily represented cash received from customers in advance for which services are yet to be delivered. As at 31 December 2021, 2022 and 2023 and 30 June 2024, we had other contract liabilities of RMB0.8 million, RMB1.1 million, RMB1.4 million and RMB1.2 million, respectively. The table below sets forth the details of our contract liabilities as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2024</i> <i>RMB'000</i>
Testing services	729	1,060	1,394	1,232
Inspection services	21	–	–	–
	750	1,060	1,394	1,232
	750	1,060	1,394	1,232

Our contract liabilities increased from RMB0.7 million as at 31 December 2021 to RMB1.1 million as at 31 December 2022 primarily attributable to the increase in advance payment from customers of three residential property projects which we provided building structure testing service to in 2022. The increase as at 31 December 2023 from 31 December 2022 was primarily attributable to the increase in advance payment from construction material testing service customers. Our contract liabilities decreased from RMB1.4 million as at 31 December 2023 to RMB1.2 million as at 30 June 2024 primarily attributable to the decrease in advance payment from our foundation testing service customers.

### Net Assets

Our net assets increased from RMB67.0 million as at 31 December 2021 to RMB69.3 million as at 31 December 2022, representing an increase of 3.5%, primarily due to (i) the profit for the year of RMB2.9 million; (ii) the capital contribution from an equity holder of RMB1.3 million, and offset by (iii) the dividends paid to shareholders of RMB1.9 million. Our net assets further increased to RMB102.6 million as at 31 December 2023 as compared to that of RMB69.3 million as at 31 December 2022, due mainly to (i) the profit for the year of RMB13.3 million; and (ii) the capital contributions from Xinyi Xinhui to our Company of RMB20.0 million. Our net assets increased from RMB102.6 million as at 31 December 2023 to RMB109.9 million as at 30 June 2024, representing an increase of 7.2%, primarily due to the profit for the period of RMB7.3 million.

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## FINANCIAL INFORMATION

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### LIQUIDITY AND CAPITAL RESOURCES

Our business operations and expansion plans require a significant amount of capital, including (i) expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services; (ii) strengthening our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong; (iii) diversifying our testing and inspection services beyond construction engineering and expanding into areas including food and agricultural products, transportation, and fire protection; (iv) upgrading our ERP system; and (v) general working capital. Historically, we have financed our capital expenditures and working capital requirements mainly through cash generated from operations and capital contribution from shareholders.

#### Cash Flows

The following table sets forth a summary of our cash flows for the years/periods indicated.

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>	<b>6M2024</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in)				
operating activities	8,138	(1,848)	21,942	1,640
Net cash used in investing activities	(882)	(995)	(4,592)	(11,929)
Net cash (used in)/generated from				
financing activities	<u>(2,432)</u>	<u>(782)</u>	<u>9,574</u>	<u>(6,397)</u>
Net increase/(decrease) in cash and cash				
equivalents	4,824	(3,625)	26,924	(16,686)
Cash and cash equivalents at beginning of				
the year/period	<u>31,022</u>	<u>35,846</u>	<u>32,221</u>	<u>59,145</u>
Cash and cash equivalents at end of the				
year/period	<u><u>35,846</u></u>	<u><u>32,221</u></u>	<u><u>59,145</u></u>	<u><u>42,459</u></u>



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## FINANCIAL INFORMATION

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### *Net cash generated from/(used in) operating activities*

We derive our cash inflow from operating activities primarily through our service offerings. Cash outflow from operating activities primarily consists of payments for labour costs, direct material costs, subcontracting fee and other operating expenses. Our net cash flow generated from/(used in) operating activities reflects (i) cash generated from operations which is our profit before income tax, as adjusted for non-cash items, such as depreciation of property, plant and equipment, and the effects of changes in working capital items; (ii) the income tax paid; and (iii) interest received.

For 6M2024, we had net cash generated from operating activities of RMB1.6 million, primarily attributable to cash generated from operations of RMB6.6 million and interest received of RMB49,000, and partially offset by the payment of income tax of RMB5.0 million. The movement in working capital was mainly attributable to (i) the increase in contract fulfillment costs and inventory of RMB1.2 million; and (ii) the increase in trade receivables of RMB3.7 million.

For FY2023, we had net cash generated from operating activities of RMB21.9 million, primarily attributable to cash generated from operations of RMB25.4 million and interest received of RMB0.3 million, and partially offset by the payment of income tax of RMB3.8 million. The movement in working capital was mainly attributable to the decrease in trade receivables of RMB3.8 million mainly attributable to the substantial settlement of our trade receivables in FY2023 after the lifting of the COVID-19 restrictions, and partially offset by the increase in trade receivable associated with our revenue growth in FY2023.

For FY2022, we had net cash used in operating activities of RMB1.8 million, primarily attributable to cash generated from operations of RMB4.9 million and interest received of RMB0.1 million, fully offset by the payment of income tax of RMB6.8 million. The decrease in cash generated from operations compared with FY2021 was in line with the decrease in revenue and net profit in FY2022. The movement in working capital was mainly attributable to (i) increase in contract fulfillment cost of RMB1.0 million due to the increase in ongoing services provided by our Company as at 31 December 2022; (ii) increase in prepayments and other receivables of RMB0.8 million; and (iii) increase in trade payables of RMB0.6 million mainly attributable to amount due to our subcontractors.

For FY2021, we had net cash generated from operating activities of RMB8.1 million, primarily attributable to cash generated from operations of RMB13.1 million and interest received of RMB0.1 million, partially offset by the payment of income tax of RMB5.0 million. The movement in working capital was mainly attributable to (i) decrease in contract fulfillment costs of RMB0.4 million; (ii) increase in trade receivables of RMB13.8 million due to the increase in revenue in FY2021; and (iii) decrease in trade payables of RMB0.5 million mainly attributable to amount due to our subcontractors.

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## FINANCIAL INFORMATION

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### *Net cash used in investing activities*

Our net cash used in investing activities during the Track Record Period primarily represents cash paid for purchase of property, plant and equipment. Our net cash used in investing activities was RMB0.9 million, RMB1.0 million, RMB4.6 million and RMB11.9 million for FY2021, FY2022, FY2023 and 6M2024, respectively. The significant increase in 6M2024 was mainly attributable to the purchase of property, plant and equipment of RMB11.7 million. The significant increase in FY2023 was mainly due to the purchase of property, plant and equipment of RMB4.5 million.

### *Net cash generated from/(used in) financing activities*

In 6M2024, our net cash used in financing activities of RMB6.4 million was primarily due to payment of listing expenses to be deducted against equity of RMB6.2 million and principal elements and interest elements of lease payments of RMB0.2 million. In FY2023, our net cash generated from financing activities of RMB9.6 million was primarily due to proceeds of capital contribution from equity holders of RMB20.0 million, partially offset by payments of listing expenses to be deducted against equity of RMB10.0 million. In FY2022, our net cash used in financing activities of RMB0.8 million was primarily due to distribution of dividends of RMB1.9 million in 2022, partially offset by proceeds of capital contribution from equity holders of RMB1.3 million. In FY2021, our net cash used in financing activities of RMB2.4 million was primarily due to distribution of dividends of RMB1.9 million in 2021.

### **Capital Management**

The primary objectives of our capital management are to safeguard our ability to continue as a going concern, to maintain healthy capital ratios in order to support our business and maximize our Shareholders' value and to maintain an optimal capital structure to reduce the cost of capital. We manage and adjust our capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust our capital structure, we may adjust the amount of dividend paid to the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made to the objectives, policies or processes for managing capital during the Track Record Period.

## FINANCIAL INFORMATION

### Net Current Assets

The following table sets forth our current assets and current liabilities as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current assets</b>				
Contract fulfilment cost	820	2,053	1,390	2,440
Inventory	–	–	–	233
Trade and other receivables and prepayments	36,599	35,843	46,201	55,304
Cash and cash equivalents	35,846	32,221	59,145	42,459
<b>Total current assets</b>	<u>73,265</u>	<u>70,117</u>	<u>106,736</u>	<u>100,436</u>
<b>Current liabilities</b>				
Trade payables	105	738	612	492
Contract liabilities	750	1,060	1,394	1,232
Lease liabilities	391	693	508	1,483
Current income tax liabilities	7,652	2,016	3,267	994
Other payables and accruals	4,853	4,786	8,970	9,083
<b>Total current liabilities</b>	<u>13,751</u>	<u>9,293</u>	<u>14,751</u>	<u>13,284</u>
<b>Net current assets</b>	<u><u>59,514</u></u>	<u><u>60,824</u></u>	<u><u>91,985</u></u>	<u><u>87,152</u></u>

We generally maintained stable working capital position during the Track Record Period. Our net current assets were RMB59.5 million, RMB60.8 million, RMB92.0 million and RMB87.2 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

Our net current assets increased from RMB59.5 million as at 31 December 2021 to RMB60.8 million as at 31 December 2022, representing an increase of 2.2%. Such increase was primarily attributable to (i) a decrease in current liabilities as a result of a decrease in current income tax liabilities of RMB5.6 million; and (ii) an increase in contract fulfilment cost of RMB1.2 million, which was partially offset by (i) a decrease in cash and cash equivalents of RMB3.6 million; and (ii) a decrease in trade and other receivables and prepayments of RMB0.8 million during the year.

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## FINANCIAL INFORMATION

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Net current assets as at 31 December 2023 amounted to RMB92.0 million, representing an increase of 51.2% or RMB31.2 million from RMB60.8 million as at 31 December 2022. Such increase was mainly due to (i) an increase in trade and other receivables and prepayments of RMB10.4 million; and (ii) an increase in cash and cash equivalents of RMB26.9 million and partially offset by the increase in other payables and accruals of RMB4.2 million.

Net current assets decreased to RMB87.2 million as at 30 June 2024 as compared to that of RMB92.0 million as at 31 December 2023. Such decrease was mainly attributable to the combined effect of (i) the decrease in cash and cash equivalents of RMB16.7 million for the purpose of purchasing property, plant and equipment and paying income tax in 6M2024; (ii) an increase in trade and other receivables and prepayments of RMB9.1 million; and (iii) a decrease in current income tax liabilities of RMB2.3 million.

As at 30 June 2024, we had no present plan for dividend distribution, and therefore we believe that our liquidity risk would decrease following the Listing. Going forward, we intend to continue to enhance our liquidity risk management capabilities by matching closely the maturity profiles of our assets and liabilities.

### INDEBTEDNESS

The following table set forth the indebtedness information as at the dates indicated.

	As at 31 December			As at
	2021	2022	2023	30 June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
Lease liabilities	5,386	6,479	2,002	38,602

Except for our indebtedness as disclosed above, as at 30 June 2024, being the latest practicable date for determining our indebtedness, we did not have any bank and other loan, unutilised banking facilities, or any loan capital issued and outstanding or agreed to be issued, bank overdraft, borrowing or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since 30 June 2024 up to the date of this prospectus. Our Directors further confirm that our Company did not experience any difficulties in obtaining bank loan and other borrowing, default in payment of bank loan and other borrowing or breach of covenant during the Track Record Period and up to the Latest Practicable Date.

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## FINANCIAL INFORMATION

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### Working Capital

Taking into consideration of the financial resources presently available to us, including (i) the expected cash generated from our operations; (ii) existing cash and cash equivalents; and (iii) the estimated net proceeds from the Listing, our Directors are of the opinion that our Company has sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

### Capital Expenditures

Our capital expenditures during the Track Record Period primarily represented expenditures incurred in relation to additions of properties, plants and equipment and intangible assets. During the Track Record Period, we incurred capital expenditures of RMB1.5 million, RMB2.0 million, RMB0.8 million and RMB13.0 million, respectively. Our Directors estimated that our capital expenditure for the year ending 31 December 2024 would be RMB27.3 million. Such estimate represents the total capital expenditure that we expect to incur in the relevant period based on our existing business plans. We may adjust our business plans from time to time and the estimated total capital expenditure may also change.

### Capital Commitments

The table below sets forth the significant capital expenditure contracted for but not recognised as liabilities as at the dates indicated.

	As at 31 December			As at 30 June
	2021	2022	2023	2024
Property, plant and equipment	–	–	4,439	1,385

Capital commitment as at 31 December 2023 of RMB4.4 million was primarily related to the purchase of machinery equipment in association with our relocation plan. Capital commitment as at 30 June 2024 of RMB1.4 million was primarily related to the purchase of office equipment in association with our relocation plan and the purchase of machinery equipment for our business operation.

### Contingent liabilities

We did not have any significant contingent liabilities as at 31 December 2021, 2022 and 2023 and 30 June 2024.

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## FINANCIAL INFORMATION

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### DISTRIBUTABLE RESERVES

In accordance with the PRC Company Law, our Company is required to appropriate 10% of its profits after tax, as determined in accordance with relevant accounting principles generally accepted in the PRC and other applicable regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders of our Company. The statutory reserve can be used to offset losses carried forward from previous years, if any, and part of the statutory reserve can be capitalised as the company capital provided that the amount of the remaining balance of reserve after the capitalisation shall not be less than 25% of its capital.

As at 30 June 2024, our Company had reserves available for distribution to our shareholders in an aggregate amount of RMB1.2 million.

### OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

### KEY FINANCIAL RATIOS

	FY2021	FY2022	FY2023	6M2024
<b>Profitability ratios</b>				
Gross profit margin <sup>(1)</sup>	75.9%	57.6%	71.8%	70.8%
Net profit margin <sup>(2)</sup>	44.6%	14.6%	31.9%	32.2%
Return on equity <sup>(3)</sup>	26.5%	4.2%	12.9%	13.4% <sup>(5)</sup>
Return on total assets <sup>(4)</sup>	20.7%	3.4%	11.2%	9.2% <sup>(6)</sup>
<b>Liquidity ratios</b>				
Current ratio <sup>(7)</sup>	5.3 times	7.5 times	7.2 times	7.6 times

*Notes:*

- (1) The calculation of gross profit margin is based on gross profit for the year/period divided by revenue for the respective year/period and multiplied by 100.0%.
- (2) The calculation of net profit margin is based on profit for the year/period divided by revenue for the respective year/period and multiplied by 100.0%.
- (3) The calculation of return on equity for FY2021, FY2022 and FY2023 is based on profit for the year divided by equity attributable to owners of our Company and multiplied by 100.0%.
- (4) The calculation of return on total assets for FY2021, FY2022 and FY2023 is based on profit for the year divided by total assets and multiplied by 100.0%.
- (5) The calculation of return on equity for 6M2024 is based on the annualised profit for the period (ie. profit for the period divided by 182 days and multiplied by 366 days) divided by equity attributable to owners of our Company and multiplied by 100.0%.

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## FINANCIAL INFORMATION

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- (6) The calculation of return in total assets for 6M2024 is based on the annualised profit for the period (i.e. profit for the period divided by 182 days and multiplied by 366 days) divided by total assets and multiplied by 100.0%.
- (7) The calculation of current ratio is based on current assets divided by current liabilities and multiplied by 100.0%.

### **Gross Profit Margin**

See “– Results of Operations” in this section for a discussion of the factors affecting our gross profit margin during the Track Record Period.

### **Net Profit Margin**

Our net profit margin was 44.6%, 14.6%, 31.9% and 32.2% for FY2021, FY2022, FY2023 and 6M2024, respectively. Our net profit margin was affected primarily by the same factors affecting our gross profit margin during the Track Record Period. See “– Results of Operations” in this section.

### **Return on Equity**

Our return on equity decreased from 26.5% in FY2021 to 4.2% in FY2022 primarily due to a significant decrease in net profit in FY2022. Our return on equity increased from 4.2% in FY2022 to 12.9% in FY2023 primarily due to the increase in net profit and partially offset by the capital contribution from an equity holder in FY2023. Our return on equity remained relatively stable at 12.9% in FY2023 and 13.4% in 6M2024.

### **Return on Total Assets**

Our return on total assets from 20.7% in FY2021 decreased to 3.4% in FY2022 primarily due to a significant decrease in net profit in FY2022. Our return on total assets increased from 3.4% in FY2022 to 11.2% in FY2023 primarily due to the increase in net profit and partially offset by the increase in trade and other receivables and prepayments and cash and cash equivalents and partially offset by the increase in other payables and accruals in FY2023. Our return on total assets decreased from 11.2% in FY2023 to 9.2% in 6M2024 primarily due to the increase in property, plant and equipment and right-of-use assets, which was attributable to our lease for New Building in 6M2024.

### **Current Ratio**

We generally maintained stable working capital position during the Track Record Period. The increase in our current ratio during the Track Record Period was primarily due to a general increase in our current assets.

## FINANCIAL INFORMATION

### MATERIAL RELATED PARTY TRANSACTIONS

The following table sets forth our significant transactions with related parties during the Track Record Period.

	FY2021	FY2022	FY2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Addition of right-of-use assets				
– Xinyi City Bureau of Housing and Urban-Rural				
Development	1,048	1,421	–	–
– Xinyi Xinye <sup>Note</sup>	–	–	–	36,304
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Interest expenses on lease liabilities				
– Xinyi City Bureau of Housing and Urban-Rural				
Development	36	86	96	42
– Xinyi Xinye	–	–	–	447
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Interest income on other receivables				
– Xinyi Xinye	–	–	258	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Provision of services				
– Xinyi City CEQS Center	–*	–	85	43
– PRC government administrative bureaus and entities controlled by the PRC Government	2,305	8,550	15,600	9,753
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>2,305</u>	<u>8,550</u>	<u>15,685</u>	<u>9,796</u>

\* represents that the amount is less than RMB1,000 for respective year.

*Note:* Addition of right-of-use assets is recognised at the date at which the lease assets, being the New Building, are available for use by our Company and such amount represents the net present value of fixed lease payments throughout the entire lease term.



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## FINANCIAL INFORMATION

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We entered into a lease agreement with Xinyi City Bureau of Housing and Urban-Rural Development to lease office premises. The monthly rents payable by our Company are determined with reference to the prevailing market prices. In April 2024, we entered into a lease agreement with Xinyi Xinye to lease the New Building with a lease term of 20 years from April 2024. The New Building will be used for offices and laboratories. We provided testing services to our Controlling Shareholder. In FY2021, FY2022, FY2023 and 6M2024, the transaction amounts were RMB200, nil, RMB85,000 and RMB43,000. During the Track Record Period, we also provided testing and inspection services with the aggregated transaction amounts of RMB2.3 million, RMB8.6 million, RMB15.6 million and RMB9.8 million to certain PRC government administrative bureaus and entities controlled by the PRC Government which transaction amounts with our Company are individually significant. Two loans with principal amounts of RMB3.75 million and RMB4.1 million were granted to Xinyi Xinye in January 2023 and March 2023, respectively. The loans are unsecured and bearing interest of 4.35% per annum. The loan interest for FY2023 amounted to RMB258,000. In December 2023, the loans and interest were fully repaid.

In addition to the significant transactions disclosed above, the other individually insignificant transactions with PRC government administrative bureaus and entities controlled by the PRC Government accounted for 12.8%, 1.8%, 6.8% and 5.3% of the total revenue of our Company in FY2021, FY2022, FY2023 and 6M2024, respectively.

For further details of our related party transactions, see Note 27 to the Accountant's Report in Appendix I to this prospectus. Our Directors confirm that these related party transactions were conducted on normal commercial terms that are considered fair and reasonable and in the interest of our Shareholders as a whole, and would not distort our results of operations during the Track Record Period or make our historical results not reflective of our future performance.

### FINANCIAL RISKS

Our financial instruments comprise trade receivables, cash and cash equivalents, other receivables, trade payables and other payables. Our trade receivables and trade payables are financial assets and liabilities arising directly from our business operations.

We are exposed to various types of financial risks in the ordinary course of business, primarily including credit risk and liquidity risk. For further details of our financial risk management, see Note 3 to the Accountant's Report in Appendix I to this prospectus.

#### Credit Risk

We are exposed to credit risk in relation to our trade receivables, other receivables and cash and cash equivalents. The carrying amounts of trade receivables, other receivables and cash and cash equivalents represent our maximum exposure to credit risk in relation to financial assets. To manage this risk, cash at banks is placed with highly reputable financial institutions in the PRC.

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## FINANCIAL INFORMATION

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For trade receivables and other receivables, our management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced. The quantitative data of our exposure to credit risk arising from trade receivables, other receivables and cash and cash equivalents are disclosed in Note 3 to the Accountant's Report in Appendix I to this prospectus.

### Liquidity Risk

Our primary cash requirements are for additions and upgrades to property, plant and equipment, payments for purchases and operating expenses and unexpected cash outflow due to the COVID-19 pandemic or other unforeseen crisis. We finance our working capital requirements through funds generated from its operations. To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. We expect to fund our future cash flow needs through internally generated cash flows from operations and available sources of financing.

### LISTING EXPENSES

The listing expenses in connection with the Share Offer are expected to be HK\$42.3 million (equivalent to RMB38.8 million), representing 43.7% of the gross proceeds from the Share Offer (based on the mid-point of the indicative Offer Price range of HK\$9.5 per Share Offer and assuming the Offer Size Adjustment Option is not exercised). During the Track Record Period, we incurred listing expenses of RMB24.0 million, of which RMB2.7 million was charged to our statements of comprehensive income during the Track Record Period, while the remaining amount of RMB21.3 million was directly attributable to the issuance of H Shares and will be deducted from our equity upon the completion of the Share Offer. We expect to further incur listing expenses of RMB14.8 million upon the completion of the Share Offer, out of which RMB1.9 million will be charged to the statements of comprehensive income, and RMB12.9 million, that is directly attributable to the issuance of H Shares and will be deducted from our equity.

The total listing expenses consist primarily of professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Share Offer which are non-underwriting related expenses, including (i) fees and expenses of legal advisers and accountants of HK\$17.1 million (equivalent to RMB15.7 million); (ii) fee and expenses of HK\$4.7 million (equivalent to RMB4.3 million) for engaging Logosage Equity Investment Management Co., Ltd. (the "IPO Consultant")<sup>(1)</sup> to provide support services<sup>(2)</sup>; and (iii) the other fees and expenses of HK\$14.4 million (equivalent to RMB13.2 million), and underwriting related expenses (including SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy) of HK\$6.1 million (equivalent to RMB5.6 million), mainly payable to the Underwriters in connection with the offering of H Shares under the Share Offer.

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## FINANCIAL INFORMATION

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*Notes:*

1. The IPO Consultant which is an Independent Third Party is a limited liability company established in the PRC. It is a registered asset management company of the Asset Management Association of China which is principally engaged in management of private equity investment fund, equity investment, investment advisory, corporate management consulting and investment advisory services in the PRC.

From 2022 to 2023, the IPO Consultant was engaged as the investment adviser of the Xinyi City People's Government to assist with the restructuring of and provide strategic advisory services to certain state-owned companies in Xinyi City (including our Company and Xinyi Xinye). Recognizing the potential of our Company for going public, the IPO Consultant advised our Directors to take our Company public and entered into an exclusive capital and management consultancy service agreement with our Company in August 2022. For details, see “– Statements of Comprehensive Income – General and Administrative Expenses – Professional fees” in this section.

2. In August 2023, our Directors and the IPO Consultant entered into the Internal Work Implementation Support Service Agreement, pursuant to which the IPO Consultant shall provide support services to our Company in relation to our listing application, including but not limited to devising an internal implementation plan for the listing application, assisting in identifying and engagement of suitable and qualified professional parties, coordinating between our Company and professional parties, and assisting our Company in gathering internal documents and information requested by the professional parties from time to time. The service period is from 24 August 2023 to 8 August 2024 and the service fee is RMB4.3 million which is recognised as part of our listing expenses.

### **DIVIDEND AND DIVIDEND POLICY**

Dividend distribution to our shareholders is recognised as a liability in our financial statements in the period in which the dividends are approved by our shareholders and/or directors, where appropriate. In May 2021 and September 2021, cash dividends of RMB1.9 million in total were declared and paid for the year ended 31 December 2020. In March 2022, a cash dividend of RMB1.9 million was declared and paid for the year ended 31 December 2021.

According to our dividend policy adopted in August 2024, distribution of dividends shall be formulated by our Board and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will be made when our Company achieves annual profit and at the discretion of our Directors and will depend upon, among others, our business conditions and strategies, capital requirements and expenditure plans, financial results, future operations and earnings, characteristics of the industry, the stage of development, and any restrictions on payment of dividends, and other factors that our Directors may consider relevant. Provided that the working capital of our Company can be healthily maintained, the general principle shall be to distribute profits to our shareholders on an annual basis, wherein the payout ratio shall be no less than 20% of the current year's after-tax distributable profits. We will continue to evaluate our dividend policy in light of our financial condition and the prevailing economic environment. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

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## **FINANCIAL INFORMATION**

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### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

See Appendix II in this prospectus for further details.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this prospectus there has been no material adverse change in our financial, operational or trading position since 30 June 2024.

### **DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES**

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 17.15 to 17.21 of the GEM Listing Rules.

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

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### **BUSINESS OBJECTIVES AND STRATEGIES**

Our long-term objective is to become one of the leading testing and inspection service providers in Western Guangdong, utilising our experience and expertise in construction engineering testing and inspection service to expand our business to other testing and inspection fields in China.

See “Business – Business strategies” in this prospectus for details of our business objectives and strategies.

### **REASONS FOR THE SHARE OFFER**

We believe that the estimated net proceeds from the Share Offer (assuming an Offer Price of HK\$9.5 per Offer Share, being the mid-point of the indicative range of the Offer Price after deduction of underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Offer Size Adjustment Option is not exercised) of HK\$54.4 million (equivalent to RMB50.0 million) will enable us to implement our business objectives and strategies, strengthen our position in the testing and inspection market in the PRC, and benefit our Company and its shareholders as discussed below:

#### **(1) Funding for business expansion**

The market of independent testing and inspection companies in the Western Guangdong is fragmented. According to the CIC Report, these companies are mainly localised small and micro-sized enterprises operating within limited geographic areas, contributing to a distinct fragmentation trend. The top five players held a 9.4% market share of revenue from these services in 2023.

To maintain our competitive edge and as part of our expansion plan, over the next three years, we intend to obtain all nine Specialised Qualifications and ultimately to achieve the Comprehensive Qualification status under the Qualification Standards of Construction Engineering Quality Inspection Agencies.

We also intend to strengthen our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong.

At the same time, we also intend to diversify our testing and inspection services beyond construction engineering and expanding into areas, including transportation, food and agricultural, and fire protection.

We will need additional funding to execute our expansion plan. Our Directors believe that the Share Offer will be a suitable means to strengthen our capital base and raise additional fund to support our long-term future growth without incurring additional financing cost.

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## FUTURE PLANS AND USE OF PROCEEDS

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In view of the needs of additional funding to execute our expansion plan, our Directors remain open to the idea of debt financing and it does not consider debt financing and equity financing to be mutually exclusive. However, our Directors decided to proceed with the Share Offer for the purpose of our business expansion instead of debt financing based on the following factors:

- (i) Financial institutions generally require debtor to provide assets as securities for long-term loans. As our fixed assets amounted to RMB15.9 million as at 30 June 2024, which mainly comprise our services equipment amounting to RMB14.3 million, our Directors are of the view that our assets structure provide limited capacity for the long-term loan.
- (ii) If we raise additional funds by debt financing, we may be subject to various covenants under the relevant debt instruments which may restrict our ability to pay dividends or obtain additional financing. Further, the repayment terms of such loans, including but not limited to the covenants and interest rates, may not be commercially acceptable to us. Uncertain interest rate movement in the future may also expose our Company to increasing borrowing costs which may adversely affect our financial performance and liquidity.
- (iii) Servicing debt obligations could be burdensome to our operations. If we fail to service such debt obligations on time or we are unable to comply with any of the covenants, we could be in default of such debt obligations and our liquidity, financial credibility and financial condition could be materially and adversely affected. In contrast, by proceeding with equity financing, our Company could enlarge our shareholders' base and no additional financial liability will be incurred.

### **(2) Enhancing corporate profile**

Following the Listing, we believe that we will gain greater bargaining power in negotiating terms with our business partners (such as customers, suppliers and subcontractors). In addition, we consider that the Listing will enhance our corporate profile, market reputation and brand awareness which will strengthen our customers' confidence in our Company and in turn boost our business.

Our Directors believe that customers may prefer to conduct business with a listed company in Hong Kong given its reputation, listing status, public financial disclosures and general regulatory supervision by relevant regulatory bodies. Our services will also be better known to attract new potential customers.

Therefore, our Directors are of the view that the listing status will give us a competitive edge over our competitors.

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

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### **(3) Platform for future fund raising**

The Listing will offer us a platform to access to capital markets for future secondary fund raising through the issuance of shares, which could offer lower financing cost as opposed to interest-bearing bank loans. The listing status may also help us to negotiation for better financing terms. This will also provide additional funding flexibility to cater for our future financing needs and expansion plans (other than those future plans stated in this prospectus).

### **(4) Talent retention and recruitment**

Key managerial and professional personnel is the essential component for our business operation and achieve our business strategy. Our Directors are of the view that a public listing status allows us to retain our existing staff and attract talent more easily. Our Directors consider that we will become more appealing to talents within and outside Maoming by becoming publicly listed on the Hong Kong Stock Exchange. Access to a larger pool of talents will improve our service quality and facilitate our recruitment of additional manpower under our expansion plans. In addition, the status of being a listed company will also facilitate our in-house talent management, through staff retention and development, whereby our existing staff may be motivated to further develop their career with us in view of the perceive status associated with working for a company listed on the Stock Exchange.

## **USE OF PROCEEDS**

Based on the Offer Price of HK\$9.5 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$8.6 to HK\$10.4 per Offer Share (assuming that the Offer Size Adjustment Option is not exercised), we will receive gross proceeds of HK\$96.7 million (equivalent to RMB88.7 million).

The net proceeds from the Share Offer are estimated to be HK\$54.4 million (equivalent to RMB50.0 million), after deducting the underwriting commission and other estimated listing expenses in the aggregate amount of HK\$42.3 million paid and payable by our Company in relation to the Share Offer.

We intend to apply such net proceeds from the Share Offer (based on the Offer Price of HK\$9.5, the mid-point of the Offer Price range) (assuming that the Offer Size Adjustment Option is not exercised) for the following purposes.

## FUTURE PLANS AND USE OF PROCEEDS

	From the Listing Date to end of 2H2024		1H2025		2H2025		1H2026		2H2026		Total		% of net proceeds from the Share Offer
	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000	RMB'000	HK\$'000	%
	Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services	957.8	1,043.0	6,341.2	6,905.4	1,978.4	2,154.4	3,372.8	3,672.9	1,078.7	1,174.6	13,728.9	14,950.3
Strengthening our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong.	-	-	-	-	8,265.7	9,001.1	5,315.5	5,788.4	287.2	312.8	13,868.4	15,102.3	27.7
Diversifying our testing and inspection services beyond construction engineering and expanding into areas including food and agricultural, transportation and fire protection.	1,324.3	1,442.1	64.7	70.5	28.9	31.5	-	-	17,249.1	18,783.8	18,667.0	20,327.9	37.4
Upgrading our ERP system	1,377.6	1,500.2	1,377.6	1,500.2	-	-	-	-	-	-	2,755.2	3,000.4	5.5
General working capital	234.1	254.9	234.1	254.9	234.1	254.9	234.1	254.9	-	-	936.3	1,019.6	1.9
	<u>3,893.8</u>	<u>4,240.2</u>	<u>8,017.6</u>	<u>8,731.0</u>	<u>10,507.1</u>	<u>11,441.9</u>	<u>8,922.4</u>	<u>9,716.2</u>	<u>18,615.0</u>	<u>20,271.2</u>	<u>49,955.9</u>	<u>54,400.5</u>	<u>100.0</u>

If the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Share Offer will increase or decrease by HK\$8.6 million (equivalent to RMB9.4 million). The net proceeds are intended to be used in approximately the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range.

The net proceeds that we would receive if the Offer Size Adjustment Option is exercised in full (assuming the Offer Price of HK\$10.4 per Share (being the highest point of the indicative Offer Price range)) are estimated to be HK\$77.9 million (equivalent to RMB84.8 million). The additional net proceeds would be allocated on a pro rata basis in accordance with the proposed allocations set out above.

To the extent that the net proceeds from the Share Offer are not immediately applied for the above purposes and to the extent permitted by applicable law and regulations, it is the present intention of our Directors that such net proceeds will be placed on short-term interest-bearing accounts at licensed commercial banks and/or other authorised financial institutions as defined under the SFO or applicable laws and regulations in other jurisdictions.



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## FUTURE PLANS AND USE OF PROCEEDS

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The use of proceeds described above may change in light of our evolving business development and/or material changes in circumstances such as changes in government policies or force majeure. In the event that any of our plans does not proceed or any material modification to the use of proceeds as described above is needed, our Directors will carefully evaluate the situation and may reallocate such funds for other purposes. In this connection, our Company will issue an announcement and make disclosure in its annual report for the relevant year as required by the GEM Listing Rules.

### IMPLEMENTATION PLANS

In the pursuance of our business objectives, we will adopt the implementation plans set forth below for each of the six months periods from the Listing Date until 31 December 2026.

Investors should note that the following implementation plans are formulated on the bases and assumptions referred to “– Bases and Assumptions” in this section below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in “Risk Factors” in this prospectus.

**(1) Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services**

As part of our expansion plan, we intend to obtain all nine Specialised Qualifications, and ultimately to achieve the Comprehensive Qualification status under the Qualification Standards of Construction Engineering Quality Inspection Agencies. In order to obtain the Specialised Qualifications and the Comprehensive Qualification, we are required to, among others, (i) possess the equipment and capability to conduct tests and inspections in respect of all the necessary testing parameters prescribed in the Qualification Standards of Construction Engineering Quality Inspection Agencies for relevant Specialised Qualifications; and (ii) maintain a minimum number of technical personnel with specific qualifications. As such, we will apply the proceeds to acquire relevant testing equipment and hire technical personnel, details of which are set out in the paragraphs below.

In view of the following factors, neither our Directors nor our PRC Legal Advisers foresaw difficulties in obtaining the Specialised Qualifications of (i) building materials and components; (ii) main structure and decoration; (iii) foundation; (iv) building energy-saving; (v) municipal engineering materials; and (vi) road works, fulfilling the application requirements and meeting the above-mentioned transition deadline: (a) our Company has reviewed and examined the relevant qualification requirements for the six Specialised Qualifications under the 2023 Administrative Measures and the Qualification Standards of Construction Engineering Quality Inspection Agencies, and found that save for the shortage of a small number of required testing equipment, we have fulfilled all other requirements of

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## FUTURE PLANS AND USE OF PROCEEDS

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the six Specialised Qualifications. We intend to have the testing equipment acquired before making application for the relevant qualification certificates; and (b) during an interview conducted by our PRC Legal Advisers and the PRC legal advisers of the Joint Sponsors on 12 April 2024 with Maoming City Bureau of Housing and Urban-Rural Development, which is the administrative governmental authority responsible for the qualification application review work for Specialised Qualifications of our Company under the draft implementation rules of Guangdong Province regarding the new qualification standards of construction engineering quality inspection agencies circulated in December 2023 for public comment and not yet promulgated, after reviewing our Company's evaluation of the fulfilment of relevant qualification requirements for the six Specialised Qualifications and in consideration of the relevant qualification standards, the responsible officer of the bureau is of the view that there is no impediment for our Company to acquire the six Specialised Qualifications.

We expected that the total costs for obtaining all nine Specialised Qualifications and the Comprehensive Qualification status will be approximately RMB22.9 million (equivalent to HK\$24.9 million), of which RMB13.7 million (equivalent to HK\$15.0 million) will be funded by the proceed of the Share Offer. In particular, we will apply a total of RMB5.8 million (equivalent to HK\$6.3 million) to obtain three other Specialised Qualifications by end of 2027, namely (i) steel structure; (ii) building curtain wall; and (iii) bridge and underground works, of which RMB2.6 million (equivalent to HK\$2.8 million) will be funded by the proceeds of the Share Offer and RMB3.2 million (equivalent to HK\$3.5 million) will be funded by the internal resources of our Company.

See “Business – Business Strategies – Expanding our construction engineering testing services to achieve Comprehensive Qualification under the Qualification Standards of Construction Engineering Quality Inspection Agencies and strengthen our existing construction engineering testing and inspection services.” in this prospectus for details of our plan to achieve Comprehensive Qualifications and “Regulatory Overview – Laws and Regulations Relating to the Testing and Inspection of Construction Engineering – Qualifications” in this prospectus for details of requirements for obtaining Comprehensive Qualification and Specialised Qualifications status.

## FUTURE PLANS AND USE OF PROCEEDS

(i) *Acquiring the Specialised Qualification – Steel structure*

We will apply RMB1.6 million (equivalent to HK\$1.7 million) to acquire testing equipment and employ 15 additional technical personnel, of which RMB0.9 million (equivalent to HK\$1.0 million) will be funded by the proceeds from the Share Offer and RMB0.7 million (equivalent to HK\$0.7 million) will be funded by internal resources of our Company. Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	Acquire testing equipment ( <i>Note 1</i> )	89.9	97.9
	Employ 10 additional technical personnel with the required professional qualifications ( <i>Note 2</i> )	330.6	360.0
1H2025	Payment of staff cost of the 10 additional technical personnel ( <i>Note 2</i> )	165.3	180.0
2H2025	–	–	–
1H2026	Acquire testing equipment ( <i>Note 1</i> )	89.9	97.9
2H2026	Employ 5 additional technical personnel with the required professional qualifications ( <i>Note 2</i> )	248.0	270.0
	<b>Total</b>	<b>923.7</b>	<b>1,005.9</b>

*Notes:*

1. Approximately RMB0.2 million (equivalent to HK\$0.2 million) will be used to acquire testing equipment for satisfying the equipment requirement for obtaining the Specialised Qualification by the end of 2024. The particulars of the testing equipment to be acquired are as follows:
  - (a) a digital ultrasonic defect detector (數字超聲探傷儀) for detection of internal defects which meet the requirements of the Standard for Acceptance of Construction Quality of Steel Structures (《鋼結構工程施工質量驗收標準》) GB 50205-2020, the Non-destructive Testing of Welds – Ultrasonic Testing – Techniques, Testing Levels and Assessment (《焊縫無損檢測 超聲檢測 技術、檢測等級和評定》) GB/T 11345-2013, the Non-destructive Testing of Welds – Ultrasonic Testing – Techniques, the Non-destructive Testing of Welds – Ultrasonic Testing – Acceptance Levels (《焊縫無損檢測 超聲檢測 驗收等級》) GB/T 29712-2013 and the Method for Ultrasonic Testing and Classification for Steel Structures (《鋼結構超聲波探傷及質量分級法》) JG/T 203-2007;
  - (b) a magnetic particle defect detector (磁粉探傷儀) for detection of surface cracks which meet the requirements of Non-destructive Testing of Welds – Magnetic Particle Testing (《焊縫無損檢測 磁粉檢測》) GB/T 26951-2011, the Non-destructive Testing of Welds – Magnetic Particle Testing of Welds – Acceptance Levels (《焊縫無損檢測 焊縫磁粉檢測 驗收等級》) GB/T 26952-2011 and Non-destructive Testing of Welds – Penetrant Testing of Welds – Acceptance Levels (《焊縫無損檢測 焊縫滲透檢測 驗收等級》) GB/T 26953-2011;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (c) a coating thickness gauge (塗層測厚儀) and a needle thickness gauge (針式測厚儀) for measurement of coating thickness which meets the requirements of the Technical Standard for In-site Testing of Steel Structure (《鋼結構現場檢測技術標準》) GB/T 50621-2010, the Non-magnetic Coatings on Magnetic Substrates – Measurement of Coating Thickness – Magnetic Method (《磁性基體上非磁性覆蓋層 覆蓋層厚度測量 磁性法》) GB/T 4956, the Thermal Spraying Coating – Non-destructive Methods for Measurement of Thickness (《熱噴塗塗層厚度的無損測量方法》) GB/T 11374-2012 and the Code for Acceptance of Construction Quality of Steel Structures (《鋼結構工程施工質量驗收標準》) GB 50205-2001;
  - (d) an universal hardness tester (布洛維硬度計) for measurement of hardness of the metallic materials and sealant which meets the requirements of the Metallic Materials – Brinell Hardness Test – Part 1: Test Method (《金屬材料 布氏硬度試驗 第1部分：試驗方法》) GB/T 231.1-2018, the Metallic Materials – Rockwell Hardness Test – Part 1: Test Method (《金屬材料 洛氏硬度試驗 第1部分：試驗方法》) GB/T 230.1-2018 and the Metallic Materials – Vickers Hardness Test – Part 1: Test Method (《金屬材料 維氏硬度試驗 第1部分：試驗方法》) GB/T 4340.1-2009; and
  - (e) an anti-slip rating measuring instrument (抗滑移係數測定儀) for measurement of slip resistance which meets the requirements of the Determination of Anti-Slip Coefficient at Bolted Connect Steel Plates' Surfaces (《鋼板栓接面抗滑移係數的測定》) GB/T 34478-2017 and the Code for Acceptance of Construction Quality of Steel Structures (《鋼結構工程施工質量驗收標準》) GB 50205-2001.
2. Approximately RMB0.7 million (equivalent to HK\$0.8 million) will be used to employ 15 additional technical personnel who obtained (i) an undergraduate degree or above in engineering; and (ii) a Special Equipment Testing and Inspection Personnel Qualification and Certification in Non-destructive Testing (特種設備檢驗檢測人員證(無損檢測)). Specifically, we plan to hire:
- (a) nine technical personnel who preferably has prior work experience in quality inspection in steel structure. The monthly salary of each of them will be in a range of RMB9,000 to RMB10,000 (equivalent to HK\$9,800 to HK\$10,900);
  - (b) four engineers who hold an intermediate professional title and has no less than three years of work experience in quality inspection in steel structure. The monthly salary of each of them will be in a range of RMB12,000 to RMB14,000 (equivalent to HK\$13,100 to HK\$15,200); and
  - (c) two engineers who hold a senior professional title and has no less than three years of work experience in quality inspection. The monthly salary of each of them will be in a range of RMB18,000 to RMB25,000 (equivalent to HK\$19,600 to HK\$27,200).

Of the 15 additional technical personnel to be hired, nine technical personnel will be hired to support business expansion and six engineers will be hired to satisfy the personnel requirement for obtaining the Comprehensive Qualification.

## FUTURE PLANS AND USE OF PROCEEDS

### (ii) *Acquiring the Specialised Qualification – Building curtain wall*

We will apply approximately RMB1.7 million (equivalent to HK\$1.8 million) to acquire testing equipment and employ nine additional inspection personnel to support the business expansion, of which RMB0.3 million (equivalent to HK\$0.3 million) will be funded by the proceeds from the Share Offer and RMB1.4 million (equivalent to HK\$1.5 million) will be funded by the internal resources of our Company. Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	–	–	–
1H2025	Employ 3 additional inspection personnel with the required professional qualifications ( <i>Note</i> )	86.8	94.5
2H2025	–	–	–
1H2026	Employ 3 additional inspection personnel with the required professional qualifications ( <i>Note</i> )	86.8	94.5
2H2026	Employ 3 additional inspection personnel with the required professional qualifications ( <i>Note</i> )	86.8	94.5
	<b>Total</b>	<b>260.4</b>	<b>283.5</b>

*Note:* Nine inspection personnel will be employed who (i) obtained an undergraduate degree or above in engineering; (ii) possessed a Training Qualification Certificate of Engineering Test and Appraisal (檢測鑒定培訓合格證) issued by Guangdong Construction Quality Security Test and Appraisal Association (廣東省建設工程質量安全檢測和鑒定協會); and (iii) preferably have work experience in quality inspection. The monthly salary of each of them will be in the range from RMB7,000 to RMB10,000 (equivalent to HK\$7,600 to HK\$10,900).

## FUTURE PLANS AND USE OF PROCEEDS

### (iii) *Acquiring the Specialised Qualification – Bridge and underground works*

We will apply approximately RMB2.4 million (equivalent to HK\$2.6 million) to acquire testing equipment and hire 10 intermediate or senior engineers, of which RMB1.4 million (equivalent to HK\$1.5 million) will be funded by the proceeds from the Share Offer and RMB1.0 million (equivalent to HK\$1.1 million) will be funded by internal resources of our Company. Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	–	–	–
1H2025	–	–	–
2H2025	Acquire testing equipment ( <i>Note 1</i> )	924.5	1,006.8
	Employ 5 additional intermediate or senior engineers with the required professional qualifications ( <i>Note 2</i> )	248.0	270.0
1H2026	–	–	–
2H2026	Employ 5 additional intermediate or senior engineers with the required professional qualifications ( <i>Note 2</i> )	248.0	270.0
	<b>Total</b>	<b>1,420.5</b>	<b>1,546.8</b>

*Notes:*

1. Approximately RMB0.9 million (equivalent to HK\$1.0 million) will be used to acquire testing equipment. Specifically, we plan to use:
  - (a) approximately RMB0.5 million (equivalent to HK\$0.5 million) to acquire testing equipment for bridges engineering testing and inspection services, including but not limited to:
    - (i) a static strain measuring and capture device (靜態應變測量與採集設備), a resistance strain gauge (電阻應變計) and a vibrating string extensometer (振弦式應變計) for measurement of static strain and static deflection, which meets the requirements for (i) the static load testing and dynamic load testing of the Technical Standard for Inspection of Urban Bridges (《城市橋樑檢測技術標準》) DBJ/T 15-87-2022;
    - (ii) a static dynamic signal testing system (動靜態信號測試系統) for measurement of dynamic strain and dynamic deflection which meets the requirements of the Technical Standard for Inspection of Urban Bridges (《城市橋樑檢測技術標準》) DBJ/T 15-87-2022;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iii) a displacement sensor and data collection system (位移計數據採集系統) and an inclinometer (傾角計) for measurement of displacement which meets the requirements of static load testing and self-vibration characteristic testing of the Specifications for Load Test Methods for Highway Bridge (《公路橋樑荷載試驗規程》) JTG/T J21-01-2015;
  - (iv) a multi-function vibration testing system (振動信號採集與分析設備) and a vibration transducers (測振傳感器) for measurement of modal parameters which meets the requirements of the Specifications for Inspection and Evaluation of Load-bearing Capacity of Highway Bridges (《公路橋樑承載能力檢測評定規程》) JTG/T J21-2011; and
  - (v) a bridge structure analysis software (橋樑結構計算分析軟件) and a static dynamic signal testing system (動靜態信號測試系統) for assessing a pavement's capability of handling traffic loading which meets the requirements of the Specification for Inspection and Evaluation of Load-bearing Capacity of Highway Bridges (《公路橋樑承載能力檢測評定規程》) JTG/T J21-2011, the static load testing and self-vibration characteristic testing of the Specifications for Load Test Methods for Highway Bridge (《公路橋樑荷載試驗規程》) JTG/T J21-01-2015 and the Technical Standard for Inspection of Urban Bridges (《城市橋樑檢測技術標準》) DBJ/T 15-87-2022; and
- (b) approximately RMB0.5 million (equivalent to HK\$0.5 million) to acquire testing equipment for undergrounds engineering testing and inspection services, including but not limited to:
- (i) a ground-penetrating radar (地質雷達) for measurement of surface evenness, and thickness and compactness of lining which meets the requirements of the TB 10223-2004 Code for Undestructive Defecting of Railway Tunnel Lining (《鐵路隧道襯砌質量無損檢測規程》); and
  - (ii) a non-destructive anchor measuring instrument (錨杆無損檢測儀) for measurement of pull-out strength, length and compactness of the anchor installations evenness which meets the requirements of the JGJ/T 182-2009 Technical Specification for Non-destructive Testing of Rock Bolt System (《錨桿錨固質量無損檢測技術規程》).
2. Approximately RMB0.5 million (equivalent to HK\$0.5 million) will be used to employ 10 additional engineers who: (i) obtained an undergraduate degree or above in engineering; (ii) are qualified to conduct testing and inspections on bridges and undergrounds in the PRC; and (c) has more than three years, experience in quality inspection. Specifically, we plan to hire:
- (a) nine engineers who hold an intermediate or senior professional title. The monthly salary of each of them will be in a range from RMB10,000 to RMB12,000 (equivalent to HK\$10,900 to HK\$13,100); and
  - (b) one registered structural engineer Grade I. The monthly salary of each of them will be in a range from RMB15,000 to RMB30,000 (equivalent to HK\$16,300 to HK\$32,700).

Of the 10 intermediate or senior engineers to be hired, one of the senior engineers will also oversee the building curtain wall segment to satisfy the personnel requirement for obtaining the Specialised Qualification by the end of 2025 and nine of them will be hired to satisfy the personnel requirement for obtaining the Comprehensive Qualification.

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## FUTURE PLANS AND USE OF PROCEEDS

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*(iv) Upgrading the qualification and equipment and recruiting additional engineers for the construction engineering testing and inspection and other services*

We will apply approximately RMB16.1 million (equivalent to HK\$17.5 million) to upgrade the qualification and equipment and recruit additional engineers to meet the requirements of Comprehensive Qualification and enhance our capabilities in providing construction engineering testing and inspection and other services, of which RMB11.1 million (equivalent to HK\$12.1 million) will be funded by the proceeds from the Share Offer and RMB5.0 million (equivalent to HK\$5.4 million) will be funded by the internal resources of our Company. We need to upgrade the qualifications and equipment and recruit additional personnel due to the following reasons:

- (a) *Acquire new equipment to upgrade the qualification to conduct static load testing up to 50,000 kN* – In order to tap into the high-end market, it is crucial for our Company to upgrade our static load testing capacity from 35,000 kN to 50,000 kN. Currently, this service is primarily provided by companies located outside of Maoming. Static load testing requires inspection personnel and testing equipment to be present at the testing site. By upgrading our qualifications in static load testing, we can leverage our geographical advantage to reduce the testing cost. This cost advantage would enable us to capture the demand in the high-end market in Maoming;
- (b) *Replace old equipment* – Some of the equipment of our Company have been in use for around eight years. It is therefore necessary to replace the old equipment to ensure smooth operation of the testing and inspection business of our Company;
- (c) *Acquire equipment to enhance our capability in providing testing and inspection services* – We plan to obtain the Comprehensive Qualification by end of 2027. To obtain the capabilities to conduct tests on all the necessary testing parameters, we plan to acquire the relevant equipment in the first half of 2026; and
- (d) *Employ 50 additional engineers* – To meet the requirement on personnel of Comprehensive Qualification, we need a minimum of 150 technicians. As at the Latest Practicable Date, our existing workforce fell short of this requirement. To bridge this gap, we plan to hire 50 additional engineers with required professional qualifications.



## FUTURE PLANS AND USE OF PROCEEDS

Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	Employ 15 additional engineers with the required professional qualifications ( <i>Note 1</i> )	537.3	585.1
1H2025	Payment of staff cost of the 15 additional engineers ( <i>Note 1</i> )	268.6	292.5
	Acquire new equipment to upgrade the qualification to conduct static load testing from the maximum test load of 35,000 kN to 50,000 kN ( <i>Note 2</i> )	3,444.0	3,750.5
	Replace old equipment ( <i>Note 3</i> )	2,066.4	2,250.3
	Employ 5 additional engineers with the required professional qualifications ( <i>Note 1</i> )	310.0	337.5
2H2025	Employ 15 additional engineers with the required professional qualifications ( <i>Note 1</i> )	805.9	877.6
1H2026	Acquire equipment to enhance our capability in providing testing and inspection services ( <i>Note 4</i> )	2,886.1	3,142.9
	Employ 5 additional engineers with the required professional qualifications ( <i>Note 1</i> )	310.0	337.5
2H2026	Employ 10 additional engineers with the required professional qualifications ( <i>Note 1</i> )	495.9	540.1
	<b>Total</b>	<b>11,124.3</b>	<b>12,114.0</b>

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## FUTURE PLANS AND USE OF PROCEEDS

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*Notes:*

1. Approximately RMB2.7 million (equivalent to HK\$3.0 million) will be used to employ 50 additional engineers who (i) obtained an undergraduate degree or above in engineering (ii) possessed a Training Qualification Certificate of Engineering Test and Appraisal (檢測鑒定培訓合格證) issued by Guangdong Construction Quality Security Test and Appraisal Association (廣東省建設工程質量安全檢測和鑒定協會); and (iii) has no less than three years of work experience in quality inspection. Specifically, we plan to hire:
  - (a) 30 engineers who hold an intermediate professional title with a monthly salary in the range from RMB11,000 to RMB13,000 (equivalent to HK\$12,000 to HK\$14,200); and
  - (b) 20 engineers who hold an intermediate to senior professional title with a monthly salary in the range from RMB11,000 to RMB18,000 (equivalent to HK\$12,000 to HK\$19,600).
  
2. Approximately RMB3.4 million (equivalent to HK\$3.8 million) will be used to acquire testing equipment to upgrade the qualification to conduct static load testing from the maximum test load of 35,000 kN to 50,000 kN, including but not limited to:
  - (a) a pile static load test device (樁靜載試驗反力裝置) for conducting vertical pile load test up to 50,000kN which meets the requirements of the Code for Testing Building Foundation (《建築地基基礎檢測規範》) DBJ/T 15-60-2019;
  - (b) a precast concrete sample component (混凝土試塊預製構件) that weighs 20,000kN for exerting uniform pressure over the pile being tested which meets the requirements of the Code for Testing Building Foundation (《建築地基基礎檢測規範》) DBJ/T18; and
  - (c) a highly sensitive strain sensor (高應變檢測儀) for foundation monitoring which meets the requirements of the Code for Testing Building Foundation (《建築地基基礎檢測規範》) DBJ/T 15, the Standard Test Method for High-Strain Dynamic Testing of Piles (《基樁高應變動力檢測的標準試驗方法》) ASTM D4945-08, the Technical Code for Testing of Building Foundation Piles (《建築基樁檢測技術規範》) JGJ 106-2014, the Code for Pile Dynamic Testing Instruments (《基樁動測儀規範》) JG/T 3055-1999, the Technical Specification of Dynamic Pile Tests for Highway Engineering (《公路工程基樁動測技術規程》) JTG/T F81-01-2004 and the Technical Code for Building Pile Foundations (《建築樁基技術規範》) JGJ 94-2008.
  
3. Approximately RMB2.1 million (equivalent to HK\$2.3 million) will be used to acquire testing equipment for replacing old ones, including:
  - (a) an automatic double channels thermal desorber (雙通道全自動熱解吸儀) for measurement of toxic element level in the air which meets the requirements of the Standard for Indoor Environmental Pollution Control of Civil Building Engineering (《民用建築工程室內環境污染控制標準》) GB 50325-2020, the Examination Methods for Public Places – Part 2: Chemical Pollutants (《公共場所衛生檢驗方法 第2部分：化學污染物》) GB/T 18204.2-2014 and the Standard Method for Hygienic Examination of Formaldehyde in Air of Residential Areas – Spectrophotometric Method (《居住區大氣中甲醛衛生檢驗標準方法 分光光度法》) GB/T 16129-1995; and
  - (b) an universal testing machine (液壓萬能試驗機) for testing the tensile strength and compressive strength of materials which meets the requirements of the Test Methods of Steel for Reinforcement of Concrete (《鋼筋混凝土用鋼材試驗方法》) GB/T 28900-2022.

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## FUTURE PLANS AND USE OF PROCEEDS

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4. Approximately RMB2.9 million (equivalent to HK\$3.1 million) will be used to acquire certain testing equipment and materials to enhance our capability in providing testing and inspection services, including but not limited to:
- (a) a highly sensitive strain sensor (高應變檢測儀) for measuring the integrity and vertical compressive bearing capacity of a pile which meets the requirements of (i) the Technical Code of Testing of Building Foundation piles (《建築基樁檢測技術規範》JGJ 106-2014; and (ii) the Code for Design of Building Foundation (《建築地基基礎檢測規範》) DBJ/T 15-60-2019;
  - (b) an UV spectrophotometer (紫外分光光度計) and a fourier transform infrared spectroscopy (傅里葉紅外光譜儀) for measuring the reflectance, heat transfer coefficient and transmittance properties of architectural glass, and an insulating glass dew point meter (中空玻璃露點測試儀) for measuring the dew point of insulating glass, which meet the requirements of (i) the Glass in Building – Determination of Light Transmittance, Solar Direct Transmittance, Total Solar Energy Transmittance, Ultraviolet Transmittance and Related Glazing Factors (《建築玻璃 可見光透射比、太陽光直接透射比、太陽能總透射比、紫外線透射比及有關窗玻璃參數的測定》) GB/T 2680-2021; (ii) the Calculation Specification for Thermal Performance of Windows, Doors and Glass Curtain-Walls (《建築門窗玻璃幕牆熱工計算規程》) JGJ/T 151-2008; (iii) the Standard for Acceptance of Energy Efficient Building Construction (《建築節能工程施工質量驗收標準》) GB 50411-2019; (iv) the Technical Specification for Application of Architectural Glass (《建築玻璃應用技術規程》) JGJ 113-2015; (v) the Safety Glazing Materials in Building – Part 2: Tempered Glass (《建築用安全玻璃 第2部分：鋼化玻璃》) GB 15763.2-2005; (vi) the Safety Glazing Materials in Building – Part 3: Laminated Glass (《建築用安全玻璃 第3部分：夾層玻璃》) GB 15763.3-2009, Flat Glass (《平板玻璃》) GB 11614-2009; and (vii) the Insulating Glass Unit 《中空玻璃》 GB/T 11944-2012;
  - (c) a low background multi-channel y-ray spectrometer (低本底多道γ能譜儀), a 1M<sup>3</sup> climate chamber for determination of formaldehyde emission (1M<sup>3</sup> 甲醛檢測氣候箱) and a gas chromatograph (氣相色譜儀) and other measuring instrument for measurement of level of toxic elements in the air, soil and construction materials, such as radon, formaldehyde, ammonia, benzene, toluene, xylene, total volatile organic compounds (TVOC) and radionuclide which meet the following requirements:
    - (i) in respect of radon measurement, the Charcoal Canister Method for Measuring 222Rn Exhalation Rate from Building Surface (《建築物表面氡析出率的活性炭測量方法》) GB/T 16143-1995, the Standard Methods for Radon Measurement in Environ-Mental Air (《環境空氣中氡的標準測量方法》) GB/T 14582-1993, the Standard for Indoor Environmental Pollution Control of Civil Building Engineering (《民用建築工程室內環境污染控制標準》) GB 50325-2020 and the Standard for Measurement Method of Indoor Air Radon (《建築室內空氣中氡檢測方法標準》) T/CECS 569-2019;
    - (ii) in respect of formaldehyde and ammonia measurement, the Examination Methods for Public Places – Part 2: Chemical Pollutants (《公共場所衛生檢驗方法 第2部分：化學污染物》) GB/T 18204.2-2014, the Standard Method for Hygienic Examination of Formaldehyde in Air of Residential Areas – Spectrophotometric Method (《居住區大氣中甲醛衛生檢驗標準方法 分光光度法》) GB/T 16129-1995, the Indoor Air Pollution Inspection Method for Buildings with Simple and Convenient Sampling Instrument (《建築室內空氣污染簡便取樣儀器檢測方法》) JG/T 498-2016, the Appendix B to the Standard for Indoor Environmental Pollution Control of Civil Building Engineering (《民用建築工程室內環境污染控制標準 附錄B》) GB 50325-2020 and the Indoor Decorating and Refurbishing Materials – Limit of Formaldehyde Emission of Wood-Based Panels and Finishing Products (《室內裝飾裝修材料人造板及其製品中甲醛釋放限量》) GB 18580-2017;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iii) in respect of benzene, toluene and xylene measurement, the Standards for Indoor Air Quality (《室內空氣質量標準》) GB/T 18883-2002, Examination Methods for Public Places – Part 2: Chemical Pollutants (《公共場所衛生檢驗方法 第2部分：化學污染物》) GB/T 18204.2-2014, the Standard for Indoor Environmental Pollution Control of Civil Building Engineering (《民用建築工程室內環境污染控制標準》) GB 50325-2020 and the Standard Method for Hygienic Examination of Benzene, Toluene and Xylene in Air of Residential areas – Gas Chromatography (《居住區大氣中苯、甲苯和二甲苯衛生檢驗標準方法 氣相色譜法》) GB/T 11737-1989;
  - (iv) in respect of TVOC measurement, the Standards for Indoor Air Quality (《室內空氣質量標準》) GB/T 18883-2002, the Examination Methods for Public Places – Part 2: Chemical Pollutants (《公共場所衛生檢驗方法 第2部分：化學污染物》) GB/T 18204.2-2014, the Standard for Indoor Environmental Pollution Control of Civil Building Engineering (《民用建築工程室內環境污染控制標準》) GB 50325-2020 and the Standard Method for Hygienic Examination of Benzene, Toluene and Xylene in Air of Residential areas – Gas Chromatography (《居住區大氣中苯、甲苯和二甲苯衛生檢驗標準方法 氣相色譜法》) GB/T 11737-1989; and
  - (v) in respect of radionuclide measurement, the Limits of Radionuclides in Building Materials (《建築材料放射性核素限量》) GB 6566-2010;
- (d) a microcomputer-controlled compression testing machine (微機控制壓力試驗機) and other measuring instrument for conducting compression testing on reinforced concrete with welding and mechanical connection which meets the requirements of (i) the Specification for Welding and Acceptance of Reinforcing Steel Bars (《鋼筋焊接及驗收規程》) JGJ 18-2012; and (ii) the Technical Specification for Steel Mechanical Connection (《鋼筋機械連接技術規程》) JGJ 107-2016;
  - (e) a steel wire rope tester (鋼絞線試驗機) for measuring the breaking strength of a steel wire rope which meets the requirements of the Test Methods of Steel for Prestressing Concrete (《預應力混凝土用鋼材試驗方法》) GB/T 21839-2019, the Steel Strand for Prestressed Concrete (《預應力混凝土用鋼絞線》) GB/T 5224-2014 and the Unbonded Prestressing Steel Strand (《無粘結預應力鋼絞線》) JG/T 161-2004;
  - (f) a relaxation testing machine (鬆弛試驗機) for measuring the creep properties of a steel rope which meets the requirements of the Metallic Material – Tensile Stress Relaxation – Method of Test (《金屬材料 拉伸應力鬆弛試驗方法》) GB/T 10120-2013;
  - (g) a low background multi-channel  $\gamma$ -ray spectrometer (低本底多道 $\gamma$ 能譜儀) for measuring the radio elements of plasterboard which meets the requirements of (i) the Mineral Wool Decorating and Acoustic Ceilings (《礦物棉裝飾吸聲板》) GB/T 25998-2010; (ii) Indoor Decorating and Refurbishing Materials – Limit of Formaldehyde Emission of Wood-Based Panels and Finishing Products (《室內裝飾裝修材料 人造板及其製品中甲醛釋放限量》) GB 18580-2001; (iii) the Limits of Radionuclides in Building Materials (《建築材料放射性核素限量》) GB 6566-2010; and (iv) Thermal Insulation – Determination of Steady-State Thermal Resistance and Related Properties – Guarded Hot Plate Apparatus (《絕熱材料穩態熱阻及有關特性的測定 防護熱板法》) GB/T 10294-2008; and
  - (h) other testing instrument for measuring the properties and performance of various construction materials, including but not limited to inorganic binders, mortar, asphalt, concrete admixture, concrete, fiber reinforced concrete, ceramic tiles, bricks, curb stones, insulation materials, wall panel, aluminum, light steel-frame structure and plasterboard.

## FUTURE PLANS AND USE OF PROCEEDS

### (2) Strengthening our existing market presence in Maoming and expanding our service footprint into the 3rd to 5th tiers cities in Western Guangdong

In order to strengthen our existing market presence in Maoming and expand our service footprint into the 3rd to 5th tiers cities in Western Guangdong, we will (i) acquire a construction engineering testing and inspection company in Western Guangdong with a proven track record and an established customer base; and (ii) establish a branch office in Zhanjiang City, Guangdong Province. Our Directors believe that acquiring a local company will give us access to expertise, suppliers, customer base and geographic reach, which will enable our Company to effectively extend our geographical presence in Western Guangdong. We estimated that the total investment cost for the said implementation plan will be RMB20.1 million (equivalent to HK\$21.9 million), of which RMB13.9 million (equivalent to HK\$15.1 million) will be funded by the proceeds from the Share Offer and RMB6.2 million (equivalent to HK\$6.8 million) will be funded by internal resources of our Company. Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	–	–	–
1H2025	–	–	–
2H2025	Acquire a construction engineering testing and inspection company in Western Guangdong with established customer base ( <i>Note 1</i> )	8,265.7	9,001.1
1H2026	Set up and renovate the new branch office in Zhanjiang City, Guangdong Province	287.2	312.8
	Employ 10 additional engineers with the required professional qualifications ( <i>Note 2</i> )	413.3	450.1
	Purchase testing equipment for foundation testing services ( <i>Note 3</i> )	3,444.0	3,750.4
	Purchase two transportation vehicles	826.6	900.1
	Purchase office and electronic equipment	344.4	375.0
2H2026	Rental of the new branch office in Zhanjiang City, Guangdong Province	80.6	87.8
	Employ 5 additional engineers with the required professional qualifications ( <i>Note 2</i> )	206.6	225.0
	<b>Total</b>	<b>13,868.4</b>	<b>15,102.3</b>

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## FUTURE PLANS AND USE OF PROCEEDS

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*Notes:*

1. Approximately RMB8.3 million (equivalent to HK\$9.0 million) will be used to settle part of the acquisition cost of a construction engineering testing and inspection company. We would consider acquisition target that fulfills the following criteria:
  - (a) is domiciled in Western Guangdong;
  - (b) recorded a revenue in the range of RMB10.0 million to RMB20.0 million (equivalent to HK\$10.9 million to HK\$21.8 million) in the previous financial year;
  - (c) has sufficient working capital for business operation;
  - (d) has an adequate workforce and sufficient number of technical personnel to meet staffing requirements of a foundation engineering inspection agency in the PRC (i.e. The acquisition target shall maintain not less than four technical professionals with senior or intermediate professional title who have engaged in the inspection of engineering piles for more than three years, and one of them is a certified geotechnical engineer;
  - (e) has an established customer base consists of state-owned investment companies, relevant PRC government institutions and PRC government administrative bureaus;
  - (f) is eligible to apply for the Specialised Qualification of foundation; and
  - (g) was not involved in any litigation or arbitration proceeding, or experienced any non-compliance, that would have a material adverse effect on the business, financial condition or results of operation of the acquisition target.

As of the Latest Practicable Date, we had not engaged in any commercial negotiation or entered into any letter of intent or agreement for potential acquisitions, and had yet to identify any specific acquisition target. Our Company does not have a specific preference for location of the acquisition target within Western Guangdong. However, our Directors expected that the acquisition target will not be located in Zhanjiang City, Guangdong Province. Our Directors were aware of not less than 10 companies that fulfill the abovementioned selection criteria in the market.

2. Approximately RMB0.6 million (equivalent to HK\$0.7 million) will be used to employ 15 additional engineers who (i) obtained an undergraduate degree or above in engineering (ii) possessed a Training Qualification Certificate of Engineering Test and Appraisal (檢測鑒定培訓合格證) issued by Guangdong Construction Quality Security Test and Appraisal Association (廣東省建設工程質量安全檢測和鑒定協會); and (iii) preferably has relevant work experience. The monthly salary of each of them will be in the range from RMB8,000 to RMB10,000 (equivalent to HK\$8,700 to HK\$10,900).
3. Approximately RMB3.4 million (equivalent to HK\$3.8 million) will be used to acquire testing equipment for conducting static load tests, including but not limited to one set of static load test reaction frame (靜載試驗反力架), three sets of plate load frame (平板載荷架), a precast concrete sample component (混凝土試塊預製構件) that weights 10,000 kN and a static load tester (靜載荷測試分析儀), which meet the requirements of the Code for Testing of Building Foundation (《建築地基基礎檢測規範》) DBJ/T 15-60-2019.

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## FUTURE PLANS AND USE OF PROCEEDS

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**(3) Diversifying our testing and inspection services offering expanding into areas including food and agricultural, transportation, and fire protection.**

We will apply approximately RMB44.5 million (equivalent to HK\$48.5 million) to diversify our testing and inspection services and expand into areas, including food and agricultural, transportation and fire protection, of which RMB18.7 million (equivalent to HK\$20.4 million) will be funded by the proceeds from the Share Offer, RMB25.8 million (equivalent to HK\$28.1 million) will be funded by the internal resources of our Company and the proceeds of the Pre-IPO Investment. The competitive landscape of food and agricultural, transportation, and fire protection testing and inspection services in the Western Guangdong is characterized by a fragmented competition pattern, displaying regional characteristics, and is dominated by local testing and inspection service providers with higher public credibility.

See “Regulatory Overview – Laws and Regulations Governing the Food Testing” and “Laws and Regulations Governing the Agricultural Testing, Transportation Construction Testing and Fire Protection Testing” in this prospectus for details of the regulatory framework governing the new testing and inspection services.

*(i) Expansion into the food and agricultural testing services*

Our Company plans to allocate RMB17.6 million (equivalent to HK\$19.2 million) to expand into the food and agricultural testing industry, of which RMB17.4 million (equivalent to HK\$18.9 million) will be funded by the Pre-IPO Investment proceeds and internal resources and RMB0.2 million (equivalent to HK\$0.3 million) will be funded by the net proceed from the Share Offer. In preparation of our plan to expand into the food and agricultural testing industry, we have conducted a feasibility study on our plan and believe we can capture the demand in the food and agricultural testing industry based on the following reasons:

- (a) according to the CIC Report, the total market size of the food and agricultural testing industry in Maoming was RMB112.6 million in 2023 and is expected to reach RMB205.6 million in 2028, representing a CAGR of 12.8% from 2023 to 2028. The industry has demonstrated significant demand and rapid growth over the years.

In 2023, the total market size was RMB112.6 million, of which the major market players accounted for about 50% of the market share and the small players and unmet demand accounted for about 50% of the market share. As such we believe that we can capture the market share of the small players and unmet demand by leveraging our competitive advantages detailed below;

- (b) the food and agricultural testing market in Maoming is dominated by testing service providers outside of the region. Recognising the perishable nature of food and agricultural products, our Company intends to capture the local demand by taking advantage of its close proximity to customers and offering timely testing services;

## FUTURE PLANS AND USE OF PROCEEDS

- (c) as at the Latest Practicable Date, we have obtained the qualification approved by the Guangdong AMR for carrying out certain food and agricultural product testing, and have seven technicians who are qualified to carry out food testing;
- (d) through 20 years of experience in the construction engineering testing and inspection field and being a state-owned enterprise we have built a strong reputation and brand recognition in Maoming. We believe our customers will have heightened trust and reliability in our services; and
- (e) the increase in awareness among consumers on quality and traceability of food and agricultural products has resulted in surge in demand for testing services. To capitalize on this opportunity, we will offer testing services to local agricultural and food enterprises. This includes conducting tests to ensure the safety of food and agricultural products and placing barcodes on product packaging to enhance traceability.

Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	Employ 3 additional technicians with the required professional qualifications ( <i>Note</i> )	110.2	120.0
1H2025	Payment of staff cost of the 3 additional technicians ( <i>Note</i> )	55.1	60.0
2H2025	–	–	–
1H2026	–	–	–
2H2026	–	–	–
	<b>Total</b>	<b>165.3</b>	<b>180.0</b>



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## FUTURE PLANS AND USE OF PROCEEDS

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*Notes:* We plan to hire:

- (a) two laboratory technicians who obtained an undergraduate degree or above in chemistry, each with a monthly salary of approximately RMB10,000 (equivalent to HK\$10,900) depending on their experience; and
- (b) one head of technology with a monthly salary of approximately RMB20,000 (equivalent to HK\$21,800) who shall have intermediate or higher technical titles or equivalent abilities and is either:
  - (i) a chemical doctoral degree holder with one year of relevant work experience;
  - (ii) a chemical master degree holder with three years of relevant work experience; or
  - (iii) a chemical bachelor degree holder with five years of relevant work experience.

**(ii) *Expansion into the transportation construction testing services***

Our Company plans to allocate RMB1.9 million (equivalent to HK\$2.0 million) to expand into the transportation construction testing industry, of which RMB1.3 million (equivalent to HK\$1.4 million) will be funded by the proceeds from the Share Offer and RMB0.6 million (equivalent to HK\$0.6 million) will be funded by the internal resources of our Company. In preparation of our plan to expand into the transportation testing industry, we have conducted a feasibility study and believe we can capture the demand in the transportation construction testing services based on the following reasons:

- (a) according to the CIC Report, the total market size of the transportation construction testing and inspection industry in Maoming was RMB52.4 million in 2023 and is expected to reach RMB98.2 million in 2028, representing a CAGR of 13.4% from 2023 to 2028. Over the years, the industry has demonstrated strong demand and market growth.

In 2023, the total market size was RMB52.4 million, of which the major market players accounted for about 70% of the market share and the small players and the unmet demand accounted for the remaining 30% of the market share. We believe by leveraging our competitive edges as discussed below we are able to capture the market share of the small players and unmet demand;

- (b) customers in transportation construction testing industry tend to engage local companies due to the transportation costs and workforce involved in setting up the equipment and inspection personnel at the testing site. Being a local company, our Company can capitalize on this preference;
- (c) the testing activities of transportation construction testing are similar to that of infrastructure and public roads testing. Our Company can take advantage of its expertise and experience in similar testing activities to provide reliable transportation construction services to customers;

## FUTURE PLANS AND USE OF PROCEEDS

- (d) save for the requirements on equipment, we have met other qualification requirements of a transportation construction testing and inspection agency in the PRC. We will acquire the remaining equipment and apply for the relevant qualification certificate in respect of transportation construction testing by end of 2024; and
- (e) our Company has been deeply rooted in the field of construction engineering testing and inspection for over 20 years and has built a good reputation and brand recognition in Maoming. Many customers hold high regard for our testing capabilities and expertise. Our Directors believe that if these customers are in need of transportation testing services, it is likely that we will be their preferred service provider. In addition, our status as a state-owned enterprise further strengthens the trust that our customers place in our testing service capabilities.

Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	Acquire testing equipment ( <i>Note 1</i> )	1,194.8	1,301.1
	Employ 6 additional technicians with the required professional qualifications ( <i>Note 2</i> )	19.3	21.0
1H2025	Payment of staff cost of the 6 additional technicians ( <i>Note 2</i> )	9.6	10.5
2H2025	Employ 6 additional technicians with the required professional qualifications ( <i>Note 2</i> )	28.9	31.5
1H2026	–	–	–
2H2026	Employ 6 additional technicians with the required professional qualifications ( <i>Note 2</i> )	28.9	31.5
	<b>Total</b>	<b>1,281.5</b>	<b>1,395.6</b>

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## FUTURE PLANS AND USE OF PROCEEDS

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*Notes:*

1. Approximately RMB1.2 million (equivalent to HK\$1.3 million) will be used to acquire testing equipment, including but not limited to:
  - (a) a concrete flexure testing machine (混凝土抗折試驗機) for testing the flexural strength of concrete which meets the requirements of the Testing Methods of Cement and Concrete for Highway Engineering (《公路工程水泥及水泥混凝土試驗規程》) JTG 3420-2020;
  - (b) an automatic core cutting machine (自動芯樣切磨一體機) for cutting core samples from concrete which meets the requirements of the Testing Methods of Cement and Concrete for Highway Engineering (《公路工程水泥及水泥混凝土試驗規程》) JTG 3420-2020;
  - (c) a microcomputer controlled universal material testing machine (微機控制萬能材料試驗機) for conducting pull out test of joints connecting to metallic materials which meets the requirements of the Standard for Test Methods of Welded Joint of Steel Bars (《鋼筋焊接接頭試驗方法標準》) JGJ/T 27-2014 and the Technical Specification for Mechanical Splicing of Steel Reinforcing Bars (《鋼筋機械連接技術規程》) JGJ 107-2016;
  - (d) a laser distance and weighing measurement device (激光標距稱重測量儀) for measuring distance and weights of joints connecting metallic materials which meets the requirements of the Standard for Test Methods of Welded Joint of Steel Bars (《鋼筋焊接接頭試驗方法標準》) JGJ/T 27-2014 and the Technical Specification for Mechanical Splicing of Steel Reinforcing Bars (《鋼筋機械連接技術規程》) JGJ 107-2016; and
  - (e) a road material strength tester (路面材料強度試驗儀) for testing permeability coefficient and unconfined compression strength of road materials which meets the requirements of the Specifications for Design of Highway Subgrades (《公路路基設計規範》) JTG D30-2015 and the Specifications for Design of Highway Asphalt Pavement (《公路瀝青路面設計規範》) JTG D50-2017.
  
2. Approximately RMB86,800 (equivalent to HK\$94,700) will be used to employ 18 additional testing and inspection personnel who (a) obtained an undergraduate degree or above in engineering; (b) is an assistant or hold an intermediate or senior technical title; and (c) has one to three years of experience in conducting testing and inspections on bridges and undergrounds of highways, and national and provincial roads. The monthly salary of each of them will be in the range from RMB5,000 to RMB8,000 (equivalent to HK\$5,400 to HK\$8,700).

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## FUTURE PLANS AND USE OF PROCEEDS

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*(iii) Expansion into the fire protection testing and inspection services*

Our Company intends to enter into the fire protection testing and inspection industry by allocating RMB25.0 million (equivalent to HK\$27.2 million) to acquire a company with proven track record and an established customer base in Western Guangdong, of which RMB17.2 million (equivalent to HK\$18.8 million) will be funded by the proceeds from the Share Offer and RMB7.8 million (equivalent to HK\$8.4 million) will be funded by the internal resources of our Company. In preparation of our plan to expand into the fire protection testing industry, we have conducted a feasibility study and believe we can capture the demand in the fire protection testing industry based on the following reasons:

- (a) According to the CIC Report, the total market size of the fire protection testing and inspection industry in Western Guangdong was RMB51.1 million in 2023 and is expected to reach RMB66.6 million in 2028, representing a CAGR of 5.4% from 2023 to 2028. Over the years, the industry has demonstrated steady growth and demand.

In 2023, the total market size was RMB51.1 million, of which the major market players accounted for 75% of the market share, and the small players and unmet demand accounted for 25% of the market share. We believe that, in addition to the market share we will gain through the acquisition target, we can capture further demand by leveraging our competitive edges as detailed below.

The market growth rate of the fire protection testing and inspection industry is slower compared to the other two fields that we intend to tap into, which is attributable to limited demand drivers. The demand for the fire protection testing and inspection services primarily comes from two sources. Firstly, during the construction phase, the property developers/building owners are required to engage testing and inspection agencies to carry fire protection testing before project acceptance. Secondly, annual inspections are needed for buildings after they are put to use. Despite of the slower market growth rate, expanding into the fire protection testing and inspection industry enables us to provide a wider range of services to our customers, which is conducive to establishing our Company as a comprehensive testing service platform;

- (b) during the construction phase, the property developers/building owners are required to engage testing and inspection agencies to carry out testing on construction engineering and fire protection before completion of projects. Additionally, property management companies, which are often subsidiaries of property developers, and building owners would engage inspection agencies to conduct annual fire safety inspection on buildings. Therefore, there is certain degree of overlap between the customers which have demand for the construction engineering testing and inspection services and fire protection testing and inspection services. As of 30 June 2024, 32 out of 196, or 16.3%, of our customers are property developers which will be our target potential customers in this new segment; and

## FUTURE PLANS AND USE OF PROCEEDS

- (c) leveraging our Company's prolonged presence in the construction engineering testing and inspection industry with good reputation and brand recognition and our background as a state-owned enterprise, we can endorse the fire protection testing and inspection services provided by our acquisition target.

Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	–	–	–
1H2025	–	–	–
2H2025	–	–	–
1H2026	–	–	–
2H2026	Acquire a fire protection testing and inspection company with 3–5 years of track record and with targeted business scale in Western Guangdong Province ( <i>Note</i> )	17,220.2	18,752.3
	<b>Total</b>	<u>17,220.2</u>	<u>18,752.3</u>

*Notes:* We would consider acquisition target that fulfills the following criteria:

- (a) has three to five years of track record;
- (b) is within Western Guangdong Province;
- (c) has sufficient working capital for business operation;
- (d) maintain an adequate workforce and has sufficient number of technical personnel to meet staffing requirements of a fire protection testing and inspection agency in the PRC (i.e. the acquisition target shall maintain not less than (i) two registered fire engineers, of which no less than one Level 1 certified fire engineer; and (ii) six personnel who have obtained the national vocational qualification certificate for fire protection facility operators, of which no less than two are above the intermediate skill level);
- (e) has an established customer base consists of property developers, building owners and property management companies; and

## FUTURE PLANS AND USE OF PROCEEDS

- (f) was not involved in any litigation or arbitration proceeding, or experienced any non-compliance, that would have a material adverse effect on the business, financial condition or results of operation of the company.

As of the Latest Practicable Date, we had not engaged in any commercial negotiation or entered into any letter of intent or agreement for potential acquisitions, and had yet to identify any specific acquisition target. Our Directors were aware of not less than five companies that fulfill the abovementioned selection criteria in the market.

#### (4) Upgrading our ERP system

We will use RMB4.0 million (equivalent to HK\$4.4 million) to acquire new enterprise resources planning (“ERP”) systems in order to enhance our operational efficiency of which RMB2.8 million (equivalent to HK\$3.0 million) will be funded by the proceeds from the Share Offer and RMB1.2 million (equivalent to HK\$1.4 million) will be funded by the internal resources of our Company. Set out below is the expected timeline for the aforementioned use of proceeds from the Share Offer.

Period	Action plan	Use of net proceeds from the Share Offer	
		(RMB'000)	(HK\$'000)
From the Listing Date to the end of 2H2024	– Acquire new ERP system ( <i>Note</i> )	– 1,377.6	– 1,500.2
1H2025	Acquire new ERP system ( <i>Note</i> )	1,377.6	1,500.2
2H2025	–	–	–
1H2026	–	–	–
2H2026	–	–	–
	<b>Total</b>	<b>2,755.2</b>	<b>3,000.4</b>

*Note:*

We plan to acquire new ERP systems to manage certain parts of the operations of our Company, including but not limited to finance, procurement, sales management, inventory management, customer relationship management, project management and human resources management.

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## FUTURE PLANS AND USE OF PROCEEDS

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### BASES AND ASSUMPTIONS

Investors should note that our ability to achieve our business objectives and implementation plans depends on a number of bases and assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in the PRC and any other places in which any member of our Company will carry on business and provides services;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the prevailing laws (whether in the PRC or any other part of the world), policies or industry or regulatory treatments relating to us, or in the political, economic and market conditions in the places in which we operate or will operate our business;
- we will retain our key staff in our management team;
- there will be no material changes in the bases or rates of taxation in the PRC;
- there will be no significant changes in our business relationship with our existing strategic and business partners;
- there will be no significant changes in our business relationship with our major customers and suppliers;
- the Share Offer will be completed in accordance with and as described in “Structure and Conditions of the Share Offer” in this prospectus;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under “– Implementation Plans” in this section;
- we will not be materially affected by the risk factors as set out in “Risk Factors” in this prospectus; and
- we will be able to continue its operations in substantially the same manner as we have been operating during the Track Record Period and we will be able to carry out the development plans without disruptions adversely affecting its operations or business objectives in any way.

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## UNDERWRITING

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### PUBLIC OFFER UNDERWRITERS

Huajin Securities (International) Limited  
Yue Xiu Securities Company Limited  
Eddid Securities and Futures Limited  
GLAM Capital Limited  
Livermore Holdings Limited  
Orient Securities (Hong Kong) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Public Offer Underwriting Agreement

##### *Public Offer*

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company is initially offering for subscription of 1,018,000 Public Offer Shares at the Offer Price under the Public Offer, on and subject to the terms and conditions set forth in this prospectus. The Public Offer Underwriters have agreed on and subject to the terms and conditions in the Public Offer Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Public Offer Shares.

The Public Offer Underwriting Agreement is subject to various conditions, which include, but without limitation, the GEM Listing Committee granting listing of, and permission to deal in, our H Shares in issue and to be issued as mentioned in this prospectus. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

##### *Grounds for termination*

The Joint Overall Coordinators may, for themselves and on behalf of the Public Offer Underwriters, upon giving notice in writing to our Company made pursuant to the Public Offer Underwriting Agreement, terminate the Public Offer Underwriting Agreement with immediate effect if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Overall Coordinators or any of the Public Offer Underwriters:
  - (i) that any statement contained in any Offer Documents and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was,



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## UNDERWRITING

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when it was issued, or has become, untrue, incorrect in any respect, or misleading or deceptive or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Overall Coordinators (for themselves and on behalf of the Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
- (iii) any breach of any of the obligations imposed upon any party to Public Offer Underwriting Agreement or the Placing Underwriting Agreement (in each case, other than on the part of any of the Underwriters) which has or may have or will have a material adverse effect on the Share Offer; or
- (iv) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading, any of the warranties under Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (v) any event, act or omission which gives or is likely to give rise to any material liability of any of the Warrantors (as defined in the Public Offer Underwriting Agreement) or the Controlling Shareholder pursuant to the indemnity provision under the Public Offer Underwriting Agreement or under the Placing Underwriting Agreement; or
- (vi) any event that has or may have or will have a material adverse effect on our Company or the Share Offer; or
- (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the H Shares (including any additional H Shares that may be issued upon the exercise of the Offer Size Adjustment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Share Offer; or
- (ix) any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) a portion of the orders placed or confirmed in the book-building process, at the time the Placing Underwriting Agreement is entered into have been withdrawn, terminated or cancelled, and the Joint Overall Coordinators, in their sole and absolute discretion, concludes that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or

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## UNDERWRITING

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- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances in the nature of force majeure (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, political change, economic sanctions, withdrawal of trading privileges, state of emergency, outbreaks, escalation, adverse mutation or aggravation of diseases (including, without limitation, contagious coronavirus (COVID-19), Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), swine or avian influenza, H5N1, H1N1, H7N9, Ebola virus and such related or mutated forms), pandemics or epidemics or interruption or delay in transportation) in or affecting any of the United States, the United Kingdom, the European Union, Hong Kong, the PRC, or any other jurisdictions relevant to our Company or the Share Offer (collectively, the “**Specific Jurisdictions**”);
  - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Specific Jurisdictions; or
  - (iii) any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Beijing Stock Exchange; or
  - (iv) any new Laws, or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any Specific Jurisdictions; or
  - (v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at Federal or New York State level or other competent Authority), London, the PRC, the European Union, or any of the Specific Jurisdictions, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

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## UNDERWRITING

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- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, a material devaluation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (ix) any material litigation or claim of any third party or investigations or actions being announced, threatened or instigated against our Company, the Controlling Shareholder or any of the Warrantors (as defined in the Public Offer Underwriting Agreement); or
- (x) the chairman of our Company or any executive Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman of our Company or any executive Director vacating his or her office; or
- (xii) a Governmental authority or a political body or organisation in any Specific Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of our Company, any executive Director or non-executive Director;
- (xiii) the commencement by any governmental or regulatory body or organisation or self-regulatory organisation of any action against any executive Director in his or her capacity as such or an announcement by any governmental, regulatory body or organisation that it intends to take any such action; or
- (xiv) save as disclosed in this prospectus, a contravention by our Company of the GEM Listing Rules or any other Laws applicable to the Share Offer;
- (xv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Offer Size Adjustment Shares pursuant to the terms of the Share Offer; or
- (xvi) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Share Offer with the GEM Listing Rules or any other laws applicable to the Share Offer; or

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## UNDERWRITING

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- (xvii) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the GEM Listing Rules or any requirement or request of the Stock Exchange, the CSRC and/or SFC; or
  
- (xviii) that a petition or an order is presented for the winding-up or liquidation of our Company or our Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of our Company or anything analogous thereto occurs in respect of our Company; or
  
- (xix) a demand by any creditor for repayment or payment of any indebtedness of our Company or in respect of which our Company is liable prior to its stated maturity; or
  
- (xx) any loss or damage sustained by our Company (howsoever caused and whether or not the subject of any insurance or claim against any person), which in each case individually or in aggregate in the sole and absolute opinion of the Joint Overall Coordinators (for themselves and on behalf of the Public Offer Underwriters):
  - (a) has or is or will or may or could be expected to have a material adverse effect; or
  
  - (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
  
  - (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of Public Offer Underwriting Agreement or the Share Offer to proceed or to market the Share Offer; or
  
  - (d) has or will or may have the adverse effect of making any part of Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents or delays the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

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## **UNDERWRITING**

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### **UNDERTAKINGS GIVEN TO THE STOCK EXCHANGE PURSUANT TO THE GEM LISTING RULES**

#### **Undertaking by our Company**

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that, save as pursuant to the Share Offer, no further H Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued or sold or transferred out of treasury by us or form the subject of any agreement to such an issue, or sale or transfer out of treasury by us within six months from the Listing Date (whether or not such issue of H Shares or our securities, or sale or transfer of treasury shares will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

#### **Undertaking by our Controlling Shareholder**

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, our Controlling Shareholder has undertaken to the Stock Exchange and to our Company that except pursuant to the Share Offer and for the circumstances permitted pursuant to Rule 13.18 of the GEM Listing Rules, it will not and will procure that the relevant registered holder(s) will not: (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the H Shares or our securities in respect of which it is shown by this prospectus to be the beneficial owner; and (b) in the period of six months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the H Shares or our securities referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of our Company. Pursuant to Rule 13.19 of the GEM Listing Rules, our Controlling Shareholder has undertaken to the Stock Exchange and to our Company that, it shall: (i) in the event that it pledges or charges any direct or indirect interest in the H Shares or our securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the 12-month period from the Listing Date, inform us immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and (ii) having pledged or charged any interest in the H Shares or our securities under (i) above, inform our Company immediately in the event that it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of H Shares or our securities affected.

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## UNDERWRITING

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### UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

#### Undertaking by our Company

Pursuant to the Public Offer Underwriting Agreement, our Company has undertaken to each of the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Capital Market Intermediaries that except pursuant to the Share Offer (including pursuant to the Offer Size Adjustment Option), during the period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company will not without the prior written consent of the Joint Sponsors and the Joint Overall Coordinators (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares), or deposit any Shares or any other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts, or repurchase any Shares or other securities of our Company, as applicable; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of the Shares or other securities of our Company, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months immediately following the expiry of the First Six-Month Period

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## UNDERWRITING

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(the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces, or publicly discloses, any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

### **Undertaking by our Controlling Shareholder**

Our Controlling Shareholder has also undertaken to each of our Company, the Warranting Parties (as defined in the Public Offer Underwriting Agreement), the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Capital Market Intermediaries that, without the prior written consent of the Joint Sponsors and the Joint Overall Coordinators (for themselves and on behalf of the Public Offer Underwriters) or unless in compliance with the requirements of the GEM Listing Rules:

- (a) at any time during the First Six-Month Period, it shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it and the companies controlled by it (together, the “**Controlled Entities**”) shall not (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly (including by way of altering the composition or classes of beneficiaries of any trust), conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities of our Company or any interest in any of the foregoing), beneficially owned by it directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, or (iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to (i) or (ii) above, or (iv) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in (i), (ii) or (iii) above, which any of the foregoing transactions referred to in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (b) at any time during the Second Six-Month Period, it shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it would cease to be a “controlling shareholder” (as defined in the GEM Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the GEM Listing Rules) of our Company;

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## UNDERWRITING

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- (c) in the event that it enters into any of the transactions specified in (a)(i), (ii) or (iii) above or offers to or agrees to or announce or publicly disclose any intention to effect any such transaction within the Second Six-Month Period, it shall take all steps to ensure that it will not create a disorderly or false market for any Shares or other securities of our Company; and
- (d) it shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the GEM Listing Rules on the sale, transfer or disposal by it or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Our Controlling Shareholder has also further undertaken to each of our Company, the Warranting Parties (as defined in the Public Offer Underwriting Agreement) the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and the Capital Market Intermediaries that within the period from the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it will:

- (a) when it pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company and the Joint Sponsors in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (b) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Joint Sponsors in writing of such indications.

## PLACING

### **Placing Underwriting Agreement**

In connection with the Placing, it is expected that our Company and Controlling Shareholder will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the 9,161,000 Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that



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## UNDERWRITING

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the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and Controlling Shareholder will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraphs headed “Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

Our Company is expected to grant to the Joint Overall Coordinators the Offer Size Adjustment Option exercisable by the Joint Overall Coordinators (for themselves and on behalf of the Placing Underwriters) at any time before 6:00 p.m. on the business day before the date of announcement of the results of application and the basis of the Public Offer Shares or otherwise it will lapse, to require our Company to allot and issue up to an aggregate of 1,526,000 additional Placing Shares, representing approximately 15.0% of the Offer Shares, at the Offer Price per Offer Share under the Share Offer, solely to cover over allocations, if any, in the Placing.

### COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission equal to 4.0% of the aggregate Offer Price payable for the Offer Shares, including Offer Shares to be issued pursuant to the Offer Size Adjustment Option (the “**Fixed Fees**”). Our Company may, at our sole and absolute discretion, pay to any or all the Underwriters an incentive fee up to but not exceeding 2.0% of the Offer Price of all the Offer Shares (including Offer Shares to be issued pursuant to the Offer Size Adjustment Option) (the “**Discretionary Fees**”). The ratio of Fixed Fees and Discretionary Fees payable to all Underwriters is therefore approximately 66.7:33.3. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the relevant Placing Underwriters (and not the Public Offer Underwriters).

No additional fee will be payable by our Company to the Underwriters. The Joint Sponsors will, in addition, receive fees acting as the Joint Sponsors to the Listing and will be reimbursed for their expenses. Based on the Offer Price of HK\$9.5 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, AFRC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately HK\$42.3 million in total, assuming that the Offer Size Adjustment Option is not exercised at all. We will also pay for all expenses in connection with any exercise of the Offer Size Adjustment Option.

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## **UNDERWRITING**

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### **SPONSOR'S AND PUBLIC OFFER UNDERWRITERS' INTEREST IN OUR COMPANY**

The Joint Sponsors will receive a documentation fee. The Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under “–Commission and expenses” in this section.

We have appointed Yue Xiu Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

Save as disclosed above, none of the Joint Sponsors, the Joint Overall Coordinators and the Public Offer Underwriters is interested legally or beneficially in shares of our Company or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in our Company or has any interest in the Share Offer.

The Joint Sponsors satisfies the independence criteria applicable to sponsor set out in Rule 6A.07 of the GEM Listing Rules.

### **MINIMUM PUBLIC FLOAT**

Our Directors will ensure that there will be a minimum 25% of the total issued H Shares held in public hands in accordance with Rule 11.23 of the GEM Listing Rules after completion of the Share Offer.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company on or around the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or before Wednesday, 4 September 2024, but in any event no later than 12:00 noon on Wednesday, 4 September 2024. **If, for any reason, the Offer Price is not agreed between us and the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) by that date or such later date as may be agreed between us and the Joint Overall Coordinators (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse.**

The Offer Price will not be more than HK\$10.4 per Offer Share and is expected to be not less than HK\$8.6 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced on or before the Price Determination Date. **Prospective investors should be aware that the Offer Price to be determined on or around the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus.**

### Announcement of final Offer Price

The announcement of the final Offer Price, together with the indication of level of interests in the Placing and the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on or before Thursday, 5 September 2024.

### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$10.4 per Offer Share and is expected to be not less than HK\$8.6 per Offer Share. Applicants under the Public Offer should pay, on application (subject to application channel), the maximum Offer Price of HK\$10.4 per Offer Share plus 1.0% brokerage fee, 0.00565% Stock Exchange trading fee, 0.00015% AFRC transaction levy and 0.0027% SFC transaction levy, amounting to a total of HK\$5,252.44 per board lot of 500 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$10.4 per Offer Share, appropriate refund payments (including the related brokerage fee, the Stock Exchange trading fee, the SFC transaction levy and AFRC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

Further details are set out in “How to apply for Public Offer Shares” in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### REDUCTION OF THE NUMBER OF OFFER SHARES AND/OR THE INDICATIVE OFFER PRICE RANGE

The Joint Overall Coordinators (for themselves and on behalf of the Underwriters) may, where they consider appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, reduce the number of the Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer, which is expected to be on or around Tuesday, 3 September 2024. In such a case, our Company will, as soon as practicable following the decision to make such reduction, cause to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.xyjiance.cn](http://www.xyjiance.cn) an announcement, cancel the offer and relaunch the offer at the revised number of the Offer Shares and/or the revised Offer Price range and the requirements under Rule 14.24 of the GEM Listing Rules (which include the issue of a supplemental prospectus or a new prospectus (as appropriate)).

Upon issue of such an announcement and supplemental prospectus, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company will be fixed within such revised range. Such an announcement and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the offer price range as stated in this prospectus.

**Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until Price Determination Date.**

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# STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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## CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

### 1. Listing

The GEM Listing Committee granting the approval of the listing of, and permission to deal in, the H Shares in issue and the H Shares to be issued pursuant to the Share Offer and H Shares which fall to be allotted and issued upon the exercise of the Offer Size Adjustment Option (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

### 2. Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements.

### 3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date or such later date as may be agreed by our Company and the Joint Overall Coordinators (for themselves and on behalf of the Underwriters).

If any of the conditions is not fulfilled or waived on or before the times specified above, the Share Offer will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in “How to apply for Public Offer Shares – D. Despatch/collection of H Share Certificates and Refund of Application Monies” in this prospectus.

## THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. A total of initially 10,179,000 Offer Shares (subject to the Offer Size Adjustment Option) will be made available under the Share Offer, of which 9,161,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option), representing approximately 90% of the total number of Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the Placing. The remaining 1,018,000 Public Offer Shares (subject to reallocation), representing approximately 10% of the total number of Offer Shares, will initially be offered to members of the public in Hong Kong under the Public Offer. The

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Public Offer Underwriters have agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting are set out in “Underwriting” in this prospectus. Investors may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both.

### **The Placing**

Our Company is expected to offer initially 9,161,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option) at the Offer Price under the Placing. The number of Placing Shares expected to be initially available for application under the Placing represents approximately 90% of the total number of Offer Shares being initially offered under the Share Offer. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the Placing Underwriters or selling agents nominated by them, on behalf of our Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional, private investors and/or other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the Placing Shares in the Placing may also be allocated the Placing Shares.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further H Shares and/or hold or sell its H Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Offer Shares under the Public Offer.

Our Company, our Directors, the Joint Sponsors and the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Public Offer from investors who receive H Shares under the Placing, and to identify and reject indications of interest in the Placing from investors who receive H Shares under the Public Offer. The Placing is expected to be subject to the conditions as stated in the paragraphs headed “Conditions of the Share Offer” in this section.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### The Public Offer

Our Company is initially offering 1,018,000 Public Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Public Offer, representing approximately 10% of the total number of Offer Shares offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Applicants for the Public Offer Shares are required on application to pay the maximum Offer Price of HK\$10.4 per Offer Share plus 1.0% brokerage fee, 0.00565% Stock Exchange trading fee, 0.00015% AFRC transaction levy and 0.0027% SFC transaction levy.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investor. An applicant for H Shares under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Offer Shares under the Placing nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected.

The total number of Offer Shares available under the Public Offer (after taking into account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B (with any odd lots being allocated to Pool A). Accordingly, the maximum number of Public Offer Shares initially in Pool A and Pool B will be 509,000 and 509,000, respectively. The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5.0 million and up to a total value of Pool B (excluding the brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy payable).

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools.

Multiple applications or suspected multiple applications and any application made for more than 50% of the H Shares initially comprised in the Public Offer (i.e. 509,000 Public Offer Shares) are liable to be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### REALLOCATION OF THE OFFER SHARES BETWEEN PLACING AND PUBLIC OFFER

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation on the following basis:

- (a) In the event that the Placing Shares are fully subscribed or oversubscribed under the Placing:
  - (i) if the Public Offer Shares are undersubscribed, the Joint Overall Coordinators (for themselves and on behalf of the Underwriters), at their sole and absolute discretion, may reallocate all or any of the unsubscribed Public Offer Shares from the Public Offer to the Placing;
  - (ii) if the Public Offer Shares are fully subscribed or oversubscribed and the number of H Shares validly applied for under the Public Offer represents less than 15 times the number of H Shares initially available for subscription under the Public Offer, then up to 1,018,000 H Shares may be reallocated to the Public Offer from the Placing at the discretion of the Joint Overall Coordinators, so that the total number of H Shares available for subscription under the Public Offer will be increased to 2,036,000 H Shares, representing twice of Offer Shares initially available for subscription under the Public Offer (before any exercise of the Offer Size Adjustment Option), and the final Offer Price shall be fixed at the low end of the indicated Offer Price range stated in the prospectus according to Chapter 4.14 of the Guide;
  - (iii) if the number of H Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of H Shares initially available for subscription under the Public Offer, then H Shares will be reallocated to the Public Offer from the Placing, so that the total number of H Shares available for subscription under the Public Offer will be increased to 3,054,000 H Shares, representing approximately 30% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option);
  - (iv) if the number of H Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of H Shares initially available for subscription under the Public Offer, then H Shares will be reallocated to the Public Offer from the Placing, so that the total number of H Shares available for subscription under the Public Offer will be increased to 4,072,000 H Shares, representing approximately 40% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option); and



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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- (v) if the number of H Shares validly applied for under the Public Offer represents 100 times or more the number of H Shares initially available for subscription under the Public Offer, then H Shares will be reallocated to the Public Offer from the Placing, so that the total number of H Shares available for subscription under the Public Offer will be increased to 5,089,500 H Shares, representing approximately 50% of the number of the Offer Shares initially available for subscription under the Share Offer (before any exercise of the Offer Size Adjustment Option).
  
- (b) In the event that the Placing Shares are undersubscribed under the Placing:
  - (i) if the Public Offer Shares are undersubscribed, the Share Offer shall not proceed unless fully underwritten by the Underwriters pursuant to the Underwriting Agreements; and
  
  - (ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times, then up to 1,018,000 H Shares may be reallocated to the Public Offer from the Placing, so that the total number of H Shares available for subscription under the Public Offer will be increased to 2,036,000 H Shares, representing twice of the number of Public Offer Shares initially available under the Public Offer (before any exercise of the Offer Size Adjustment Option), and the final Offer Price shall be fixed at the low end of the indicated Offer Price range stated in the prospectus according to Chapter 4.14 of the Guide.

In all cases save for (a)(i) and (b)(i) above, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Overall Coordinators (for themselves and on behalf of the Underwriters). In accordance with the requirements set out in paragraph 4 of Practice Note 6 of the GEM Listing Rules, if such reallocation is done other than pursuant to paragraph (a)(iii), (a)(iv) or (a)(v) above, the Joint Overall Coordinators (for themselves and on behalf of the Underwriters) may, at their sole and absolute discretion, reallocate the Offer Shares initially allocated for the Placing to the Public Offer to satisfy valid applications under the Public Offer, provided that the maximum total number of Offer Shares that may be allocated to the Public Offer following such reallocation shall be not more than double of the initial allocation to the Public Offer i.e. 2,036,000 Offer Shares, representing twice of the number of the Offer Shares initially available for subscription under the Public Offer; and the final Offer Price shall be fixed at the low end of the indicated Offer Price range stated in this prospectus (i.e. HK\$8.6 per Offer Share) according to Chapter 4.14 of the Guide.

Details of any reallocation of the Offer Shares between the Public Offer and the Placing will be disclosed in the allotment results announcement of the Share Offer, which is expected to be published on Thursday, 5 September 2024.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### OFFER SIZE ADJUSTMENT OPTION

Our Company has granted the Offer Size Adjustment Option to the Placing Underwriters, exercisable by the Joint Overall Coordinators (for themselves and on behalf of the Placing Underwriters) at any time before 6:00 p.m. on the business day immediately before the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares, to require our Company to allot and issue up to an aggregate of 1,526,000 additional Placing Shares, representing not more than 15% of the number of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer. The Offer Size Adjustment Option will not be used for price stabilisation purposes in the secondary market after listing of the H Shares on the Stock Exchange and is not subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong). Any such additional H Shares may be issued to cover any over-allocation in the Placing and in the event that the Offer Size Adjustment Option is exercised, the Joint Overall Coordinators (for themselves and on behalf of the Placing Underwriters) may decide to whom and proportions in which the additional H Shares will be allotted. If the Offer Size Adjustment Option is exercised in full, the additional 1,526,000 H Shares and the total Offer Shares (inclusive of the shares of the Offer Size Adjustment Option) will represent approximately 4% and 33%, respectively, of our Company's enlarged share capital immediately after completion of the Share Offer and the exercise of the Offer Size Adjustment Option. The additional net proceeds received from the exercise of the Offer Size Adjustment Option will be allocated pro rata in accordance to the allocations as disclosed in "Future Plans and Use of Proceeds" in this prospectus.

Our Company will disclose in the announcement of the results of allocations and the basis of allocation of the Public Offer Shares whether, and to what extent, the Offer Size Adjustment Option has been exercised. In the event that the Offer Size Adjustment Option has not been exercised by the Joint Overall Coordinators (for themselves and on behalf of the Placing Underwriters), our Company will confirm in such announcement that the Offer Size Adjustment Option has lapsed and cannot be exercised at any future date.

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# HOW TO APPLY FOR PUBLIC OFFER SHARES

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## IMPORTANT NOTICE TO INVESTORS OF PUBLIC OFFER SHARES

### FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Public Offer and below are the procedures for application.

This prospectus is available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) under the “HKEXnews > New Listings > New Listing Information” section, and our website at [www.xyjiance.cn](http://www.xyjiance.cn).

The contents of this prospectus are identical to the prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

## A. APPLICATION FOR PUBLIC OFFER SHARES

### 1. Who Can Apply

You can apply for Public Offer Shares if you or the person(s) for whose benefit you are applying for:

- are 18 years of age or older; and
- have a Hong Kong address (*for the White Form eIPO service only*).

Unless permitted by the GEM Listing Rules or a waiver and/or consent has been granted by the Stock Exchange to us, you cannot apply for any Public Offer Shares if you or the person(s) for whose benefit you are applying for:

- are an existing Shareholder or close associates; or
- are a Director, a Supervisor or any of his/her close associates.

### 2. Application Channels

The Public Offer period will begin at 9:00 a.m. on Monday, 26 August 2024 and end at 12:00 noon on Tuesday, 3 September 2024 (Hong Kong time).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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To apply for Public Offer Shares, you may use one of the following application channels:

Application Channel	Platform	Target Investors	Application Time
<b>White Form eIPO service</b>	White Form eIPO service at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>	Applicants who would like to receive a physical H Share certificate. Public Offer Shares successfully applied for will be allotted and issued in your own name	From 9:00 a.m. on Monday, 26 August 2024 to 11:30 a.m. on Tuesday, 3 September 2024, Hong Kong time  The latest time for completing full payment of application monies will be 12:00 noon on Tuesday, 3 September 2024, Hong Kong time
<b>HKSCC EIPO channel</b>	Your broker or custodian who is a HKSCC Participant will submit <b>electronic application instructions</b> on your behalf through HKSCC's FINI system in accordance with your instruction	Applicants who would <u>not</u> like to receive a physical H Share certificate. Public Offer Shares successfully applied for will be allotted and issued in the name of HKSCC Nominees, deposited directly into CCASS and credited to your designated HKSCC Participant's stock account	Contact your broker or custodian for the earliest and latest time for giving such instructions, as this may vary by broker or custodian

The **White Form eIPO** service and the **HKSCC EIPO** channel are facilities subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day of the application period to apply for Public Offer Shares.

For those applying through the **White Form eIPO** service, once you complete payment in respect of any application instructions given by you or for your benefit through the **White Form eIPO** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. If you are a person for whose benefit the **electronic application instructions** are given, you shall be deemed to have declared that only one set of **electronic application instructions** has been given for your benefit. If you are an agent for another person, you shall be deemed to have declared that you have only given one set of **electronic application instructions** for the benefit of the person for whom you are an agent and that you are duly authorised to give those instructions as an agent.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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For the avoidance of doubt, giving an application instruction under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you apply through the **White Form eIPO** service, you are deemed to have authorised the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

By instructing your broker or custodian to apply for the Public Offer Shares on your behalf through the **HKSCC EIPO** channel, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant HKSCC Participants) to apply for Public Offer Shares on your behalf and to do on your behalf all the things stated in this prospectus and any supplement to it.

For those applying through **HKSCC EIPO** channel, an actual application will be deemed to have been made for any application instructions given by you or for your benefit to HKSCC (in which case an application will be made by HKSCC Nominees on your behalf) provided such application instruction has not been withdrawn or otherwise invalidated before the closing time of the Public Offer.

HKSCC Nominees will only be acting as a nominee for you and neither HKSCC nor HKSCC Nominees shall be liable to you or any other person in respect of any actions taken by HKSCC or HKSCC Nominees on your behalf to apply for Public Offer Shares or for any breach of the terms and conditions of this prospectus.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 3. Information Required to Apply

You must provide the following information with your application:

#### For Individual/Joint Applicants

- Full name(s)<sup>2</sup> as shown on your identity document
- Identity document's issuing country or jurisdiction
- Identity document type, with order of priority:
  - i. Hong Kong Identity Cards (“**HKID**”) card; or
  - ii. National identification document; or
  - iii. Passport; and
- Identity document number

#### For Corporate Applicants

- Full name(s)<sup>2</sup> as shown on your identity document
- Identity document's issuing country or jurisdiction
- Identity document type, with order of priority:
  - i. Legal Entity Identifier (“**LEI**”) registration document; or
  - ii. Certificate of incorporation; or
  - iii. Business registration certificate; or
  - iv. Other equivalent document; and
- Identity document number

#### Notes:

1. If you are applying through the **White Form eIPO** service, you are required to provide a valid e-mail address, a contact telephone number and a Hong Kong address. You are also required to declare that the identity information provided by you follows the requirements as described in Note 2 below. In particular, where you cannot provide a HKID number, you must confirm that you do not hold a HKID card.
2. The applicant's full name as shown on their identity document must be used. If an applicant's identity document contains both an English and Chinese name, both English and Chinese names must be used. Otherwise, either English or Chinese names will be accepted. The order of priority of the applicant's identity document type must be strictly followed and where an individual applicant has a valid HKID card, the HKID number must be used when making an application to subscribe for Public Offer Shares. Similarly for corporate applicants, a LEI number must be used if an entity has a LEI certificate.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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3. If the applicant is a trustee, the client identification data (“CID”) of the trustee, as set out above, will be required. If the applicant is an investment fund (i.e., a collective investment scheme), the CID of the asset management company or the individual fund, as appropriate, which has opened a trading account with the broker will be required, as above.
4. The maximum number of joint applicants on FINI is capped at 4 in accordance with market practice.
5. If you are applying as a nominee, you must provide: (i) the full name (as shown on the identity document), the identity document’s issuing country or jurisdiction, the identity document type; and (ii), the identity document number, for each of the beneficial owners or, in the case(s) of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.
6. If you are applying as an unlisted company and (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit and you should provide the required information in your application as stated above.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange or any other stock exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

For those applying through **HKSCC EIPO** channel, and making an application under a power of attorney, we and the Joint Overall Coordinators, as our agent, have discretion to consider whether to accept it on any conditions we think fit, including evidence of the attorney’s authority.

Failing to provide any required information may result in your application being rejected.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 4. Permitted Number of Public Offer Shares for Application

**Board lot size** : 500 H Shares

**Permitted number of Public Offer Shares for application and amount payable on application/successful allotment** : Public Offer Shares are available for application in specified board lot sizes only. Please refer to the amount payable associated with each specified board lot size in the table below.

The maximum Offer Price is HK\$10.4 per Offer Share.

If you are applying through the **HKSCC EIPO** channel, you are required to pre-fund your application based on the amount specified by your broker or custodian, as determined based on the applicable laws and regulations in Hong Kong.

By instructing your broker or custodian to apply for the Public Offer Shares on your behalf through the **HKSCC EIPO** channel, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant HKSCC Participants) to arrange payment of the final Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy by debiting the relevant nominee bank account at the Designated Bank for your broker or custodian.

If you are applying through the **White Form eIPO** service, you may refer to the table below for the amount payable for the number of Shares you have selected. You must pay the respective maximum amount payable on application in full upon application for Public Offer Shares.



## HOW TO APPLY FOR PUBLIC OFFER SHARES

No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>	No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>	No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>	No. of Public Offer Shares applied for	Amount payable <sup>(2)</sup> on application <i>HK\$</i>
500	5,252.44	5,000	52,524.42	30,000	315,146.52	100,000	1,050,488.40
1,000	10,504.89	6,000	63,029.30	35,000	367,670.95	150,000	1,575,732.60
1,500	15,757.32	7,000	73,534.19	40,000	420,195.35	200,000	2,100,976.80
2,000	21,009.77	8,000	84,039.07	45,000	472,719.78	250,000	2,626,221.00
2,500	26,262.21	9,000	94,543.96	50,000	525,244.20	300,000	3,151,465.20
3,000	31,514.65	10,000	105,048.85	60,000	630,293.05	350,000	3,676,709.40
3,500	36,767.09	15,000	157,573.25	70,000	735,341.88	400,000	4,201,953.60
4,000	42,019.53	20,000	210,097.68	80,000	840,390.72	450,000	4,727,197.80
4,500	47,271.97	25,000	262,622.10	90,000	945,439.55	509,000 <sup>(1)</sup>	5,346,985.96

(1) Maximum number of Public Offer Shares you may apply for.

(2) The amount payable is inclusive of brokerage, SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy. If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the GEM Listing Rules) and the SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC; and in the case of the AFRC transaction levy, collected by the Stock Exchange on behalf of the AFRC).

### 5. Multiple Applications Prohibited

You or your joint applicant(s) shall not make more than one application for your own benefit, except where you are a nominee and provide the information of the underlying investor in your application as required under “– A. Application for Public Offer Shares – 3. Information Required to Apply” in this section. If you are suspected of submitting or cause to submit more than one application, all of your applications will be rejected.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Multiple applications made either through (i) the **White Form eIPO** service, (ii) **HKSCC EIPO** channel, or (iii) both channels concurrently are prohibited and will be rejected. If you have made an application through the **White Form eIPO** service or **HKSCC EIPO** channel, you or the person(s) for whose benefit you have made the application shall not apply for any Placing Shares.

### 6. Terms and Conditions of an Application

By applying for Public Offer Shares through the **White Form eIPO** service or **HKSCC EIPO** channel, you (or as the case may be, HKSCC Nominees will do the following things on your behalf):

- (i) undertake to execute all relevant documents and instruct and authorise us and/or the Joint Overall Coordinators, as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association, and (if you are applying through the **HKSCC EIPO** channel) to deposit the allotted Public Offer Shares directly into CCASS for the credit of your designated HKSCC Participant's stock account on your behalf;
- (ii) confirm that you have read and understand the terms and conditions and application procedures set out in this prospectus and the designated website of the **White Form eIPO** service (or as the case may be, the agreement you entered into with your broker or custodian), and agree to be bound by them;
- (iii) (if you are applying through the **HKSCC EIPO** channel) agree to the arrangements, undertakings and warranties under the participant agreement between your broker or custodian and HKSCC and observe the General Rules of HKSCC and the HKSCC Operational Procedures for giving application instructions to apply for Public Offer Shares;
- (iv) confirm that you are aware of the restrictions on offers and sales of shares set out in this prospectus and they do not apply to you, or the person(s) for whose benefit you have made the application;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (v) confirm that you have read this prospectus and any supplement to it and have relied only on the information and representations contained therein in making your application (or as the case may be, causing your application to be made) and will not rely on any other information or representations;
- (vi) agree that our Company, the Joint Sponsors, the Joint Overall Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their or our Company's respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer (collectively, the "**Relevant Persons**"), the H Share Registrar and HKSCC will not be liable for any information and representations not in this prospectus and any supplement to it;
- (vii) agree to disclose the details of your application and your personal data and any other personal data which may be required about you and the person(s) for whose benefit you have made the application to us, the Relevant Persons, the H Share Registrar, HKSCC, HKSCC Nominees, the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations, for the purposes under "– G. Personal Data – 3. Purposes" and "4. Transfer of personal data" in this section;
- (viii) agree (without prejudice to any other rights which you may have once your application (or as the case may be, HKSCC Nominees' application) has been accepted) that you will not rescind it because of an innocent misrepresentation;
- (ix) agree that subject to Section 44A(6) of the Companies (WUMP) Ordinance, any application made by you or HKSCC Nominees on your behalf cannot be revoked once it is accepted, which will be evidenced by the notification of the result of the ballot by the H Share Registrar by way of publication of the results at the time and in the manner as specified in "– B. Publication of Results" in this section;
- (x) confirm that you are aware of the situations specified in "– C. Circumstances in which you will not be allocated Public Offer Shares" in this section;
- (xi) agree that your application or HKSCC Nominees' application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (xii) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance, the Articles of Association and laws of any place outside Hong Kong that apply to your application and that neither we nor the Relevant Persons will breach any law inside and/or outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;
- (xiii) confirm that (a) your application or HKSCC Nominees' application on your behalf is not financed directly or indirectly by our Company, any of the directors, chief executives, substantial shareholder(s) or existing shareholder(s) of our Company or any of its subsidiaries or any of their respective close associates; and (b) you are not accustomed or will not be accustomed to taking instructions from our Company, any of the directors, chief executives, substantial shareholder(s) or existing shareholder(s) of our Company or any of its subsidiaries or any of their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in your name or otherwise held by you;
- (xiv) warrant that the information you have provided is true and accurate;
- (xv) confirm that you understand that we and the Joint Overall Coordinators will rely on your declarations and representations in deciding whether or not to allocate any Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xvi) agree to accept Public Offer Shares applied for or any lesser number allocated to you under the application;
- (xvii) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the application channel of the **White Form eIPO** Service Provider or by anyone as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (1) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (2) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### B. PUBLICATION OF RESULTS

#### Results of Allocation

You can check whether you are successfully allocated any Public Offer Shares through:

Platform	Date/Time
Applying through the <b>White Form eIPO</b> service or <b>HKSCC EIPO</b> channel:	
Website	<p>The designated results of allocations website at <a href="http://www.iporeresults.com.hk">www.iporeresults.com.hk</a> (alternatively: <a href="http://www.eipo.com.hk/eIPOAllotment">www.eipo.com.hk/eIPOAllotment</a>) with a “search by ID” function on a 24-hour basis.</p> <p>The full list of (i) wholly or partially successful applicants using the <b>White Form eIPO</b> service and <b>HKSCC EIPO</b> channel, and (ii) the number of Public Offer Shares conditionally allotted to them, among other things, will be displayed on the “Allotment Results” page of the <b>White Form eIPO</b> service at <a href="http://www.iporeresults.com.hk">www.iporeresults.com.hk</a> (alternatively: <a href="http://www.eipo.com.hk/eIPOAllotment">www.eipo.com.hk/eIPOAllotment</a>).</p> <p>The Stock Exchange’s website at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and our website at <a href="http://www.xyjiance.cn">www.xyjiance.cn</a> which will provide links to the above mentioned websites of the H Share Registrar.</p>
	<p>from 11:00 p.m. on Thursday, 5 September 2024 to 12:00 midnight on Wednesday, 11 September 2024 (Hong Kong time)</p> <p>No later than 11:00 p.m. on Thursday, 5 September 2024 (Hong Kong time).</p>
Telephone	<p>+852 2862 8555 – the allocation results telephone enquiry line provided by the H Share Registrar</p>
	<p>between 9:00 a.m. and 6:00 p.m. from Friday, 6 September 2024 to Wednesday, 11 September 2024 (Hong Kong time) (except for Saturday, Sunday and public holidays in Hong Kong)</p>

For those applying through **HKSCC EIPO** channel, you may also check with your broker or custodian from 6:00 p.m. on Wednesday, 4 September 2024 (Hong Kong time)

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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HKSCC Participants can log into FINI and review the allotment result from 6:00 p.m. on Wednesday, 4 September 2024 (Hong Kong time) on a 24-hour basis and should report any discrepancies on allotments to HKSCC as soon as practicable.

### **Allocation Announcement**

We expect to announce the results of the final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocations of Public Offer Shares on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.xyjiance.cn](http://www.xyjiance.cn) by no later than 11:00 p.m. on Thursday, 5 September 2024 (Hong Kong time).

### **C. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES**

You should note the following situations in which Public Offer Shares will not be allocated to you or the person(s) for whose benefit you are applying for:

**1. If your application is revoked:**

Your application or the application made by HKSCC Nominees on your behalf may be revoked pursuant to Section 44A(6) of the Companies (WUMP) Ordinance.

**2. If we or our agents exercise our discretion to reject your application:**

We, the Joint Overall Coordinators, the H Share Registrar and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**3. If the allocation of Public Offer Shares is void:**

The allocation of Public Offer Shares will be void if the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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**4. If:**

- you make multiple applications or suspected multiple applications. You may refer to “– A. Application for Public Offer Shares – 5. Multiple Applications Prohibited” in this section on what constitutes multiple applications;
- your application instruction is incomplete;
- your payment (or confirmation of funds, as the case may be) is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- we or the Joint Overall Coordinators believe that by accepting your application, it or we would violate applicable securities or other laws, rules or regulations.

**5. If there is money settlement failure for allotted Shares:**

Based on the arrangements between HKSCC Participants and HKSCC, HKSCC Participants will be required to hold sufficient application funds on deposit with their designated bank before balloting. After balloting of Public Offer Shares, the receiving bank will collect the portion of these funds required to settle each HKSCC Participant’s actual Public Offer Share allotment from their designated bank.

**There is a risk of money settlement failure.** In the extreme event of money settlement failure by a HKSCC Participant (or its designated bank), who is acting on your behalf in settling payment for your allotted shares, HKSCC will contact the defaulting HKSCC Participant and its designated bank to determine the cause of failure and request such defaulting HKSCC Participant to rectify or procure to rectify the failure.

However, if it is determined that such settlement obligation cannot be met, the affected Public Offer Shares will be reallocated to Placing. Public Offer Shares applied for by you through the broker or custodian may be affected to the extent of the settlement failure. In the extreme case, you will not be allocated any Public Offer Shares due to the money settlement failure by such HKSCC Participant. None of us, the Relevant Persons, the H Share Registrar and HKSCC is or will be liable if Public Offer Shares are not allocated to you due to the money settlement failure.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### **D. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES**

You will receive one H Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made through the **HKSCC EIPO** channel where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application.

H Share certificates will only become valid evidence of title at 8:00 a.m. on Friday, 6 September 2024 (Hong Kong time), provided that the Share Offer has become unconditional and the right of termination described in “Underwriting” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so entirely at their own risk.

The right is reserved to retain any H Share certificate(s) and (if applicable) any surplus application monies pending clearance of application monies.



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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The following sets out the relevant procedures and time:

	<b>White Form eIPO service</b>	<b>HKSCC EIPO channel</b>
<b>Despatch/collection of H Share certificate<sup>1</sup></b>		
<b>For physical share certificates of equal or over 100,000 Offer Shares issued under your own name</b>	<p>Collection in person at the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong</p> <p>Time: from 9:00 a.m. to 1:00 p.m. on Friday, 6 September 2024 (Hong Kong time)</p> <p>If you are an individual, you must not authorise any other person to collect for you. If you are a corporate applicant, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation’s chop</p> <p>Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar</p> <p><i>Note:</i> If you do not collect your H Share certificate(s) personally within the time above, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk</p>	<p>H Share certificate(s) will be issued in the name of HKSCC Nominees, deposited into CCASS and credited to your designated HKSCC Participant’s stock account</p> <p>No action by you is required</p>

*Note:*

1. Except in the event of a tropical cyclone warning signal number 8 or above, a black rainstorm warning and/or an “extreme conditions” announcement issued after a super typhoon in force in Hong Kong in the morning on Thursday, 5 September 2024 rendering it impossible for the relevant H Share certificates to be dispatched to HKSCC in a timely manner, our Company shall procure the H Share Registrar to arrange for delivery of the supporting documents and H Share certificates in accordance with the contingency arrangements as agreed between them. You may refer to “– E. Severe Weather Arrangements” in this section.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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	<b>White Form eIPO service</b>	<b>HKSCC EIPO channel</b>
<b>For physical share certificates of less than 100,000 Offer Shares issued under your own name</b>	Your H Share certificate(s) will be sent to the address specified in your application instructions by ordinary post at your own risk  Time: Thursday, 5 September 2024	
<b>Refund mechanism for surplus application monies paid by you</b>		
<b>Date</b>	Friday, 6 September 2024	Subject to the arrangement between you and your broker or custodian
<b>Responsible party</b>	H Share Registrar	Your broker or custodian
<b>Application monies paid through single bank account</b>	<b>White Form</b> e-Refund payment instructions payment instructions to your designated bank account	Your broker or custodian will arrange refund to your designated bank account subject to the arrangement between you and it
<b>Application monies paid through multiple bank accounts</b>	Refund cheque(s) will be despatched to the address as specified in your application instructions by ordinary post at your own risk	

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### E. SEVERE WEATHER ARRANGEMENTS

#### The Opening and Closing of the Application Lists

The application lists will not open or close on Tuesday, 3 September 2024 if, there is:

- a tropical cyclone warning signal number 8 or above;
- a black rainstorm warning; and/or
- an “extreme conditions” announcement issued after a super typhoon (“**Extreme Conditions**”),

(collectively, “**Severe Weather Signals**”),

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 3 September 2024.

Instead they will open between 11:45 a.m. and 12:00 noon and/or close at 12:00 noon on the next business day which does not have **Severe** Weather Signals in force at any time between 9:00 a.m. and 12:00 noon.

Prospective investors should be aware that a postponement of the opening/closing of the application lists may result in a delay in the listing date. Should there be any changes to the dates mentioned in “Expected Timetable” in this prospectus, an announcement will be made and published on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.xyjiance.cn](http://www.xyjiance.cn) of the revised timetable.

If a **Severe** Weather Signal is hoisted on Thursday, 5 September 2024, the H Share Registrar will make appropriate arrangements for the delivery of the share certificates to the CCASS Depository’s service counter so that they would be available for trading on Friday, 6 September 2024, and for physical share certificates of less than 100,000 Public Offer Shares issued under your own name, despatch will be made by ordinary post when the post office re-opens after the **Severe** Weather Signal is lowered or cancelled (e.g. in the afternoon of Thursday, 5 September 2024 or on Friday, 6 September 2024).

If a **Severe** Weather Signal is hoisted on Friday, 6 September 2024, for physical share certificates of equal or over 100,000 Public Offer Shares issued under your own name, you may collect your share certificates from the H Share Registrar’s office after the **Severe** Weather Signal is lowered or cancelled (e.g. in the afternoon of Friday, 6 September 2024 or on Monday, 9 September 2024).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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**Prospective investors should be aware that if they choose to receive physical H Share certificates issued in their own name, there may be a delay in receiving the H Share certificates.**

### **F. ADMISSION OF THE H SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

You should seek the advice of your broker or other professional advisor for details of the settlement arrangement as such arrangements may affect your rights and interests.

### **G. PERSONAL DATA**

The following personal information collection statement applies to any personal data collected and held by our Company, the H Share Registrar, the receiving bank(s) and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. This personal data may include client identifier(s) and your identification information. By giving application instructions to HKSCC, you acknowledge that you have read, understood and agree to all of the terms of the personal information collection statement below.

#### **1. Personal Information Collection Statement**

This personal information collection statement informs the applicant for, and holder of, Public Offer Shares, of the policies and practices of our Company and the H Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

#### **2. Reasons for the collection of your personal data**

It is necessary for applicants and registered holders of Public Offer Shares to ensure that personal data supplied to our Company or its agents and the H Share Registrar is accurate and up-to-date when applying for Public Offer Shares or transferring Public Offer Shares into or out of their names or in procuring the services of the H Share Registrar.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Failure to supply the requested data or supplying inaccurate data may result in your application for Public Offer Shares being rejected, or in the delay or the inability of our Company or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of Public Offer Shares which you have successfully applied for and/or the despatch of H Share certificate(s) to which you are entitled.

It is important that applicants for and holders of Public Offer Shares inform our Company and the H Share Registrar immediately of any inaccuracies in the personal data supplied.

### 3. Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check and **White Form** e-Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of Public Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;
- maintaining or updating the register of members of our Company;
- verifying identities of applicants for and holders of the Shares and identifying any duplicate applications for the Shares;
- facilitating Public Offer Shares balloting;
- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from our Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- any other incidental or associated purposes relating to the above and/or to enable our Company and the H Share Registrar to discharge their obligations to applicants and holders of the Shares and/or regulators and/or any other purposes to which applicants and holders of the Shares may from time to time agree.

#### **4. Transfer of personal data**

Personal data held by our Company and the H Share Registrar relating to the applicants for and holders of Public Offer Shares will be kept confidential but our Company and the H Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our Company's appointed agents such as financial advisers, receiving bank(s) and overseas principal share registrar;
- HKSCC or HKSCC Nominees, who will use the personal data and may transfer the personal data to the H Share Registrar for the purposes of providing its services or facilities or performing its functions in accordance with its rules or procedures and operating FINI and CCASS (including where applicants for the Public Offer Shares request a deposit into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company or the H Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations, including for the purpose of the Stock Exchange's administration of the GEM Listing Rules and the SFC's performance of its statutory functions; and
- any persons or institutions with which the holders of Public Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or brokers etc.

#### **5. Retention of personal data**

Our Company and the H Share Registrar will keep the personal data of the applicants and holders of Public Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### **6. Access to and correction of personal data**

Applicants for and holders of Public Offer Shares have the right to ascertain whether our Company or the H Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. Our Company and the H Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to our Company and the H Share Registrar, at their registered address disclosed in “Corporate information” in this prospectus or as notified from time to time, for the attention of the joint company secretaries, or the H Share Registrar for the attention of the privacy compliance officer.

*The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GUANGDONG SYNTRUST GK TESTING AND CERTIFICATION TECH SERVICE CENTER CO., LTD. AND HUAJIN CORPORATE FINANCE (INTERNATIONAL) LIMITED AND YUE XIU CAPITAL LIMITED**

**Introduction**

We report on the historical financial information of Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (the "Company") set out on pages I-4 to I-57, which comprises the balance sheets as at 31 December 2021, 2022 and 2023 and 30 June 2024, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024 (the "Track Record Period") and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-57 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 26 August 2024 (the "Prospectus") in connection with the initial listing of H shares of the Company on GEM of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.



**Reporting accountant's responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2021, 2022 and 2023 and 30 June 2024 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Company which comprises the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2023 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical

and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

*Dividends*

We refer to Note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

*No statutory financial statements for the Company*

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 August 2024

**I. HISTORICAL FINANCIAL INFORMATION OF THE COMPANY****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Company for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## (a) Statements of Comprehensive Income

	Note	Year ended 31 December			Six months ended 30 June	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Revenue	6	39,781	19,966	41,500	16,329	22,830
Cost of sales	7	<u>(9,605)</u>	<u>(8,472)</u>	<u>(11,719)</u>	<u>(5,494)</u>	<u>(6,658)</u>
<b>Gross profit</b>		30,176	11,494	29,781	10,835	16,172
General and administrative expenses	7	(4,726)	(6,383)	(10,157)	(3,703)	(5,485)
Research and development expenses	7	–	–	(113)	–	(280)
Net impairment losses on financial assets	3.1(b)	(2,121)	(1,380)	(1,317)	(1,589)	(127)
Other income		548	417	620	317	60
Other losses		<u>–</u>	<u>(13)</u>	<u>(931)</u>	<u>–</u>	<u>(84)</u>
<b>Operating profit</b>		<u>23,877</u>	<u>4,135</u>	<u>17,883</u>	<u>5,860</u>	<u>10,256</u>
Finance income	9	100	97	70	33	49
Finance costs	9	<u>(254)</u>	<u>(281)</u>	<u>(219)</u>	<u>(142)</u>	<u>(488)</u>
Finance costs – net	9	<u>(154)</u>	<u>(184)</u>	<u>(149)</u>	<u>(109)</u>	<u>(439)</u>
<b>Profit before income tax</b>		23,723	3,951	17,734	5,751	9,817
Income tax expense	10	<u>(5,986)</u>	<u>(1,039)</u>	<u>(4,480)</u>	<u>(1,467)</u>	<u>(2,474)</u>
Net profit		<u>17,737</u>	<u>2,912</u>	<u>13,254</u>	<u>4,284</u>	<u>7,343</u>
<b>Other comprehensive income, net of tax</b>		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Total comprehensive income</b>		<u>17,737</u>	<u>2,912</u>	<u>13,254</u>	<u>4,284</u>	<u>7,343</u>
<b>Earnings per share attributable to ordinary equity holders of the Company</b>						
– Basic and diluted ( <i>expressed in RMB per share</i> )	11	<u>0.89</u>	<u>0.15</u>	<u>0.64</u>	<u>0.21</u>	<u>0.31</u>

## (b) Balance sheets

	<i>Note</i>	As at 31 December			As at
		2021	2022	2023	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	3,949	4,812	4,225	15,906
Right-of-use assets	14	1,953	2,974	1,688	37,362
Deferred tax assets	15	2,301	2,462	3,040	3,303
Intangible assets		79	69	116	339
Other receivables and prepayments	18	4,187	3,976	3,025	2,985
		<u>12,469</u>	<u>14,293</u>	<u>12,094</u>	<u>59,895</u>
<b>Current assets</b>					
Contract fulfilment costs	16	820	2,053	1,390	2,440
Inventory		–	–	–	233
Trade and other receivables and prepayments	18	36,599	35,843	46,201	55,304
Cash and cash equivalents	19	35,846	32,221	59,145	42,459
		<u>73,265</u>	<u>70,117</u>	<u>106,736</u>	<u>100,436</u>
<b>Total assets</b>		<u><u>85,734</u></u>	<u><u>84,410</u></u>	<u><u>118,830</u></u>	<u><u>160,331</u></u>
<b>EQUITY</b>					
Paid-in capital	20	489	1,820	–	–
Share capital	20	–	–	23,750	23,750
Reserves	21	910	910	58,504	58,504
Retained earnings		65,589	66,601	20,331	27,674
<b>Total equity</b>		<u>66,988</u>	<u>69,331</u>	<u>102,585</u>	<u>109,928</u>

	<i>Note</i>	As at 31 December			As at
		2021	2022	2023	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Lease liabilities	14	<u>4,995</u>	<u>5,786</u>	<u>1,494</u>	<u>37,119</u>
		<u>4,995</u>	<u>5,786</u>	<u>1,494</u>	<u>37,119</u>
<b>Current liabilities</b>					
Trade payables	22	105	738	612	492
Contract liabilities	6	750	1,060	1,394	1,232
Lease liabilities	14	391	693	508	1,483
Current income tax liabilities		7,652	2,016	3,267	994
Other payables and accruals	23	<u>4,853</u>	<u>4,786</u>	<u>8,970</u>	<u>9,083</u>
		<u>13,751</u>	<u>9,293</u>	<u>14,751</u>	<u>13,284</u>
<b>Total liabilities</b>		<u>18,746</u>	<u>15,079</u>	<u>16,245</u>	<u>50,403</u>
<b>Total equity and liabilities</b>		<u><u>85,734</u></u>	<u><u>84,410</u></u>	<u><u>118,830</u></u>	<u><u>160,331</u></u>

## (c) Statements of Changes in Equity

	<i>Note</i>	<b>Paid-in capital</b> <i>RMB'000</i>	<b>Share capital</b> <i>RMB'000</i>	<b>Reserves</b> <i>RMB'000</i>	<b>Retained earnings</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Balance at 1 January 2021</b>		489	–	910	49,752	51,151
Profit for the year		–	–	–	17,737	17,737
<b>Total comprehensive income</b>		–	–	–	17,737	17,737
Distribution of dividends	12	–	–	–	(1,900)	(1,900)
<b>Transactions with owners of the Company</b>		–	–	–	(1,900)	(1,900)
<b>Balance at 31 December 2021</b>		<u>489</u>	<u>–</u>	<u>910</u>	<u>65,589</u>	<u>66,988</u>
<b>Balance at 1 January 2022</b>		489	–	910	65,589	66,988
Profit for the year		–	–	–	2,912	2,912
<b>Total comprehensive income</b>		–	–	–	2,912	2,912
Distribution of dividends	12	–	–	–	(1,900)	(1,900)
Capital contribution from an equity holder	20	1,331	–	–	–	1,331
<b>Transactions with owners of the Company</b>		1,331	–	–	(1,900)	(569)
<b>Balance at 31 December 2022</b>		<u>1,820</u>	<u>–</u>	<u>910</u>	<u>66,601</u>	<u>69,331</u>

**APPENDIX I**
**ACCOUNTANT'S REPORT**

	<i>Note</i>	<b>Paid-in capital RMB'000</b>	<b>Share capital RMB'000</b>	<b>Reserves RMB'000</b>	<b>Retained earnings RMB'000</b>	<b>Total RMB'000</b>
<b>Balance at 1 January 2023</b>		1,820	–	910	66,601	69,331
Profit for the year		<u>–</u>	<u>–</u>	<u>–</u>	<u>13,254</u>	<u>13,254</u>
<b>Total comprehensive income</b>		<u>–</u>	<u>–</u>	<u>–</u>	<u>13,254</u>	<u>13,254</u>
Transfer from retained earnings to reserves	21	–	–	57,370	(57,370)	–
Transfer from capital reserves to paid-in capital	20, 21	2,930	–	(2,930)	–	–
Paid-in capital contribution from an equity holder	20, 21	250	–	4,750	–	5,000
Conversion into a joint stock company	20, 21	(5,000)	20,000	(14,171)	(829)	–
Share capital contribution from an equity holder	20, 21	–	3,750	11,250	–	15,000
Appropriation to statutory reserves	21	<u>–</u>	<u>–</u>	<u>1,325</u>	<u>(1,325)</u>	<u>–</u>
<b>Transactions with owners of the Company</b>		<u>(1,820)</u>	<u>23,750</u>	<u>57,594</u>	<u>(59,524)</u>	<u>20,000</u>
<b>Balance at 31 December 2023</b>		<u>–</u>	<u>23,750</u>	<u>58,504</u>	<u>20,331</u>	<u>102,585</u>
<b>Balance at 1 January 2024</b>		–	23,750	58,504	20,331	102,585
Profit for the period		<u>–</u>	<u>–</u>	<u>–</u>	<u>7,343</u>	<u>7,343</u>
<b>Total comprehensive income</b>		<u>–</u>	<u>–</u>	<u>–</u>	<u>7,343</u>	<u>7,343</u>
<b>Balance at 30 June 2024</b>		<u>–</u>	<u>23,750</u>	<u>58,504</u>	<u>27,674</u>	<u>109,928</u>
<b>Unaudited:</b>						
<b>Balance at 1 January 2023</b>		1,820	–	910	66,601	69,331
Profit for the period		<u>–</u>	<u>–</u>	<u>–</u>	<u>4,284</u>	<u>4,284</u>
<b>Total comprehensive income</b>		<u>–</u>	<u>–</u>	<u>–</u>	<u>4,284</u>	<u>4,284</u>
Balance at 30 June 2023		<u>1,820</u>	<u>–</u>	<u>910</u>	<u>70,885</u>	<u>73,615</u>



## (d) Statements of Cash Flows

	Note	Year ended 31 December			Six months ended 30 June	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
<b>Cash flows from operating activities</b>						
Cash generated from operations	24	13,050	4,891	25,421	1,052	6,601
Income tax paid		(5,012)	(6,836)	(3,807)	(1,168)	(5,010)
Interest received		100	97	328	33	49
<b>Net cash generated from/(used in) operating activities</b>		<u>8,138</u>	<u>(1,848)</u>	<u>21,942</u>	<u>(83)</u>	<u>1,640</u>
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment		(1,192)	(1,511)	(4,536)	(1,095)	(11,692)
Purchase of intangible assets		(35)	–	(56)	–	(237)
Decrease in amounts due from immediate holding company		–	436	–	–	–
Increase in amounts due from a related party	27(b)	–	–	(7,850)	(7,850)	–
Decrease in amounts due from a related party	27(b)	–	–	7,850	–	–
Receipt of rental fee in relation to sublease		345	80	–	–	–
<b>Net cash used in investing activities</b>		<u>(882)</u>	<u>(995)</u>	<u>(4,592)</u>	<u>(8,945)</u>	<u>(11,929)</u>
<b>Cash flows from financing activities</b>						
Distribution of dividends	12	(1,900)	(1,900)	–	–	–
Proceeds of capital contribution from equity holders	20(a), 21(c)	–	1,331	20,000	–	–
Principal elements and interest elements of lease payments	14	(532)	(213)	(386)	(386)	(192)
Payments of listing expenses to be deducted against equity		–	–	(10,040)	–	(6,205)
<b>Net cash (used in)/generated from financing activities</b>		<u>(2,432)</u>	<u>(782)</u>	<u>9,574</u>	<u>(386)</u>	<u>(6,397)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>						
Cash and cash equivalents at beginning of the year/period		31,022	35,846	32,221	32,221	59,145
<b>Cash and cash equivalents at end of the year/period</b>		<u>35,846</u>	<u>32,221</u>	<u>59,145</u>	<u>22,807</u>	<u>42,459</u>

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. GENERAL INFORMATION**

Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (the “Company”) is a state-owned enterprise incorporated in Guangdong Province of the People’s Republic of China (the “PRC”). The Company was established as a joint-stock cooperative enterprise on 28 March 2000. The Company was converted into a limited liability company in July 2023 and was further converted into a joint stock company with limited liability in October 2023. The address of the Company’s registered office is Floor 1, Building A, Xinyi Construction Bureau Courtyard, Maoming City, Guangdong Province.

The Company is principally engaged in providing testing services and inspection services for construction projects, construction materials and food in the People’s Republic of China (the “PRC”) (the “Listing Business”). The Company’s immediate holding company is Xinyi City Construction Engineering Quality and Safety Affairs Center (“Xinyi City CEQS Center”), a public institution of the Xinyi City People’s Government under the Xinyi City Bureau of Housing and Urban-Rural Development.

**2. BASIS OF PREPARATION****(i) Compliance with HKFRS**

The Historical Financial Information of the Company has been prepared in accordance with principal accounting policies as set out below which are in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA. The principal accounting policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

**(ii) Accounting policies**

The material accounting policies applied in the preparation of the financial information has been consistently applied to all the years presented, unless otherwise stated.

Other than those material accounting policies information as disclosed in the notes to the relevant financial line items or transactions in this Historical Financial Information, a summary of the other accounting policies information has been set out in Note 30 to this Historical Financial information.

*New and amended standards adopted by the Company*

In preparation of the Historical Financial Information, all of the new standards, amendments to standards and interpretations that are effective during the Track Record Period have been adopted by the Company consistently throughout the Track Record Period.

The following new standards, amendments to accounting standards and interpretations have been issued but are not effective for the Track Record Period and have not been early adopted by the Company:

		<b>Effective for accounting periods beginning on or after</b>
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 9 and HKFRS 7 (Amendments)	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability Disclosures	1 January 2027
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	To be determined

The Company has already commenced an assessment of the impact of these new and amended standards and has concluded on a preliminary basis that adoption of these new and amended standards is not expected to have significant impact on the financial performance and position of the Company when they become effective.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company has no significant interest-bearing liabilities during the Track Record Period. The fair value interest rate risk that arises from financial assets and liabilities carried at fixed rates is not significant for the Company.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the financial department under policies approved by the senior management of the Company.

(a) *Foreign exchange risk*

The Company's normal operating activities are principally conducted in RMB. The Company collects all of its revenue in RMB and most of its expenditures are also denominated in RMB. The foreign exchange risk mainly arises from the exposure of RMB against Hong Kong dollars ("HKD") and United State dollars ("USD") for certain other payables for listing expenses. Amount of approximately RMB3,971,000 (2023: RMB4,371,000, 2022: nil and 2021: nil) were denominated in HKD and no other payables for listing expenses was denominated in USD as at 30 June 2024 (2023: RMB196,000, 2022: nil and 2021: nil).

The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

As at 30 June 2024, if RMB had strengthened/weakened by 5 percent against HKD and USD with all other variables held constant, post-tax profit for the year would have been approximately RMB149,000 (2023: RMB171,000, 2022: nil and 2021: nil) higher/lower, mainly as a result of the net foreign exchange gains on translation of monetary liabilities denominated in HKD and USD.

(b) *Credit risk*

The Company is exposed to credit risk in relation to its trade receivables, other receivables and cash and cash equivalents. The carrying amounts of trade receivables, other receivables and cash and cash equivalents represent the Company's maximum exposure to credit risk in relation to financial assets. The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

To manage this risk, cash at banks are placed with reputable financial institutions in the PRC. For trade receivables and other receivables, the management of the Company has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The credit quality of customers is assessed after taking into account the customers' financial position and past experience with the customers.

*Impairment of financial assets*

The Company has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables;
- Other receivables;
- Cash and cash equivalents.

## (i) Trade receivables

The Company applies the simplified approach prescribed by HKFRS9 to measure expected credit losses which uses a lifetime expected losses allowance for all trade receivables.

Significant customers with different credit risk profiles and higher risk of default (mainly comprised material receivables with substantial delayed settlement and without collateral) are assessed on an individual basis. The individual assessment focused on the customer payment history and current and future ability for payment taking into account the information specific to the customer. Individually impaired trade receivables represented customers with higher credit risk profile.

To measure the expected credit losses, except for those individual receivables which loss allowance has been provided for, trade receivables have been grouped based on shared credit risk characteristics and aging periods. Future cash flows for each group of receivables are estimated on the basis of historical default rates, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the expected loss rate for certain customers who were in bankruptcy, liquidation, insolvency or in other situations with higher default risk are assessed specifically by the directors as follows.

**As at 31 December 2021**

Expected credit loss rates	90.48%
Gross carrying amount ( <i>RMB'000</i> )	5,105
Loss allowance provision ( <i>RMB'000</i> )	4,619

**As at 31 December 2022**

Expected credit loss rates	90.68%
Gross carrying amount ( <i>RMB'000</i> )	5,215
Loss allowance provision ( <i>RMB'000</i> )	4,729

**As at 31 December 2023**

Expected credit loss rates	99.64%
Gross carrying amount ( <i>RMB'000</i> )	9,094
Loss allowance provision ( <i>RMB'000</i> )	9,061

**As at 30 June 2024**

Expected credit loss rates	100.00%
Gross carrying amount ( <i>RMB'000</i> )	8,810
Loss allowance provision ( <i>RMB'000</i> )	8,810

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the loss allowance provision for the trade receivables (excluding trade receivables subject to specific expected loss rate) was determined as follows. The expected credit losses below also incorporated forward looking information.

	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Over 4 years	Total
<b>As at 31 December 2021</b>						
Expected credit loss rates	7.76%	11.68%	21.07%	32.21%	100.00%	11.30%
Gross carrying amount (RMB'000)	21,233	11,900	5,813	357	71	39,374
Loss allowance provision (RMB'000)	<u>1,648</u>	<u>1,390</u>	<u>1,225</u>	<u>115</u>	<u>71</u>	<u>4,449</u>
<b>As at 31 December 2022</b>						
Expected credit loss rates	7.58%	13.09%	17.66%	31.78%	100.00%	14.36%
Gross carrying amount (RMB'000)	14,071	11,563	10,304	3,697	133	39,768
Loss allowance provision (RMB'000)	<u>1,067</u>	<u>1,514</u>	<u>1,820</u>	<u>1,175</u>	<u>133</u>	<u>5,709</u>
<b>As at 31 December 2023</b>						
Expected credit loss rates	7.12%	13.25%	19.58%	35.34%	100.00%	8.67%
Gross carrying amount (RMB'000)	27,307	3,102	1,083	566	13	32,071
Loss allowance provision (RMB'000)	<u>1,943</u>	<u>411</u>	<u>212</u>	<u>200</u>	<u>13</u>	<u>2,779</u>
<b>As at 30 June 2024</b>						
Expected credit loss rates	7.22%	13.29%	21.60%	38.53%	100.00%	8.76%
Gross carrying amount (RMB'000)	31,019	3,394	1,023	571	25	36,032
Loss allowance provision (RMB'000)	<u>2,241</u>	<u>451</u>	<u>221</u>	<u>220</u>	<u>25</u>	<u>3,158</u>

## (ii) Other financial assets at amortised cost

Credit risk also arises from cash and cash equivalents and other receivables. The carrying amount of each class of these financial assets represents the Company's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage risk arising from cash and cash equivalents, the Company mainly transacts with state-owned or reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. Therefore, as at 31 December 2021, 2022 and 2023 and 30 June 2024, the expected credit loss of cash and cash equivalents is assessed to be immaterial.

For impairment on other receivables, it is measured as either 12-months expected credit losses or lifetime expected credit loss, depending on whether there has been significant increase in credit risk since initial recognition (stage 1). Once there is a significant increase in credit risk, lifetime expected credit losses shall be assessed (stage 2). Once it is credit impaired (e.g. default), lifetime expected credit losses shall still be assessed (stage 3).

## Significant increase in credit risk

The Company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the end of reporting period with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding looking adjustment factors. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Company and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

The expected credit loss for other receivables from a third party as at 31 December 2021, 2022 and 2023 and 30 June 2024 was classified into stage 3 and measured on a lifetime basis as the receivable had been long past due.

	As at 31 December			As at
	2021	2022	2023	30 June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
<b>Other receivables from a third party</b>				
Gross carrying amount	633	559	559	559
Expected loss rate	84.20%	100%	100%	100%
Loss allowance provision	533	559	559	559

All the Company's other receivables, excluding the above amounts due from a third party subject to specific expected loss rate, as at 31 December 2021, 2022 and 2023 and 30 June 2024 were classified into stage 1 and their expected credit losses were measured on a 12-month basis as there has been no significant increase in credit risk since initial recognition.

	As at 31 December			As at
	2021	2022	2023	30 June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
<b>Other receivables (excluding receivables due from a third party)</b>				
Gross carrying amount	5,309	4,829	548	404
Expected loss rate	2.02%	1.88%	1.09%	1.24%
Loss allowance provision	107	91	6	5



As at 31 December 2021, 2022 and 2023 and 30 June 2024, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2021	7,031	556	7,587
Net impairment losses recognised on financial assets	2,037	84	2,121
As at 31 December 2021	9,068	640	9,708
As at 1 January 2022	9,068	640	9,708
Net impairment losses recognised on financial assets	1,370	10	1,380
As at 31 December 2022	10,438	650	11,088
As at 1 January 2023	10,438	650	11,088
Net impairment losses recognised on financial assets/(Reversal)	1,402	(85)	1,317
As at 31 December 2023	11,840	565	12,405
<b>As at 1 January 2024</b>	11,840	565	12,405
Net impairment losses recognised on financial assets/(Reversal)	128	(1)	127
As at 30 June 2024	11,968	564	12,532

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the gross carrying amount of trade and other receivables was RMB50,421,000, RMB50,371,000 and RMB42,272,000 and RMB45,805,000, respectively, which represented the maximum exposure to credit loss as at the respective balance sheet dates.

(c) **Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due, resulting from amount and maturity mismatches of assets and liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding. Due to the nature of the underlying businesses, the Company's management responsible for treasury function aims to maintain flexibility in funding by keeping sufficient cash available.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Within 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Between 5 and 10 years <i>RMB'000</i>	Over 10 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2021</b>						
Trade payables	105	–	–	–	–	105
Other payables and accruals (excluding non-financial liabilities)	301	–	–	–	–	301
Lease liabilities (including interests to be paid)	629	558	2,047	3,172	325	6,731
	<u>1,035</u>	<u>558</u>	<u>2,047</u>	<u>3,172</u>	<u>325</u>	<u>7,137</u>
<b>As at 31 December 2022</b>						
Trade payables	738	–	–	–	–	738
Other payables and accruals (excluding non-financial liabilities)	1,345	–	–	–	–	1,345
Lease liabilities (including interests to be paid)	973	900	2,826	3,097	–	7,796
	<u>3,056</u>	<u>900</u>	<u>2,826</u>	<u>3,097</u>	<u>–</u>	<u>9,879</u>
<b>As at 31 December 2023</b>						
Trade payables	612	–	–	–	–	612
Other payables and accruals (excluding non-financial liabilities)	6,317	–	–	–	–	6,317
Lease liabilities (including interests to be paid)	588	411	1,164	65	–	2,228
	<u>7,517</u>	<u>411</u>	<u>1,164</u>	<u>65</u>	<u>–</u>	<u>9,157</u>
<b>As at 30 June 2024</b>						
Trade payables	492	–	–	–	–	492
Other payables and accruals (excluding non-financial liabilities)	7,074	–	–	–	–	7,074
Lease liabilities (including interests to be paid)	3,324	3,145	9,222	17,341	27,031	60,063
	<u>10,890</u>	<u>3,145</u>	<u>9,222</u>	<u>17,341</u>	<u>27,031</u>	<u>67,629</u>

### 3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

The Company monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes trade payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratio is not applicable when the amount of cash and cash equivalents is higher than gross debt. The net surplus at the end of the Track Record Period is calculated as follows:

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	105	738	612	492
Other payables and accruals	4,853	4,786	8,970	9,083
Less: Cash and cash equivalents	<u>(35,846)</u>	<u>(32,221)</u>	<u>(59,145)</u>	<u>(42,459)</u>
Net surplus	(30,888)	(26,697)	(49,563)	(32,884)
Equity attributable to owners of the Company	<u>66,988</u>	<u>69,331</u>	<u>102,585</u>	<u>109,928</u>

### 3.3 Fair value estimation

The Company analyses its financial instruments' fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's financial instruments including trade receivables, cash and cash equivalents, other receivables, trade payables and other payables are not measured at fair value and are measured at amortised cost in the balance sheet.

For these instruments, the fair values are not materially different from their carrying amounts since either the interest receivable is close to current market rates or the instruments are short-term in nature.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of Historical Financial Information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Company's accounting policies. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

##### (a) Provision for expected losses of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 3.1(b).

#### 5 SEGMENT INFORMATION

The Company's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the general manager of the Company. As a result of this evaluation, the CODM considers that the Company's operations are operated and managed as a single segment. Accordingly, no segment information is presented.

During the Track Record Period, the operating of the Company is domiciled in the PRC and the Company's revenue was attributable to the market in the PRC.

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Company's non-current assets were all located in the PRC.

#### 6 REVENUE

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue from contracts with customers:					
– Testing services	38,470	15,402	36,026	15,209	21,538
– Inspection services	1,311	4,564	5,474	1,120	1,292
	<u>39,781</u>	<u>19,966</u>	<u>41,500</u>	<u>16,329</u>	<u>22,830</u>
Timing of revenue recognition:					
– At point in time	38,470	15,402	36,026	15,209	21,538
– Over time	1,311	4,564	5,474	1,120	1,292
	<u>39,781</u>	<u>19,966</u>	<u>41,500</u>	<u>16,329</u>	<u>22,830</u>

Revenue from transactions with external customers amounting to approximately 10% or more of the Company's revenue are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Customer A	5,078	N/A*	N/A*	N/A*	N/A*
Customer B	N/A*	3,671	N/A*	N/A*	N/A*
Customer C	N/A*	N/A*	4,470	N/A*	N/A*
Customer D	N/A*	N/A*	N/A*	1,882	N/A*
Customer E	N/A*	N/A*	N/A*	N/A*	2,882
Customer F	N/A*	N/A*	N/A*	N/A*	2,799

*Note*\*: The customer contributed less than 10% of total revenue for the corresponding year.

**(a) Accounting policies of revenue recognition**

The Company generates revenue primarily from the provision of testing services (Note 6(a)(i)) and inspection services (Note 6(a)(ii)). The Company enters into contracts that may involve multiple performance obligations among which the Company allocates the transaction price on the basis of the standalone selling prices of each performance obligation. Standalone selling prices are generally determined based on the prices charged to customers. If it is not directly observable, the standalone selling price is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information, the data utilised, and considering the Company's pricing policies and practices in making pricing decisions.

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

A contract asset is the Company's right to consideration in exchange for goods and services that the Company has transferred to a customer. A trade receivable is recorded when the Company has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Company has a right to an amount of consideration that is unconditional, before the Company transfers a good or service to the customer, the Company presents the contract liability when the payment is made or a receivable is recorded, whichever is earlier. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration, or an amount of consideration is due, from the customer.

(i) **Testing services**

The Company performs testing services for foundation, building structure, construction materials, infrastructure and public roads and food. The performance obligation is satisfied upon completion of the promised services.

(ii) **Inspection services**

The Company also provides inspection services. Such services are satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs. Revenue is recognised for these services based on the stage of completion of the contract using output method.

(b) **Contract liabilities**

The Company has recognised the following revenue-related contract liabilities:

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Testing services	729	1,060	1,394	1,232
Inspection services	21	–	–	–
	<u>750</u>	<u>1,060</u>	<u>1,394</u>	<u>1,232</u>

Contract liabilities represent cash received from customers in advance for which the goods and services are yet to be delivered. A major portion of contract liabilities at the beginning of the year will be recognised into revenue next year.

(c) **Unsatisfied performance obligations**

At 31 December 2021, 2022 and 2023 and 30 June 2024, the unsatisfied performance obligations are part of the contracts that has an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

## 7 EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Employee benefit expenses ( <i>Note (8)</i> )	9,574	10,607	13,114	5,862	6,755
Depreciation and amortisation	1,257	1,317	1,891	1,004	1,623
Testing materials and services purchased and used	1,538	959	1,126	629	831
Office expenses	905	978	1,502	646	827
Repair and maintenance costs	448	307	398	187	199
Listing expenses	–	–	1,779	–	887
Professional service fee	57	322	1,237	657	978
Taxes and surcharges	252	185	312	132	71
Others	300	180	630	80	252
	<u>14,331</u>	<u>14,855</u>	<u>21,989</u>	<u>9,197</u>	<u>12,423</u>

## 8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	6,580	7,656	8,964	3,908	4,636
Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances ( <i>Note (a)</i> )	2,563	2,364	3,621	1,672	1,778
Other employee benefits ( <i>Note (b)</i> )	431	587	529	282	341
	<u>9,574</u>	<u>10,607</u>	<u>13,114</u>	<u>5,862</u>	<u>6,755</u>

## (a) Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances

Full time employees of the Company in the PRC are members of a state-managed retirement benefit schemes operated by the PRC Government. The Company is required to contribute a specified percentage of payroll costs, subject to certain ceiling, as determined by local government authority to the pension costs – defined contribution plans, housing funds, medical insurances and other social insurances to fund the benefits. The Company's liabilities in respect of benefits schemes are limited to the contribution payable in each year.

No forfeited contributions were utilised during the Track Record Period to offset the Company's contribution to the abovementioned retirement benefit schemes.

**(b) Other employee benefits**

Other employee benefits mainly include termination benefits, holiday benefits, insurance benefits, and others.

**(c) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Company for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024 included nil, nil, 3, nil and 2 directors, respectively, whose emoluments are reflected in the analysis shown in note 28. The emoluments of the remaining individuals during the years/ periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Wages, salaries and bonuses	630	765	276	341	385
Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances	296	198	126	163	123
Other employee benefits	63	69	25	40	37
	<u>989</u>	<u>1,032</u>	<u>427</u>	<u>544</u>	<u>545</u>

The emoluments of these remaining individuals of the Company fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
				(Unaudited)	
Emoluments bands (in Hong Kong Dollars (“HKD”))					
Nil to HKD500,000	<u>5</u>	<u>5</u>	<u>2</u>	<u>5</u>	<u>3</u>

During the Track Record Period, no emolument was paid by the Company to any of the five highest paid individuals above as an inducement to join, upon joining the Company, leave the Company or as compensation for loss of office.



## 9 FINANCE COSTS – NET

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<b>Finance income</b>					
Interest income from bank deposits	100	97	70	33	49
<b>Finance costs</b>					
Interest expenses on lease liabilities	(254)	(281)	(219)	(142)	(488)
Finance costs – net	(154)	(184)	(149)	(109)	(439)

## 10 INCOME TAX EXPENSE

The Company was incorporated in the PRC. Enterprise income tax (“EIT”) was made on the estimated assessable profits of the Company and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC EIT rate is 25% during the Track Record Period.

The income tax expenses of the Company for the Track Record Period are analysed as below.

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax expenses	6,693	1,200	5,058	1,694	2,737
Deferred income tax credit ( <i>Note 15</i> )	(707)	(161)	(578)	(227)	(263)
	5,986	1,039	4,480	1,467	2,474

The income tax expense for the Track Record Period can be reconciled to the profit before income tax as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	23,723	3,951	17,734	5,751	9,817
Tax calculated at tax rates applicable to profit in the respective tax jurisdictions	5,931	988	4,434	1,438	2,454
– Expenses not deductible for tax purposes	55	51	46	29	20
Income tax expenses	5,986	1,039	4,480	1,467	2,474

## 11 EARNINGS PER SHARE

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
				(Unaudited)	
Profit attributable to owners of the Company ( <i>RMB'000</i> )	17,737	2,912	13,254	4,284	7,343
Weighted average number of ordinary shares outstanding ( <i>Note (a) and (c)</i> )	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,575,342</u>	<u>20,000,000</u>	<u>23,750,000</u>
Basic and diluted earnings per share ( <i>in RMB</i> )	<u>0.89</u>	<u>0.15</u>	<u>0.64</u>	<u>0.21</u>	<u>0.31</u>

- (a) In October 2023, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. By reference to the Company's net asset value as at 31 July 2023, the Company issued 20,000,000 ordinary shares at a par value of RMB1 each. For the purpose of calculation of earnings per shares issued during the Track Record Period, ordinary shares issued pursuant to the conversion were treated as if they had been issued at the beginning of year ended 31 December 2021.
- (b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had no potential ordinary shares outstanding during the Track Record Period. Therefore, diluted earnings per share was the same as the basic earnings per share.
- (c) In November 2023, the Company increased its share capital from RMB20,000,000 to RMB23,750,000 by issuing 3,750,000 new shares to Xinyi Xinhui for a cash consideration of RMB15,000,000. Upon the completion of such capital injection, the Company was owned as to 80% by Xinyi City CEQS Center and 20% by Xinyi Xinhui, respectively.

## 12 DIVIDENDS

Dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholder or directors, where appropriate.

In May 2021 and September 2021, cash dividends of RMB1,900,000 in total were declared and paid. In March 2022, a cash dividend of RMB1,900,000 was declared and paid.

## 13 PROPERTY, PLANT AND EQUIPMENT

	Machinery equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Year ended 31 December 2021</b>					
Opening net book amount	2,837	374	201	70	3,482
Additions	956	218	249	–	1,423
Depreciation charge	(684)	(141)	(105)	(26)	(956)
Closing net book amount	<u>3,109</u>	<u>451</u>	<u>345</u>	<u>44</u>	<u>3,949</u>
<b>As at 31 December 2021</b>					
Cost	8,653	840	727	830	11,050
Accumulated depreciation	(5,544)	(389)	(382)	(786)	(7,101)
Net book amount	<u>3,109</u>	<u>451</u>	<u>345</u>	<u>44</u>	<u>3,949</u>
<b>Year ended 31 December 2022</b>					
Opening net book amount	3,109	451	345	44	3,949
Additions	1,249	316	139	296	2,000
Disposal	(13)	–	–	–	(13)
Depreciation charge	(750)	(189)	(151)	(34)	(1,124)
Closing net book amount	<u>3,595</u>	<u>578</u>	<u>333</u>	<u>306</u>	<u>4,812</u>
<b>As at 31 December 2022</b>					
Cost	9,826	1,156	850	1,126	12,958
Accumulated depreciation	(6,231)	(578)	(517)	(820)	(8,146)
Net book amount	<u>3,595</u>	<u>578</u>	<u>333</u>	<u>306</u>	<u>4,812</u>
<b>Year ended 31 December 2023</b>					
Opening net book amount	3,595	578	333	306	4,812
Additions	398	–	130	263	791
Disposal	(1)	(37)	–	–	(38)
Depreciation charge	(953)	(161)	(161)	(65)	(1,340)
Closing net book amount	<u>3,039</u>	<u>380</u>	<u>302</u>	<u>504</u>	<u>4,225</u>
<b>As at 31 December 2023</b>					
Cost	10,179	534	965	1,389	13,067
Accumulated depreciation	(7,140)	(154)	(663)	(885)	(8,842)
Net book amount	<u>3,039</u>	<u>380</u>	<u>302</u>	<u>504</u>	<u>4,225</u>

# APPENDIX I

# ACCOUNTANT'S REPORT

	Machinery equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Six months ended 30 June 2024</b>					
Opening net book amount	3,039	380	302	504	4,225
Additions	12,121	299	31	297	12,748
Depreciation charge	(874)	(55)	(81)	(57)	(1,067)
Closing net book amount	<u>14,286</u>	<u>624</u>	<u>252</u>	<u>744</u>	<u>15,906</u>
<b>As at 30 June 2024</b>					
Cost	22,300	833	996	1,686	25,815
Accumulated depreciation	(8,014)	(209)	(744)	(942)	(9,909)
Net book amount	<u>14,286</u>	<u>624</u>	<u>252</u>	<u>744</u>	<u>15,906</u>
<b>Unaudited:</b>					
<b>Six months ended 30 June 2023</b>					
Opening net book amount	3,595	578	333	306	4,812
Additions	349	–	26	–	375
Depreciation charge	(481)	(101)	(87)	(28)	(697)
Closing net book amount	<u>3,463</u>	<u>477</u>	<u>272</u>	<u>278</u>	<u>4,490</u>
<b>As at 30 June 2023</b>					
Cost	10,175	1,156	876	1,126	13,333
Accumulated depreciation	(6,712)	(679)	(604)	(848)	(8,843)
Net book amount	<u>3,463</u>	<u>477</u>	<u>272</u>	<u>278</u>	<u>4,490</u>

Depreciation has been charged to the following categories in the statements of comprehensive income and balance sheet as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>	2023 <i>RMB'000</i>	2024 <i>RMB'000</i>
Cost of sales	820	725	877	464	743
Administrative expenses	51	127	196	103	155
Research and development expenses	–	–	1	–	1
Contract fulfilment cost	85	272	266	130	168
	<u>956</u>	<u>1,124</u>	<u>1,340</u>	<u>697</u>	<u>1,067</u>

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives or, in case of leasehold improvements, the lease term if shorter, as follows:

Machinery equipment	3–10 years
Vehicles	5 years
Office equipment	3–5 years
Leasehold improvements	Shorter of their useful life or the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant and equipment are stated at historical cost less depreciation and impairment losses (if any). Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in other gains/(losses) in the statements of comprehensive income.

## 14 LEASE

### (a) Amounts recognised in the balance sheets

#### *Right-of-use assets*

	Land use rights RMB'000	Properties RMB'000	Total RMB'000
<b>As at 1 January 2021</b>	1,127	–	1,127
Additions	–	1,048	1,048
Depreciation charge	(97)	(125)	(222)
<b>As at 31 December 2021</b>	<u>1,030</u>	<u>923</u>	<u>1,953</u>
<b>As at 1 January 2022</b>	1,030	923	1,953
Additions	–	1,421	1,421
Depreciation charge	(97)	(303)	(400)
<b>As at 31 December 2022</b>	<u>933</u>	<u>2,041</u>	<u>2,974</u>
<b>As at 1 January 2023</b>	933	2,041	2,974
Depreciation charge	(64)	(353)	(417)
Termination of the lease (14(c))	(869)	–	(869)
<b>As at 31 December 2023</b>	<u>–</u>	<u>1,688</u>	<u>1,688</u>

	Land use rights RMB'000	Properties RMB'000	Total RMB'000
As at 1 January 2024	–	1,688	1,688
Additions (Note 27(b)(i))	–	36,304	36,304
Depreciation charge	–	(630)	(630)
<b>As at 30 June 2024</b>	<b>–</b>	<b>37,362</b>	<b>37,362</b>
<b>Unaudited:</b>			
As at 1 January 2023	933	2,041	2,974
Depreciation charge	(48)	(177)	(225)
<b>As at 30 June 2023</b>	<b>885</b>	<b>1,864</b>	<b>2,749</b>

*Lease liabilities*

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Lease liabilities				
Current	391	693	508	1,483
Non-current	4,995	5,786	1,494	37,119
	<b>5,386</b>	<b>6,479</b>	<b>2,002</b>	<b>38,602</b>

## (b) Amounts recognised in the statements of comprehensive income and the balance sheets

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000	2024 RMB'000
Depreciation charged to administrative expenses	–	153	203	101	324
Depreciation charged to cost of sales	222	247	214	124	269
Depreciation charged to research and development expenses	–	–	–	–	21
Depreciation changes in contract fulfilment cost	–	–	–	–	16
<b>Total depreciation charge of right-of-use assets</b>	<b>222</b>	<b>400</b>	<b>417</b>	<b>225</b>	<b>630</b>
Interest expenses (included in finance costs)	254	281	219	142	488

In August 2023, the Company early terminated certain lease of land use right and a loss amounting to RMB869,000 was recognised. For details, please refer to Note 14(c).

There are no short-term leases during the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

The total cash outflows for leases for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024 are as below:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Principal elements of lease payments (presented as financing cash flow)	484	127	290	337	150
Related interest paid (presented as financing cash flow)	48	86	96	49	42
	<u>532</u>	<u>213</u>	<u>386</u>	<u>386</u>	<u>192</u>

The weighted average incremental borrowing rate applied to the lease liabilities was 4.9%, respectively, for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

**(c) The Company's leasing activities and how these are accounted for**

In July 2016, the Company subleased certain land use right with a remaining lease term of 16.2 years to a third party. Such sublease is classified as finance lease as the sublease term of the land use right equals to the remaining term of the corresponding head leases. On the commencement date of the sublease of the land use right, the Company derecognised the right-of-use asset of RMB3,123,000 and recognised a lease payments receivable of RMB4,994,000 accordingly, being the present value of the lease payments as agreed. As at 31 December 2021 and 2022, the lease payments receivable of the subleased land use right amounted to RMB4,388,000 and RMB4,189,000, respectively (Note 18). In August 2023, the Company entered a termination agreement for the aforementioned land use right with the lessor in the head lease and the lessee in the sublease. Upon the termination, the Company derecognised right-to-use assets of RMB869,000, lease liabilities of RMB3,914,000, and lease payments receivable of RMB3,914,000. A loss amounting to RMB869,000 was recognised as other losses due to such early termination of the lease.

In July 2017, the Company subleased a property with a remaining lease term of 4.7 years to a third party. Such sublease is classified as finance lease as the sublease term of the property equals to the remaining term of the corresponding head leases. On the commencement date of the sublease of the property, the Company derecognised the right-of-use asset of RMB1,430,000 and recognised a lease payments receivable of RMB2,073,000 accordingly, being the present value of the lease payments as agreed. As at 31 December 2021, 2022 and 2023 and 30 June 2024 the lease payments receivable of the subleased property amounted to RMB633,000, RMB559,000 and RMB559,000 and RMB559,000, respectively (Note 18).

## 15 DEFERRED INCOME TAX

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	4,044	4,392	3,602	12,783
Set-off of deferred tax liabilities	(1,743)	(1,930)	(562)	(9,480)
	<u>2,301</u>	<u>2,462</u>	<u>3,040</u>	<u>3,303</u>
Deferred tax liabilities	(1,743)	(1,930)	(562)	(9,480)
Set-off of deferred tax assets	<u>1,743</u>	<u>1,930</u>	<u>562</u>	<u>9,480</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The net movements on the deferred tax assets – net are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At the beginning of the year/period	1,594	2,301	2,462	2,462	3,040
Tax credit to profit or loss ( <i>Note 10</i> )	<u>707</u>	<u>161</u>	<u>578</u>	<u>227</u>	<u>263</u>
At the end of the year/period	<u>2,301</u>	<u>2,462</u>	<u>3,040</u>	<u>2,689</u>	<u>3,303</u>



- (b) The movements in deferred tax assets and liabilities during the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred tax assets			Deferred tax liabilities		Total RMB'000
	Provision for credit loss of trade receivables and other receivables RMB'000	Payroll accrual RMB'000	Lease liabilities RMB'000	Right- of-use assets RMB'000	Lease payments receivable RMB'000	
As at 1 January 2021	1,897	128	1,254	(282)	(1,403)	1,594
Tax credited/(charged) to profit or loss	530	143	92	(206)	148	707
As at 31 December 2021	<u>2,427</u>	<u>271</u>	<u>1,346</u>	<u>(488)</u>	<u>(1,255)</u>	<u>2,301</u>
As at 1 January 2022	2,427	271	1,346	(488)	(1,255)	2,301
Tax credited/(charged) to profit or loss	345	(271)	274	(255)	68	161
As at 31 December 2022	<u>2,772</u>	<u>–</u>	<u>1,620</u>	<u>(743)</u>	<u>(1,187)</u>	<u>2,462</u>
As at 1 January 2023	2,772	–	1,620	(743)	(1,187)	2,462
Tax credited/(charged) to profit or loss	329	–	(1,119)	321	1,047	578
As at 31 December 2023	<u>3,101</u>	<u>–</u>	<u>501</u>	<u>(422)</u>	<u>(140)</u>	<u>3,040</u>
As at 1 January 2024	3,101	–	501	(422)	(140)	3,040
Tax credited/(charged) to profit or loss	32	–	9,149	(8,918)	–	263
As at 30 June 2024	<u>3,133</u>	<u>–</u>	<u>9,650</u>	<u>(9,340)</u>	<u>(140)</u>	<u>3,303</u>
<b>Unaudited</b>						
As at 1 January 2023	2,772	–	1,620	(743)	(1,187)	2,462
Tax credited/(charged) to profit or loss	397	–	(160)	56	(66)	227
As at 30 June 2023	<u>3,169</u>	<u>–</u>	<u>1,460</u>	<u>(687)</u>	<u>(1,253)</u>	<u>2,689</u>

## 16 CONTRACT FULFILMENT COSTS

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract fulfilment costs	820	2,053	1,390	2,440

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the balance of contract fulfilment costs represents the asset recognised in relation to costs to fulfil contracts for testing services.

The costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) The costs are expected to be recovered.

The capitalised contract costs are charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which asset relates.

An impairment loss will be recognised in profit or loss to the extent that the carrying amount of contract fulfilment costs exceeds:

- (a) the remaining amount of consideration expected to receive in exchange for the goods or services to which the contract cost relates; less
- (b) The cost that relate directly to providing those goods or services and that have not been recognised as expenses.

## 17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>				
<b>Financial assets at amortised cost:</b>				
Trade receivables ( <i>Note 18</i> )	35,411	34,545	29,325	32,874
Other receivables (excluding non-financial assets) ( <i>Note 18</i> )	5,302	4,738	542	399
Cash and cash equivalents ( <i>Note 19</i> )	35,846	32,221	59,145	42,459
	<u>76,559</u>	<u>71,504</u>	<u>89,012</u>	<u>75,732</u>
<b>Financial liabilities</b>				
<b>Financial liabilities at amortised cost:</b>				
Trade payables ( <i>Note 22</i> )	105	738	612	492
Other payables and accruals (excluding non-financial liabilities) ( <i>Note 23</i> )	301	1,345	6,317	7,074
Lease liabilities ( <i>Note 14</i> )	5,386	6,479	2,002	38,602
	<u>5,792</u>	<u>8,562</u>	<u>8,931</u>	<u>46,168</u>

## 18 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables ( <i>Note (a)</i> )	44,479	44,983	41,165	44,842
Less: provision for credit loss of trade receivables ( <i>Note 3.1(b)(i)</i> )	(9,068)	(10,438)	(11,840)	(11,968)
	<u>35,411</u>	<u>34,545</u>	<u>29,325</u>	<u>32,874</u>
Other receivables ( <i>Note (b)</i> )				
Lease payments receivable ( <i>Note (c)</i> )	5,021	4,748	559	559
Amounts due from related parties ( <i>Note (27c)</i> )	436	–	–	–
Others	485	640	548	404
	<u>5,942</u>	<u>5,388</u>	<u>1,107</u>	<u>963</u>
Less: allowance for credit loss of other receivables ( <i>Note 3.1(b)(ii)</i> )	(640)	(650)	(565)	(564)
	<u>5,302</u>	<u>4,738</u>	<u>542</u>	<u>399</u>
Prepayments				
Prepayments for property, plant and equipment	–	–	3,025	2,337
Prepayments for professional services fee	–	450	450	1,126
Prepayments for listing expenses	–	–	133	50
Others	73	86	207	202
	<u>73</u>	<u>536</u>	<u>3,815</u>	<u>3,715</u>
Deferred listing expenses	–	–	15,544	21,301
	<u>–</u>	<u>–</u>	<u>15,544</u>	<u>21,301</u>
Less: Non-current portion of other receivables and prepayments	(4,187)	(3,976)	(3,025)	(2,985)
	<u>(4,187)</u>	<u>(3,976)</u>	<u>(3,025)</u>	<u>(2,985)</u>
	<u>36,599</u>	<u>35,843</u>	<u>46,201</u>	<u>55,304</u>

- (a) As at 31 December 2021, 2022 and 2023 and 30 June 2024, the aging analysis of trade receivables based on the dates when the trade receivables are recognised is as follows:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	22,544	14,146	27,950	31,302
1 year to 2 years	13,339	12,908	3,852	4,707
2 years to 3 years	6,985	11,743	3,327	2,997
3 years to 4 years	562	4,870	2,644	3,114
Over 4 years	1,049	1,316	3,392	2,722
	<u>44,479</u>	<u>44,983</u>	<u>41,165</u>	<u>44,842</u>

As at 31 December 2021, 2022 and 2023 and 30 June 2024, trade receivables were all denominated in RMB and the fair value of trade receivables approximated their carrying amount.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. For details, please refer to Note 3.1(b).

- (b) The Company applies three-stage general approach to provide for expected credit losses prescribed by HKFRS 9. For details, please refer to Note 3.1(b).
- (c) As at 31 December 2021, 2022 and 2023 and 30 June 2024, the lease payments receivable of approximately RMB5,021,000, RMB4,748,000 and RMB559,000 and RMB559,000 arose from certain property and land use right subleased by the Company (Note 14).

On 31 August 2023, the Company early terminated the sublease for the land use right. For details, please refer to Note 14(c).

## 19 CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and cash on hands denominated in RMB	<u>35,846</u>	<u>32,221</u>	<u>59,145</u>	<u>42,459</u>

## 20 PAID-IN CAPITAL AND SHARE CAPITAL

	<i>Note</i>	<b>Paid-in capital</b> <i>RMB'000</i>
<b>As at 1 January 2021 and 31 December 2021</b>		489
Capital contribution from an equity holder	(a)	<u>1,331</u>
<b>As at 31 December 2022</b>		<u><u>1,820</u></u>
<b>As at 1 January 2023</b>		1,820
Transfer from capital reserves	21(c)	2,930
Capital contribution from an equity holder	21(c)	250
Conversion into a joint stock company		<u>(5,000)</u>
<b>As at 31 December 2023</b>		<u><u>–</u></u>
	<i>Note</i>	<b>Number of shares</b> <i>RMB'000</i>
<b>As at 1 January 2023</b>		–
Conversion into a joint stock company	21(b)	20,000
Capital contribution from a shareholder	21(c)	<u>3,750</u>
<b>As at 31 December 2023 and 30 June 2024</b>		<u><u>23,750</u></u>

(a) In December 2022, a cash capital contribution of RMB1,331,000 was injected by Xinyi City CEQS Center.

## 21 RESERVES

	<b>Share premium</b> <i>RMB'000</i>	<b>Capital reserves</b> <i>RMB'000</i>	<b>Statutory reserves</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
			<i>Note (a)</i>	
<b>As at 1 January 2021, 31 December 2021 and 2022</b>	<u>–</u>	<u>–</u>	<u>910</u>	<u>910</u>
<b>As at 1 January 2023</b>	–	–	910	910
Transfer from retained earnings to reserves ( <i>Note (b)</i> )	–	58,280	(910)	57,370
Transfer to paid-in capital ( <i>Note (c)</i> )	–	(2,930)	–	(2,930)
Capital contribution from an equity holder ( <i>Note (c)</i> )	–	4,750	–	4,750
Conversion into a joint stock company ( <i>Note (b)</i> )	46,072	(60,100)	(143)	(14,171)
Capital contribution from an equity holder ( <i>Note (c)</i> )	11,250	–	–	11,250
Appropriation to statutory reserves	<u>–</u>	<u>–</u>	<u>1,325</u>	<u>1,325</u>
<b>As at 31 December 2023 and 30 June 2024</b>	<u><u>57,322</u></u>	<u><u>–</u></u>	<u><u>1,182</u></u>	<u><u>58,504</u></u>

- (a) In accordance with the PRC Company Law, the Company is required to appropriate 10% of its profits after tax, as determined in accordance with relevant accounting principles generally accepted in the PRC and other applicable regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders of the Company. The statutory reserve can be used to offset losses carried forward from previous years, if any, and part of the statutory reserve can be capitalised as the company capital provided that the amount of the remaining balance of reserve after the capitalisation shall not be less than 25% of its capital.
- (b) In July 2023, the Company was converted into a limited liability company. According to the resolution of the shareholder, certain retained earnings and statutory reserves of the Company amounting to approximately RMB58,280,000 were transferred to capital reserves.

In October 2023, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. By reference to the net assets of the Company as at 31 July 2023 amounting to approximately RMB66,072,000, the Company issued 20,000,000 ordinary shares at RMB1 each, the excess of net assets over nominal value of the ordinary shares was credited to the share premium.

- (c) In July 2023, the Company increased its paid-in capital by RMB2,930,000 by way of capitalisation of capital reserves of the Company.

In July 2023, Xinyi Xinhui State-owned Capital Investment Group Co., Ltd. (“Xinyi Xinhui”) made an capital contribution in terms of cash of RMB5,000,000 to the Company, of which RMB250,000 was recognised as paid-in capital and RMB4,750,000 was recognised to capital reserve of the Company.

In November 2023, Xinyi Xinhui made an capital contribution, in terms of cash, of RMB15,000,000 to the Company, of which RMB3,750,000 was recognised as share capital and RMB11,250,000 was recognised to share premium of the Company.

## 22 TRADE PAYABLES

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	105	738	612	492

The carrying amount of trade payables approximated as their fair value due to their short-term maturity in nature.

At 31 December 2021, 2022 and 2023 and 30 June 2024, the aging of trade payables based on the date of the goods and services received is as follows:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	105	738	489	492
1 year to 2 years	–	–	123	–
	105	738	612	492

## 23 OTHER PAYABLES AND ACCRUALS

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and welfare payables	1,617	1,616	998	608
Tax payables	2,935	1,825	1,655	1,401
Accruals for listing expenses	–	–	5,661	6,029
Payables for property, plant and equipment	231	720	–	368
Other payables	70	625	656	677
	<u>4,853</u>	<u>4,786</u>	<u>8,970</u>	<u>9,083</u>

(a) As at 31 December 2021, 2022 and 2023 and 30 June 2024, the carrying amounts of other payables and accruals approximated their fair values.

(b) Trade and other payables were denominated in the following currencies:

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– RMB	4,853	4,786	4,403	5,112
– HKD	–	–	4,371	3,971
– USD	–	–	196	–
	<u>4,853</u>	<u>4,786</u>	<u>8,970</u>	<u>9,083</u>



## 24 CASH FLOW INFORMATION

## (a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Profit before income tax	23,723	3,951	17,734	5,751	9,817
Adjustments for:					
– Depreciation and amortisation (Note 7)	1,257	1,317	1,891	1,004	1,623
– Changes of provision for credit loss of trade receivables (Note 3.1(b))	2,037	1,370	1,402	1,792	128
– Changes of provision for credit loss of other receivables (Note 3.1(b))	84	10	(85)	(203)	(1)
– Finance costs – net (Note 9)	154	184	149	109	439
– Other losses on the disposal of property, plant and equipment	–	13	38	–	–
– Other losses on the disposal of right- of-use assets	–	–	869	–	–
– Other income	–	–	(258)	(117)	–
Operating cashflow before changes in working capital and taxes paid	27,255	6,845	21,740	8,336	12,006
Change in operating assets and liabilities:					
– Contract fulfilment costs and inventory	405	(1,016)	538	354	(1,195)
– Trade receivables (Note 18)	(13,845)	(504)	3,818	(7,681)	(3,677)
– Prepayments and other receivables (Note 18)	(155)	(821)	(126)	791	(443)
– Trade payables (Note 22)	(503)	633	(126)	(294)	(120)
– Contract liabilities (Note 6)	(408)	310	334	39	(162)
– Other payables and accruals (Note 23)	301	(556)	(757)	(493)	192
Cash generated from operations	13,050	4,891	25,421	1,052	6,601

**(b) Non-cash investing and financing activities**

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, the lease payments for the subleased land use right of RMB396,000, RMB396,000 and RMB396,000 and RMB396,000 and nil, respectively, were directly transferred to the lessor in the head lease by the lessee of sublease. Such transaction was accounted for as non-cash transaction as neither investing cash flows in relation to the receipt of the lease payments receivable in the sublease were generated nor financing cash flows in relation to the payments of the lease liabilities in the head lease were incurred by the Company.

**(c) Reconciliation of liabilities arising from financing activities**

	<b>Lease liabilities</b>
	<i>RMB'000</i>
Balance as at 1 January 2021	(5,012)
Additions	(1,048)
Financing cash flows	532
Interest expenses on lease liabilities	(254)
Non-cash transactions ( <i>Note 24(b)</i> )	396
	<hr/>
Balance as at 31 December 2021	(5,386)
	<hr/> <hr/>
Balance as at 1 January 2022	(5,386)
Additions	(1,421)
Financing cash flows	213
Interest expenses on lease liabilities	(281)
Non-cash transactions ( <i>Note 24(b)</i> )	396
	<hr/>
Balance as at 31 December 2022	(6,479)
	<hr/> <hr/>
Balance as at 1 January 2023	(6,479)
Financing cash flows	386
Interest expenses on lease liabilities	(219)
Termination of the lease ( <i>Note 14(c)</i> )	3,914
Non-cash transactions ( <i>Note 24(b)</i> )	396
	<hr/>
Balance as at 31 December 2023	(2,002)
	<hr/> <hr/>

	<b>Lease liabilities</b>
	<i>RMB'000</i>
Balance as at 1 January 2024	(2,002)
Additions	(36,304)
Financing cash flows	192
Interest expenses on lease liabilities	(488)
	<u>                    </u>
Balance as at 30 June 2024	<u><u>(38,602)</u></u>
 <b>Unaudited:</b>	
Balance as at 1 January 2023	(6,479)
Financing cash flows	386
Interest expenses on lease liabilities	(142)
Non-cash transactions ( <i>Note 24(b)</i> )	396
	<u>                    </u>
Balance as at 30 June 2023	<u><u>(5,839)</u></u>

## 25 COMMITMENTS

Significant capital expenditure contracted for as at 31 December 2021, 2022 and 2023 and 30 June 2024 but not recognised as liabilities was as follows:

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
Property, plant and equipment	<u>–</u>	<u>–</u>	<u>4,439</u>	<u>1,385</u>

## 26 CONTINGENCIES

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the Company did not have any significant contingent liabilities.

## 27 RELATED PARTY TRANSACTIONS

The following is a summary of the transactions carried out between the Company and its related parties during the Track Record Period, and balances with related party transactions as at 31 December 2021, 2022 and 2023 and 30 June 2024.

## (a) Name and relationship with related parties

The following companies are related parties of the Company that had significant balances and/or transactions with the Company as at/or during the Track Record Period.

Name	Relationship
Xinyi City Construction Engineering Quality and Safety Affairs Center	Immediate holding company
Xinyi Xinjian Urban and Transportation Investment Development Co., Ltd.	Entity controlled by the PRC Government
Xinyi Municipal Government Investment Project Construction Center	Entity controlled by the PRC Government
Xinyi Xinye Industry and Industrial Park Investment Co., Ltd	Entity controlled by the PRC Government
Guangdong Xinyi Kaiyuan Co., Ltd	Entity controlled by the PRC Government
Xinyi Third People's Hospital	Entity controlled by the PRC Government
Xinyi Vocational and Technical School	Entity controlled by the PRC Government
Xinyi Twelfth Primary School	Entity controlled by the PRC Government
Xinyi Beijie Town Central Primary School	Entity controlled by the PRC Government
Xinyi Sixth Middle School	Entity controlled by the PRC Government
Xinyi Sixth Primary School	Entity controlled by the PRC Government
Xinyi Qianpai Town Central Kindergarten	Entity controlled by the PRC Government
Guangxi Construction Engineering Group third construction engineering Co., Ltd.	Entity controlled by the PRC Government
Gaozhou Construction Engineering Trade Service Center	Entity controlled by the PRC Government
China Construction Fifth Engineering Division Corp., Ltd.	Entity controlled by the PRC Government
Guangzhou Municipal Affairs Group Limited	Entity controlled by the PRC Government
China MCC20 Group Corp., Ltd.	Entity controlled by the PRC Government
Maoming Xinyi Construction Engineering Company	Entity controlled by the PRC Government
Xinyi City Xinhua Agriculture, Culture and Tourism Investment and Development Co., Ltd.	Entity controlled by the PRC Government
Xinyi People's Hospital	Entity controlled by the PRC Government
Guangdong Tianyi Cold Chain Logistics Co., Ltd.	Entity controlled by the PRC Government
Xinyi Market Supervision and Administration Bureau	PRC government administrative bureau
Xinyi Municipal Civil Affairs Bureau	PRC government administrative bureau
Xinyi Education Bureau	PRC government administrative bureau
Xinyi Public Security Bureau	PRC government administrative bureau
Pingtang Town People's Government of Xinyi City	PRC government administrative bureau
Xinyi City Zhushan Bridge Demolition and Reconstruction Project Management Office	PRC government administrative bureau
Xinyi City Bureau of Housing and Urban-Rural Development	PRC government administrative bureau

## (b) Significant related party transactions

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Addition of right-of-use assets					
– PRC government administrative bureaus ( <i>note (i)</i> )	1,048	1,421	–	–	–
– An entity controlled by PRC government	–	–	–	–	36,304
	<u>1,048</u>	<u>1,421</u>	<u>–</u>	<u>–</u>	<u>36,304</u>
Interest expenses on lease liabilities					
– PRC government administrative bureaus ( <i>note (i)</i> )	36	86	96	49	42
– An entity controlled by PRC government	–	–	–	–	447
	<u>36</u>	<u>86</u>	<u>96</u>	<u>49</u>	<u>447</u>
Interest income on other receivables					
– An entity controlled by the PRC Government ( <i>note (iv)</i> )	–	–	258	117	–
	<u>–</u>	<u>–</u>	<u>258</u>	<u>117</u>	<u>–</u>
Provision of services					
– Immediate holding company ( <i>note (ii)</i> )	–*	–	85	4	43
– PRC government administrative bureaus and entities controlled by the PRC Government ( <i>note (iii)</i> )	2,305	8,550	15,600	6,818	9,753
	<u>2,305</u>	<u>8,550</u>	<u>15,685</u>	<u>6,822</u>	<u>9,796</u>

\* represents that the amount is less than RMB1,000 for respective year.

- (i) The Company leases office premises from Xinyi City Bureau of Housing and Urban-Rural Development. The monthly rents payable by the Company during the leasing terms are determined with reference to the prevailing market prices.

In April 2024, the Company entered into a lease agreement with Xinyi Xinye Industry and Industrial Park Investment Co., Ltd, with a lease term of 20 years from April 2024. The leased properties will be used for offices and laboratories.

- (ii) The Company provided testing services to the immediate holding company. The transaction price of the services is determined with reference to the prevailing market prices.
- (iii) The Company provided testing services and inspection services to certain PRC government administrative bureaus and entities controlled by the PRC Government. The transaction price of the services is determined with reference to the prevailing market prices.

- (iv) A loan with principal of RMB3,750,000 and a loan with principal of RMB4,100,000 were granted to the constructor of the new office building of the Company in January 2023 and March 2023, respectively. The loans are unsecured and bearing interest of 4.35% per annum. The loan interest inclusive of the related tax for the year ended 31 December 2023 amounted to RMB258,000. In December 2023, the loans and interest were fully repaid.

(c) **Significant balances with related parties**

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Trade nature</b>				
Lease liabilities ( <i>note (i)</i> )				
– PRC government administrative bureaus	936	2,292	2,002	1,852
– An entity controlled by PRC government	–	–	–	36,750
	<u>936</u>	<u>2,292</u>	<u>2,002</u>	<u>38,602</u>
Trade receivables ( <i>note (i), (ii)</i> )				
– Immediate holding company	–	–	2	–
– PRC government administrative bureaus and entities controlled by the PRC Government	11,393	21,926	11,800	19,349
	<u>11,393</u>	<u>21,926</u>	<u>11,802</u>	<u>19,349</u>
Contract liabilities ( <i>note(i), (ii)</i> )				
– Entities controlled by the PRC Government	–	–	–	271
	<u>–</u>	<u>–</u>	<u>–</u>	<u>271</u>
Prepayments ( <i>note(i), (ii), (iii)</i> )				
– Entities controlled by the PRC Government	–	–	2,798	–
	<u>–</u>	<u>–</u>	<u>2,798</u>	<u>–</u>
<b>Non-trade nature</b>				
Other receivables				
– Immediate holding company ( <i>note (iv)</i> )	436	–	–	–
	<u>436</u>	<u>–</u>	<u>–</u>	<u>–</u>

- (i) The balances of lease liabilities, trade receivables, contract liabilities and prepayments were trade in nature and unsecured.
- (ii) The balances of trade receivables, contract liabilities and prepayments were interest free.
- (iii) As at 31 December 2023, the balances was a prepayment for the purchase of equipments.
- (iv) The balance as at 31 December 2021 was non-trade in nature, unsecured and interest free. The amount due from immediate holding company was repaid in December 2022.

**(d) Key management's compensation**

Compensation for key management is set out as follows.

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Wages, salaries and bonuses	626	820	865	452	625
Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances	272	268	398	219	248
Other employee benefits	61	94	74	48	75
	<u>959</u>	<u>1,182</u>	<u>1,337</u>	<u>719</u>	<u>948</u>

As at 31 December 2021, 2022 and 2023 and 30 June 2024, the balance of the above compensation for key management is RMB118,000, RMB174,000 and RMB113,000 and RMB80,000, respectively.

**(e) Other individually insignificant transactions with government-related entities**

The Company has certain transactions with PRC government administrative bureaus and entities controlled by the PRC Government including testing services and inspection services. Apart from the transactions disclosed above, the transactions with PRC government administrative bureaus and other entities controlled by the PRC Government which are collectively, but not individually, significant account for approximately 12.77%, 1.78% and 6.79% and 6.53% and 5.25% of the total revenue of the Company during the year ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, respectively.

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not controlled by the PRC Government.

## 28 BENEFITS AND INTERESTS OF DIRECTORS

During the year ended 31 December 2021 and 2022 and six months ended 30 June 2023, there is no director appointed for the Company.

The directors received emoluments from the Company (including the emoluments in their role as senior management and employee before their appointment as directors) for the year/period ended 31 December 2023 and 30 June 2024 as follows:

	Wages, salaries and bonuses <i>RMB'000</i>	Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances <i>RMB'000</i>	Other employee benefits <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the year ended 31 December 2023</b>				
<i>Executive directors:</i>				
Mr. Lai Feng ( <i>note (i)</i> )	156	71	17	244
Ms. Mai Jiayu ( <i>note (i)</i> )	131	61	10	202
Mr. Huang Fei ( <i>note (ii)</i> )	141	69	15	225
Mr. Zhang Xihua ( <i>note (ii)</i> )	131	60	8	199
<i>Non-executive directors</i>				
Ms. Zou Chan ( <i>note (i)</i> )	127	59	9	195
Mr. Chen Guangfu ( <i>note (iii)</i> )	–	–	–	–
	<u>686</u>	<u>320</u>	<u>59</u>	<u>1,065</u>
<b>For six months ended 30 June 2024</b>				
<i>Executive directors:</i>				
Mr. Lai Feng ( <i>note (i)</i> )	75	36	13	124
Ms. Mai Jiayu ( <i>note (i)</i> )	72	29	8	109
Mr. Huang Fei ( <i>note (ii)</i> )	68	33	10	111
Mr. Zhang Xihua ( <i>note (ii)</i> )	72	30	9	111
<i>Non-executive directors</i>				
Ms. Zou Chan ( <i>note (i)</i> )	59	28	8	95
Mr. Chen Guangfu ( <i>note (iii)</i> )	–	–	–	–
	<u>346</u>	<u>156</u>	<u>48</u>	<u>550</u>



- (i) Mr. Lai Feng, Ms. Mai Jiayu and Ms. Zou Chan were appointed as director since 7 July 2023.
- (ii) Mr. Huang Fei and Mr. Zhang Xihua were appointed as director since 26 October 2023.
- (iii) Mr. Chen Guangfu were appointed as director since 26 October 2023. The emoluments of the Mr. Chen Guangfu in relation to his services rendered for the Company since his appointment were borne by the immediate holding company. His emoluments were not allocated to the Company as the management of the Company considers there is no reasonable basis of allocation.

**(a) Directors' retirement and termination benefits**

During the Track Record Period, there were no termination benefit nor no additional retirement benefit received by the directors except for the attributions to a retirement benefit scheme in accordance with the rules and regulations in the PRC.

**(b) Consideration provided to the third parties for making available directors' services**

During the Track Record Period, the Company did not pay consideration to any third parties for making available directors' services.

**(c) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors**

During the Track Record Period, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favor of director.

**(d) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 31 December 2021 and 2022 and 2023 and 30 June 2024 or at any time during the Track Record Period.

## **29 EVENT OCCURRING AFTER THE REPORTING PERIOD**

There are no other significant events after the end of the Track Record Period and up to the date of this report, which may result in adjustments or additional disclosure to be made in this Historical Financial Information.

**30 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES****30.1 Foreign currency translation***(a) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in RMB, which is the Company's functional currency and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

The Company's foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

**30.2 Impairment of non-financial assets**

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

**30.3 Financial assets***(a) Classification*

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

If collection of the amounts is expected in one year or less, they are classified as current assets, otherwise, they are presented as non-current assets.

The Company's financial assets comprise trade receivables, other receivables and cash and cash equivalents which are measured at amortised cost.

*(b) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*(c) Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company held debt instruments classified as financial assets at amortised costs.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses). Impairment losses are presented as separate line item in the statement of profit or loss.

*(d) Impairment of financial assets*

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1 details how the Company determines whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of other receivables are measured as either 12-month expected credit losses or lifetime expected losses method, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

### **30.4 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheets where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

**30.5 Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions.

**30.6 Paid-in capital/share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**30.7 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

**(b) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**30.8 Employee benefits****(a) Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits and accumulating annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheets.

**(b) Pension costs – defined contribution plans**

The Company contributes on a monthly basis to a defined contribution plan organised by the relevant governmental authorities based on certain percentages of the salaries of the employees, subject to certain ceiling. The Company's liability in respect of these plans is limited to the contributions payable in each period. Other than the monthly contributions, the Company has no further payment obligations once the contributions have been paid. The Company's contributions to the defined contribution retirement scheme are expensed as incurred.

**(c) Bonus plans**

The expected cost of bonuses is recognised as a liability when the Company has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

**(d) Housing funds, medical insurances and other social insurance**

The employees of the Company are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Company contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Company's liability in respect of these funds is limited to the monthly contributions payable in each period. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

**(e) Termination benefits**

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

**30.9 Related parties**

A party is considered to be related to the Company if:

- (a) The party is a person or a close member of that person's family and that person
- has control or joint control over the Company;
  - has significant influence over the Company; or
  - is a member of the key management personnel of the Company or of a parent of the Company.
- (b) The party is an entity where any of the following conditions applies:
- the entity and the Company are members of the same group;
  - one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - the entity and the Company are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - the entity is controlled or jointly controlled by a person identified in Note (a);
  - a person identified in Note (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

The Company has certain related party transactions and outstanding balances with government-related entities, which are controlled, jointly controlled or significantly influenced by the PRC Government.

**30.10 Earnings per share**

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**30.11 Leases**

*The Company as a lessee under operating lease*

The Company leases properties and land use right. Rental contracts are typically made for fixed periods of 5 year to 18.5 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Contracts may contain both lease and non-lease components. However, for leases for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

#### *The Company as a sublease lessor*

Sublease is a transaction for which an underlying asset is re-leased by a lessee ("sublease lessor") to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect. In classifying a sublease, a sublease lessor shall classify the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease that the entity, as a lessee, has accounted for the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, the sublease shall be classified as an operating lease.
- otherwise, the sublease shall be classified by referenced to the right-of-use asset arising from the head lease as finance lease or operating lease.

When the sublease is classified as a finance lease, finance income shall be recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the sublease lessor's net investment in the lease. When the sublease is classified as an operating lease, lease payments from operating leases shall be recognised as income on either a straight-line basis or another systematic basis that is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

#### **30.12 Dividend distribution**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### **30.13 Intangible assets**

The intangible assets of the Company are computer software, which are initially recognised and measured at costs incurred to acquire and bring them to use. The Company's software are amortised on a straight line basis over their estimated useful lives of 3 or 10 years.

### **III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2024 and up to the date of this report. No dividend or distribution has been declared or made by the Company in respect of any period subsequent to 30 June 2024.



## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix II does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

### A.    UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Company prepared in accordance with Rule 7.31 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of the Company attributable to the owners of the Company as at 30 June 2024 as if the Share Offer had taken place on 30 June 2024.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Company had the Share Offer been completed as at 30 June 2024 or any future date. It is prepared based on the net tangible assets of the Company attributable to the owners of the Company as at 30 June 2024 as derived from the Accountant's Report, set out in Appendix I to this prospectus and adjusted as described below.

	<b>Audited Net Tangible Assets of the Company Attributable to Owners of the Company as at 30 June 2024</b>	<b>Estimated Net Proceeds from the Share Offer</b>	<b>Unaudited Pro Forma Adjusted Net Tangible Assets Attributable to Owners of the Company as at 30 June 2024</b>	<b>Unaudited Pro Forma Adjusted Net Tangible Assets per Share</b>	
	<i>Note 1</i>	<i>Note 2</i>		<i>Note 3</i>	<i>Note 4</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$8.60 per H Share	109,589	44,714	154,303	4.55	4.95
Based on an Offer Price of HK\$10.40 per H Share	109,589	60,530	170,119	5.01	5.46

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*Notes:*

1. The audited net tangible assets attributable to owners of the Company as at 30 June 2024 is extracted from the historical financial information contained in the Accountant's Report set forth in Appendix I to this prospectus, which is based on the audited net assets of the Company attributable to the owners of the Company as at 30 June 2024 of approximately RMB109,928,000 with an adjustment for the intangible assets attributable to owners of the Company as at 30 June 2024 of approximately RMB339,000.
2. The estimated net proceeds from the Share Offer are based on the Offer Price range of HK\$8.60 per H Share and HK\$10.40 per H Share, respectively after deduction of the underwriting fees and other related expenses paid/payable by the Company, excluding listing expenses of approximately RMB2,666,000 which has been accounted for in the statements of comprehensive income up to 30 June 2024. It does not take account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option.
3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 33,929,000 Shares were in issue assuming that the Share Offer had been completed on 30 June 2024 without taking into account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option.
4. For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK\$1.08897. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
5. No adjustment has been made to the unaudited pro forma adjusted net tangible assets of the Company to reflect any trading results or other transactions of the Company entered into subsequent to 30 June 2024.

**REPORT ON PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

**To the Directors of Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (the “**Company**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Company as at 30 June 2024, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages II-1 to II-2 of the Company’s prospectus dated 26 August 2024, in connection with the proposed initial public offering of H Shares of the Company (the “**Prospectus**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Company’s financial position as at 30 June 2024 as if the proposed initial public offering had taken place at 30 June 2024. As part of this process, information about the Company’s financial position has been extracted by the Directors from the Company’s financial information for the six months ended 30 June 2024, on which an accountant’s report has been published.

**Directors’ Responsibility for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*, (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Our Independence and Quality Management**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2024 would have been as presented.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 26 August 2024

**HONG KONG TAXATION****Dividend Taxation**

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

**Capital Gains and Profit Tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

**Stamp Duty**

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of the Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

**Estate Duty**

Pursuant to the Revenue (Abolition of Estate Duty) Ordinance 2005, estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after 11 February 2006.

## **TAXATION OF OUR COMPANY IN HONG KONG**

Our Directors do not consider that any of our Company's income is derived from or arose in Hong Kong for the purpose of Hong Kong taxation. Our Company will therefore not be subject to Hong Kong taxation.

## **TAXATION OF SECURITY HOLDERS**

The taxation of income and capital gains of holders of H Shares is subject to the PRC and of jurisdictions in which holders of H Shares are residents or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current effective laws and practices, and no predictions are made about changes or adjustments to relevant laws or policies, and no legal or tax comments or suggestions will be made accordingly. The discussion has no intention to deal with all possible tax consequences resulting from the investment in H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulations. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this prospectus, which is fully subject to change or adjustment and may have retrospective effect.

No issues on PRC or Hong Kong taxation other than income tax, capital appreciation and profit tax, business tax/appreciation tax, stamp duty and estate duty were referred in the discussion. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

## **THE PRC TAXATION**

### **Taxation on Dividends**

#### *Individual Investor*

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), which was promulgated on 10 September 1980 and most recently amended on 31 August 2018 by the Standing Committee of the NPC, and came into effect on 1 January 2019, and the Implementation Provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was most recently amended by the State Council on 18 December 2018 and came into effect on 1 January 2019 (collectively the “**IIT Law**”), dividends distributed by PRC enterprises are generally subject to a withholding individual income tax levied at a flat rate of 20%. Moreover, pursuant to the Notice on Issues Concerning Differentiated Individual Income Tax Policies for Dividends and Bonuses of Listed Companies (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》) issued by the MOF (the “**MOF**”), the STA and CSRC (the “**CSRC**”) on 7 September 2015, where an individual acquires stocks of a listed enterprise from public offering of the enterprise or from the stock transfer market and holds the stocks for more than one year, the income from dividends distributed by the enterprise shall be exempt from individual income tax for the time being; if the individual holds the stocks for one month or less,

the income from dividends distributed by the enterprise shall be fully taxable; if the individual holds the stocks for one month to one year (one year inclusive), 50% of the income from dividends distributed by the enterprise shall be taxable; the aforesaid income is subject to an individual income tax at a flat rate of 20%.

For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to a withholding individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by relevant tax treaty. Indeed, the withholding tax rate for dividends of non-resident individuals may be lower than 20% under certain circumstances. However, pursuant to the Circular of the MOF and the STA on Issues Concerning Individual Income Tax Policies (《財政部·國家稅務總局關於個人所得稅若干政策問題的通知》), the income received by individual foreigners from dividends and bonuses of a foreign-invested enterprise is exempt from individual income tax for the time being. On 3 February 2013, the State Council approved and promulgated the Notice of the State Council on Approving and Relaying the Several Opinions of the National Development and Reform Commission and Other Departments to Deepen the Reform of System of Income Distribution (《國務院批轉發展改革委等部門關於深化收入分配制度改革若干意見的通知》). On 8 February 2013, the General Office of the State Council promulgated the Circular Concerning Allocation of Key Works to Deepen the Reform of System of Income Distribution (《國務院辦公廳關於深化收入分配制度改革重點工作分工的通知》). Pursuant to these two documents, the PRC Government is planning to cancel foreign individuals' tax exemption for dividends obtained from foreign-invested enterprises, and the MOF and the STA should be responsible for making and implementing details of such plan. However, relevant implementation rules or regulations have not been promulgated by the MOF and the STA.

Pursuant to the Notice of the STA on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document (Guo Shui Fa [1993] No. 45) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the STA on 28 June 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, normally withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the excessive withholding amount will be refunded. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.



Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed by the Central People's Government of Mainland of China and the Government of the Hong Kong Special Administrative Region on 21 August 2006, the PRC Government may impose tax on dividends paid by a PRC company to a Hong Kong resident (including natural person and legal entity), but such tax shall not exceed 10% of the total amount of dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interests in a PRC company and the Hong Kong resident is the beneficial owner of the dividends and meets other conditions, such tax shall not exceed 5% of the total amount of dividends payable by the PRC company. The Fifth Protocol to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) issued by The STA and effective on 6 December 2019 provides that such provisions shall not apply to arrangements or transactions made for one of the primary purposes of obtaining such tax benefits.

### *Enterprise Investors*

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) issued by NPC on 16 March 2007 and latest amended on 29 December 2018 and the Implementation Provisions of the EIT Law, a non-resident enterprise is generally subject to a 10% EIT on PRC-sourced income (including dividends received from a PRC resident enterprise), if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. The aforesaid income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise. The withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation. Notice of the STA on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》), which was promulgated by the STA and came into effect on 6 November 2008, further clarified that a PRC-resident enterprise must withhold corporate income tax at a rate of 10% on the dividends of 2008 and onwards that it distributes to overseas non-resident enterprise shareholders of H Shares. The Reply of the Imposition of Enterprise Income Tax on B-share and Other Dividends of Non-resident Enterprises (《關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) that was promulgated by the STA on 24 July 2009, further provides that any Chinese resident enterprise listed on any overseas stock exchange must withhold EIT at a rate of 10% on dividends distributed to non-Chinese resident enterprise shareholders. Such tax rates may be further changed pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed by the Central People's Government of Mainland of China and the Government of the Hong Kong Special Administrative Region on 21 August 2006, the PRC Government may impose tax on dividends paid by a PRC company to a Hong Kong resident (including natural person and legal entity), but such tax shall not exceed 10% of the total amount of dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interests in a PRC company and the Hong Kong resident is the beneficial owner of the dividends and meets other conditions, such tax shall not exceed 5% of the total amount of dividends payable by the PRC company. The Fifth Protocol to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) issued by the STA and effective on 6 December 2019 provides that such provisions shall not apply to arrangements or transactions made for one of the primary purposes of obtaining such tax benefits.

### *Tax Treaties*

Non-resident investors residing in jurisdictions which have entered into treaties or adjustments for the avoidance of double taxation with the PRC might be entitled to a reduction of the Chinese corporate income tax imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties or Arrangements with a number of countries and regions including Hong Kong Special Administrative Region, Macau Special Administrative Region, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant taxation treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the corporate income tax in excess of the agreed tax rate, and the refund application is subject to approval by the Chinese tax authorities.

Pursuant to the Administrative Measures on Entitlement of Non-resident Taxpayers to Preferential Treatment under Tax Treaties (《非居民納稅人享受協定待遇管理辦法》), which was promulgated by the STA on 14 October 2019 and became effective on 1 January 2020, non-resident taxpayers are entitled to preferential treatment under the tax treaties through self-determination, self-declaration and keeping and documenting relevant information for inspection. Where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding declaration through a withholding agent, simultaneously gather and retain the relevant materials pursuant to the regulations for future inspection, and be subject to subsequent administration by tax authorities.

**Taxation on Share Transfer***Value-added Tax and Local Additional Tax*

Pursuant to the Notice on Fully Implementing the Pilot Reform for the Transition from Business Tax to Value-added Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (the “Circular 36”), which was implemented on 1 May 2016, entities and individuals engaged in the services sale in the PRC are subject to VAT and “engaged in the services sale in the PRC” means that the seller or buyer of the taxable services is located in the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable revenue (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer.

At the same time, VAT payers are also required to pay urban maintenance and construction tax, education surtax and local education surcharge.

**Income Tax***Individual Investors*

According to the IIT Law, gains on the transfer of equity interests in the PRC resident enterprises are subject to individual income tax at a rate of 20%. Pursuant to the Circular on Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by the STA on 30 March 1998, from 1 January 1997, income of individuals from transfer of the shares of listed enterprises continues to be exempted from individual income tax. The STA has not expressly stated whether it will continue to exempt tax on income of individuals from transfer of the shares of listed enterprises in the latest amended Individual Income Tax Law.

However, on 31 December 2009, the MOF, STA and CSRC jointly issued the Circular on Related Issues on Levying Individual Income Tax over the Income Received by Individuals from the Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》), which came into effect on 1 January 2010, which states that individuals’ income from the transfer of listed shares obtained from the public offering of listed companies and transfer market on the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in the Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals’ Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) jointly issued and implemented by such departments on 10 November 2010). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that individual income tax shall be levied from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges.

*Enterprise Investors*

In accordance with the EIT Law, a non-resident enterprise is generally subject to corporate income tax at the rate of a 10% on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but its PRC-sourced income has no real connection with such establishment or premise. Such income tax payable for non-resident enterprises are deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise. Such tax may be reduced or exempted pursuant to relevant tax treaties or agreements on avoidance of double taxation.

*Tax policies for Shanghai – Hong Kong Stock Connect*

On 31 October 2014, the MOF, the STA and the CSRC jointly promulgated the Circular on the Relevant Taxation Policy for the Pilot Programme of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (the “**Shanghai – Hong Kong Stock Connect Taxation Policy**”). Pursuant to the Shanghai – Hong Kong Stock Connect Taxation Policy, the income from the transfer price difference obtained by corporate investors of the mainland of China investing in stocks listed on the Stock Exchange through Shanghai – Hong Kong Stock Connect is included in their total income and EIT is levied on such income in accordance with the law. The income from dividends and bonus obtained by corporate investors of the mainland of China investing in stocks listed on the Stock Exchange through Shanghai – Hong Kong Stock Connect is included in their total income. The EIT is levied on such income in accordance with the law. Among them, EIT will be exempt according to law for income from dividends and bonus obtained by resident enterprises of the Mainland of China that hold H-shares for at least 12 consecutive months. The H-share companies do not need to withhold tax on the income from dividends and bonus obtained by corporate investors of the Mainland of China. The tax payable shall be declared and paid by the enterprises themselves.

Pursuant to the Announcement on Continued Implementation of Individual Income Tax Policies Relating to Interconnection Mechanism for Transactions in Shanghai – Hong Kong Stock Markets and Shenzhen – Hong Kong Stock Markets and Mutual Recognition of Funds Between the Mainland of China and the Hong Kong Special Administrative Region (《關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》) that was issued on 4 December 2019 and already expired, from 5 December 2019 to 31 December 2022, the income from the transfer price difference obtained by individual investors of the mainland of China investing in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect is exempt from individual income tax. For dividends and bonus obtained by individual investors of the Mainland of China investing in H-shares listed on the Stock Exchange through Shanghai – Hong Kong Stock Connect, the H-share companies shall apply to China Securities Depository and Clearing Corporation Limited (the “**CSDCC**”) for provision by the CSDCC to the H-share companies the register of individual investors of the Mainland of China. The H-share companies shall withhold individual income tax at a rate of 20%. According to the Announcement on the Extension of Relevant Preferential Policies for Individual Income Tax (《關於延續實施有關個人所得稅優惠政策的公告》) issued by MOF and the STA on 16 January 2023 and the Announcement on Continuing

the Individual Income Tax Policy for the Shanghai-Hong Kong and Shenzhen-Hong Kong Connect Mechanisms and the Mutual Recognition of Funds between Mainland China and Hong Kong (《關於延續實施滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》) issued by MOF, the STA and the CSRC on 21 August 2023, the above-mentioned individual income tax policy shall continue to apply during the period from 1 January 2023 to 31 December 2027.

#### *Tax policies for Shenzhen – Hong Kong Stock Connect*

On 5 November 2016, the MOF, the STA and the CSRC jointly issued the Circular on the Relevant Taxation Policy for the Pilot Programme of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》) (the “**Shenzhen – Hong Kong Stock Connect Taxation Policy**”). Pursuant to the Shenzhen – Hong Kong Stock Connect Taxation Policy, the income from the transfer price difference obtained by corporate investors of the mainland of China investing in stocks listed on the Stock Exchange through Shenzhen – Hong Kong Stock Connect is included in their total income. The EIT is levied on such income in accordance with the law. The income from dividends and bonus obtained by corporate investors of the Mainland of China investing in stocks listed on the Stock Exchange through Shenzhen – Hong Kong Stock Connect is included in their total income. The EIT is levied on such income in accordance with the law. EIT is exempt according to law for income from dividends and bonus obtained by resident enterprises of the Mainland of China that hold H-shares for at least 12 consecutive months. The H-share companies do not need to withhold tax on the income from dividends and bonus obtained by corporate investors of the Mainland of China. The tax payable shall be declared and paid by the enterprises themselves.

Pursuant to the Announcement on Continued Implementation of Individual Income Tax Policies Relating to Interconnection Mechanism for Transactions in Shanghai – Hong Kong Stock Markets and Shenzhen – Hong Kong Stock Markets and Mutual Recognition of Funds Between the Mainland of China and the Hong Kong Special Administrative Region (《關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》) that came into effect on 5 December 2019 and already expired, from 5 December 2019 to 31 December 2022, the income from the transfer price difference obtained by individual investors of the mainland of China investing in stocks listed on the Stock Exchange through Shenzhen – Hong Kong Stock Connect are exempt from individual income tax. For dividends and bonus obtained by individual investors of the Mainland of China investing in H-shares listed on the Stock Exchange through Shenzhen – Hong Kong Stock Connect, the H-share companies shall apply to the CSDCC for provision by the CSDCC to the H-share companies the register of individual investors of the Mainland of China, and the H-share companies shall withhold individual income tax at a rate of 20%.

Pursuant to the Announcement on the Extension of Relevant Preferential Individual Income Tax Policies (《關於延續實施有關個人所得稅優惠政策的公告》) that came into effect on 16 January 2023 and the Announcement on Continuing the Individual Income Tax Policy for the Shanghai-Hong Kong and Shenzhen-Hong Kong Connect Mechanisms and the Mutual Recognition of Funds between Mainland China and Hong Kong (《關於延續實施滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》) issued by MOF, the STA and the CSRC on 21 August 2023, the preferential IIT policies stated in the Announcement on Continued Implementation of Individual Income Tax Policies

Relating to Interconnection Mechanism for Transactions in Shanghai – Hong Kong Stock Markets and Shenzhen – Hong Kong Stock Markets and Mutual Recognition of Funds Between the Mainland of China and the Hong Kong Special Administrative Region shall continue to be in effect from 1 January 2023 to 31 December 2027.

### *Stamp Duty*

Pursuant to the Stamp Duty Law of the PRC (《中華人民共和國印花稅法》) promulgated on 10 June 2021 which took effect on 1 July 2022, the entities and individuals that conclude taxable certificates, or conduct securities transactions within the territory of the PRC shall be taxpayers of stamp tax, and shall pay stamp tax in accordance with the provisions of this law; where entities or individuals, outside the territory of the PRC, conclude taxable certificates that are used within the territory of the PRC, they shall pay stamp tax in accordance with the provisions of this law. Thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

### *Estate Duty*

As of the date of this prospectus, no estate duty has been levied in the PRC under the PRC laws.

## **FOREIGN EXCHANGE**

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange control and cannot be freely converted into foreign currency. The SAFE, with the authorization of the People's Bank of China (the "PBOC"), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations. The Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on 29 January 1996, implemented on 1 April 1996 and was subsequently amended on 14 January 1997 and 5 August 2008, classifies all international payments and transfers into current items and capital items. Current items are subject to the reasonable examination of the veracity of transaction documents and the consistency of the transaction documents and the foreign exchange receipts and payments by financial institutions engaging in conversion and sale of foreign currencies and supervision and inspection by the foreign exchange control authorities. For capital items, overseas organizations and overseas individuals making direct investments in China shall, upon approval by the relevant authorities in charge, process registration formalities with the foreign exchange control authorities. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. In the event that international revenues and expenditure occur or may occur a material imbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard and control measures on international revenues and expenditure.



The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), which was promulgated by the PBOC on 20 June 1996 and implemented on 1 July 1996, removes other restrictions on convertibility of foreign exchange under current items, while imposing existing restrictions on foreign exchange transactions under capital account items. Consequently, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but remains to be not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the SAFE or its local counterparts is obtained.

According to the Announcement on Improving the Reform of the Renminbi Exchange Rate Formation Mechanism (《關於完善人民幣匯率形成機制改革的公告》), which was issued by the PBOC and implemented on 21 July 2005, the PRC has started to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies since 21 July 2005. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at the designated foreign exchange bank, on the strength of valid transaction receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Company) may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange bank, or effect exchange and payment at the designated foreign exchange bank.

According to the Decisions of the State Council on Matters including Cancelling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) which was promulgated by the State Council on 23 October 2014, it decided to cancel the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

According to the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) issued by the SAFE and implemented on 26 December 2014, a domestic company shall, within 15 business days from the date of the end of its overseas listing issuance, register the overseas listing with the local branch office of the SAFE at the place of its establishment; the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents.

According to the Notice of the State Administration of Foreign Exchange of the PRC on Revolutionizing and Regulating Capital Account Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) which was promulgated by the SAFE and implemented on 9 June 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions.

The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations. The Circular on Issues Concerning the Administration of Foreign Exchange in Offshore Investments and Financing and Return Investments by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”) was promulgated and implemented by the SAFE on 4 July 2014. According to Circular 37, domestic residents, individuals and entities shall apply to the SAFE for registration of foreign exchange for offshore investment before making contributions to special purpose vehicles with domestic and overseas legal assets or equities. In addition, any domestic resident who is a shareholder of an overseas special purpose vehicle shall complete the registration formality of foreign exchange alteration for offshore investment with the SAFE in a timely manner in the event of any change of significant matters of such overseas special purpose vehicle such as capital increase/decrease, equity transfer or swap, merge and spin-off.

The subsequent foreign exchange business (including remittance of profits and dividend) of a domestic resident who fails to comply with the registration requirements as set out in Circular 37 may be restricted. Domestic residents that have made contributions to special purpose vehicles with domestic and overseas legal assets or equities without the required registration of foreign exchange for offshore investment prior to the implementation of Circular 37 shall issue a letter of explanation to the SAFE containing specific reasons. The SAFE shall make a post-registration following the principles of legality and rationality and impose administrative penalties in case of suspected violation of the Regulations on Foreign Exchange Control of the PRC.

According to the Circular on Further Simplifying and Improving Policies for the Foreign Exchange Administration Applicable to Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), which was issued by the SAFE on 13 February 2015, came into effect on 1 June 2015 and partially repealed on 30 December 2019, the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment shall be directly examined and handled by banks and the foreign exchange authorities shall indirectly regulate the foreign exchange registration of direct investment through banks. The banks that have obtained financial institution identification codes from foreign exchange authorities and have connected to the Capital Account Information System with the local foreign exchange authorities may directly handle the registration under Circular 37.



**PRC LEGAL SYSTEM**

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the “**Constitution**”) and is composed of the Constitution, written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Court verdicts do not constitute binding precedents. However, they may be used as judicial reference and guidance.

According to the Constitution promulgated on 4 December 1982 and last amended and came into effect on 11 March 2018 and the Legislation Law of the PRC which was promulgated on 1 July 2000 and latest amended on 13 March 2023 (《中華人民共和國立法法》) (the “**Legislation Law**”), the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions, rulings and orders of the State Council and within the limits of their power, formulate rules and regulations.

The people’s congresses of cities divided into districts and their respective standing committees may formulate local regulations in terms of urban and rural development and management, environmental protection, and historical and cultural protection based on the specific circumstances and actual requirements of such cities, which shall come into effect after being reported to and approved by the standing committees of the people’s congresses of the relevant provinces or autonomous regions but such local regulations shall conform with the Constitution, laws, administrative regulations, and the relevant local regulations of the relevant provinces or autonomous regions.

People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the nationality (nationalities) in the areas concerned, which shall come into effect upon approval by the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, and no adaptations shall be made to the specific provisions on national autonomous areas in the Constitution, national region autonomy law and other relevant laws and administrative regulations.

The people's governments of the provinces, autonomous regions, and municipalities directly under the central government and the cities divided into districts or autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the city divided into districts or autonomous prefecture within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution and the Legislation Law, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, the general interpretation on questions involving the specific application of laws and decrees in court trials and the procuratorial work of the procuratorates shall be given by the Supreme People’s Court of the PRC (the “**Supreme People’s Court**”) and the Supreme People’s Procuratorate of the PRC (the “**Supreme People’s Procuratorate**”), respectively. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

### PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organization of the People’s Courts (《中華人民共和國人民法院組織法》) which was promulgated on 5 July 1979, implemented on 1 January 1980 and last amended on 26 October 2018 and took effect on 1 January 2019, the PRC judicial system is made up of the Supreme People’s Court, the local people’s courts, military courts and other special people’s courts.

The local people’s courts are comprised of the primary people’s courts, the intermediate people’s courts and the higher people’s courts. The basic people’s courts may be organised into civil, criminal, and economic tribunals. The intermediate people’s courts may be organised into divisions similar to those of the basic people’s courts, and may be further organised into other special divisions. The people’s courts at lower levels are subject to the supervision of the people’s courts at higher levels. The Supreme People’s Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people’s courts at all levels and all special people’s courts. The people’s procuratorates also have the right to exercise legal supervision over the trial activities of people’s courts at same or lower levels.

The people’s courts adopt a “second instance as final” appellate system in the trial of the cases. A party to the case concerned may appeal against the judgement and ruling of the first instance by the local people’s courts to the people’s courts at the next higher level in accordance with the legal procedures. The people’s procuratorates may appeal to the people’s court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people’s procuratorates within the stipulated period, the judgement and ruling of the first instance by the local people’s courts shall be final and legally binding. Judgements and rulings of the second instance of the intermediate people’s courts, the higher people’s courts and Supreme People’s Court and the judgements and rulings of the first instance of the Supreme People’s Court shall be the final judgements and rulings. If, however, the Supreme People’s Court finds some definite errors in a legally effective judgement, ruling or conciliation statement of the people’s court at any level, or if the people’s court at a higher level finds such errors in a legally effective judgement, ruling or conciliation statement of the

people's court at a lower level, it has the authority to review the case itself or to direct the lower-level people's court to conduct a retrial. If the chief judge of all levels of people's courts finds some definite errors in a legally effective judgement, ruling or conciliation statement, and considers that a retrial is preferred, such case shall be submitted to the judicial committee of the people's court at the same level for discussion and decision. For death penalties, except those judged by the Supreme People's Court, requests shall be submitted to the Supreme People's Court for approval.

The PRC Civil Procedure Law (《中華人民共和國民事訴訟法》) (the “**Civil Procedure Law**”), which was promulgated on 9 April 1991 and amended in 2007, 2012, 2017, 2021, 2023 and the latest amendment came into effect on 1 January 2024, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's domicile, the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. A foreign individual, a stateless person, a foreign enterprise or a foreign organisation must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a people's court and a foreign court may request each other to serve documents, conduct investigation and collect evidence and conduct other actions on its behalf.

If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into or acceded to an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according

to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security or against social and public interest.

### **THE COMPANY LAW AND THE TRIAL MEASURES**

A joint stock limited company which was incorporated in the PRC and seeking a listing on the Stock Exchange is mainly subject to the following two laws and regulations in the PRC:

- The PRC Company Law (《中華人民共和國公司法》) which was promulgated by the Standing Committee of the NPC on 29 December 1993, came into effect on 1 July 1994, revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013, and 26 October 2018 respectively and was latest revised on 29 December 2023 and came effect on 1 July 2024;
- On 17 February 2023, with the approval of the State Council, the CSRC promulgated the Trial Measures and relevant six guidelines, which came into force on 31 March 2023.

Set out below is a summary of the major provisions of the Company Law and the Trial Measures applicable to the Company.

#### **General**

A joint stock limited company refers to an enterprise legal person with independent legal person properties and entitlements to such legal person properties incorporated under the Company Law with its registered capital divided into shares. The liability of its shareholders is limited to the shares subscribed them and the company is liable to its creditors to the extent of all its assets.

A joint stock limited company shall conduct its business in accordance with laws and administrative regulations, observe social ethics and business ethics, act in good faith, and be subject to government and public oversight. It may invest in other enterprises. Where any law provides that a company shall not become a capital contributor that shall bear joint and several liability for the debts of the invested enterprise, such provisions shall apply.

#### **Incorporation**

A joint stock limited company may be incorporated by promotion or subscription.

A joint stock limited company may be incorporated by a minimum of one but not more than 200 promoters, and at least half of the promoters shall have residence within the PRC. Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters when establishing a company. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations when establishing a company, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For a company incorporated by promotion, the promoters shall subscribe to the full number of shares to be issued at the time of establishment as stipulated in the articles of association. For the establishment of a joint stock limited company by promotion, the shares subscribed by the promoters shall not be less than 35% of the total number of shares to be issued at the time of company establishment as stipulated in the company's articles of association, unless otherwise provided in any law or administrative regulations. Promoters shall pay the full amount of the subscribed shares before the establishment of the company. If any promoter fails to pay the share capital according to the subscribed shares, or if the actual value of the non-monetary property used as capital contribution is significantly lower than the subscribed shares, other promoters and the promoter shall bear joint and several liability within the scope of insufficient capital contribution.

After the full payment of the proceeds from the public offering of shares, it shall be verified by a legally established capital verification institution and a certificate shall be issued. The promoters of a joint stock limited company incorporated by subscription shall convene the company's establishment meeting within 30 days from the date of full payment of the shares to be issued at the time of establishment. The promoter shall notify all subscribers of the meeting date or make an announcement fifteen days before the establishment meeting. The establishment meeting shall be attended by more than half of the voting rights held by the subscribers. The convening and voting procedures for the establishment meeting of a joint stock limited company incorporated by promotion shall be stipulated in the articles of association or the agreement of the promoters.

The board of directors shall authorize representatives to apply for establishment registration with the company registration authority within 30 days after the conclusion of the company's establishment meeting.

If the shares required to be issued at the time of the establishment of a company are not fully subscribed, or if, after the full payment for the issued shares, the promoters fail to convene an establishment meeting within 30 days, any subscriber may demand the promoters to refund their subscriptions, plus the interest calculated based on the bank interest rate for the corresponding period.

After the promoters and subscribers have paid for their subscribed shares or delivered non-monetary assets as contributions, they shall not withdraw their capital except in cases where the issued shares are not fully subscribed within the specified period, the promoters fail to convene an establishment meeting within the prescribed period, or the establishment meeting resolves not to establish the company.

According to the Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) promulgated by the State Council on 22 April 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters or directors of such company are required to sign on the prospectus to ensure that the prospectus does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

### **Registered Capital**

The promoters of a company can make capital contributions in cash or in kind, which can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations.

If capital contribution is made other than in cash, valuation without any over-valuation or under-valuation and verification of the property contributed must be carried out.

The stocks issued by a company shall be registered stocks.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council.

Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office determined at the time of appointment and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

No changes shall be made to the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

### **Allotment and Issue of Shares**

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The issue price of par value stock may be based on the face value or exceed the face value but shall not be lower than the face value.



**Registered Shares**

Under the Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valued non-monetary property as physical items, intellectual property rights, land-use rights, equity, debt claims, or other non-monetary assets which can be valued in monetary terms and legally transferred, except for assets not eligible for capital contribution under any other law or administrative regulations.

Under the Company Law, a joint stock limited company shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- type and quantity of subscribed shares for each shareholder;
- for stocks issued in paper form, the stock serial numbers; and
- the date on which each shareholder acquired the shares.

**Increase of Registered Capital**

Pursuant to the Company Law, when the joint stock limited company issues new shares, resolutions shall be passed by a shareholders' meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement and end of the new share issuance and the class and amount of new shares to be issued to existing shareholders, in the case of issuing non-par value shares, the amount of proceeds from the new share issuance to be included in the registered capital.

The articles of association or the shareholders' meeting may authorize the board of directors to decide, within three years, on the issuance of shares not exceeding 50% of the issued shares. However, any contribution made in the form of non-monetary assets shall be subject to resolution at the shareholders' meeting. If the board of directors, in accordance with the provisions above, decides to issue shares, leading to changes in the company's registered capital or the quantity of issued shares, the modification of the relevant entries in the articles of association shall not require a vote by the shareholders' meeting. If the articles of association or the shareholders' meeting authorizes the board of directors to decide on the issuance of new shares, the relevant resolution of the board of directors shall be adopted by two-thirds or more of all the directors.

The company conducting a public offering of shares shall register the offering with the securities regulatory authority under the State Council and publish a prospectus. After the share issuance has been paid up, an announcement shall be made.



**Reduction of Registered Capital**

A company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by a shareholders' meeting;
- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper or the National Enterprise Credit Information Publicity System within 30 days after the resolution approving the reduction has been passed;
- creditors may within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received, require the company to pay its debts or provide guarantees covering the debts;
- A company decreasing its registered capital shall decrease shareholders' contributions or shares on a pro rata basis, except as otherwise stipulated by law, agreed upon by all shareholders in the case of a limited liability company, or stipulated in the articles of association in the case of a joint stock limited company.

After a company covers losses as provided in the second paragraph of Article 214 of this Law, if there are still losses, the company may decrease its registered capital to make up for the losses. In the case of decreasing the registered capital to make up for losses, the company shall not distribute profits to shareholders or exempt shareholders from the obligation to pay contributions or share capital.

In the case of a decrease in registered capital pursuant to the preceding paragraph, the second paragraph of the Article 224 (the obligation to inform creditors and publish an announcement as mentioned above) shall not apply, but a public announcement shall be made through a newspaper or the National Enterprise Credit Information Publicity System within 30 days of adopting the resolution on the decrease in registered capital by the shareholders' meeting.

After a company decreases its registered capital as provided in the preceding two paragraphs, profits shall not be distributed until the aggregate amount of statutory reserve and discretionary reserve reaches 50% of the company's registered capital. In cases where a decrease in a company's registered capital violates the provisions of this Law, shareholders shall return the funds received, and any decrease in shareholders' contributions shall be reinstated; if any losses are caused thereby to the company, shareholders, as well as any directors, supervisors, and senior officers responsible for the violation, shall be liable for compensation.

**Repurchase of Shares**

According to the Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (i) to reduce its registered capital; (ii) to merge with another company that holds its shares; (iii) to grant its shares for carrying out an employee stock ownership plan or equity incentive plan; (iv) to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' meeting; (v) use of shares for conversion of convertible corporate bonds issued by the company; and (vi) the share buyback is necessary for a listed company to maintain its company value and protect its shareholders' equity.

The purchase of shares on the grounds set out in (i) and (ii) above shall require approval by way of a resolution passed by the shareholders' meeting. For a company's share buyback under any of the circumstances stipulated in (iii), (v) or (vi) above, a resolution of the company's board of directors shall be made by a two-third majority of directors attending the meeting according to the provisions of the company's articles of association or as authorized by the shareholders' meeting.

Following the purchase of shares in accordance with (i), such shares shall be deregistered within 10 days from the date of purchase. The shares shall be assigned or deregistered within six months if the share buyback is made under the circumstances stipulated in either (ii) or (iv). The shares held in total by a company after a share buyback under any of the circumstances stipulated in (iii), (v) or (vi) shall not exceed 10% of the company's total outstanding shares, and shall be assigned or deregistered within three years.

Listed companies making a share buyback shall perform their obligation of information disclosure according to the provisions of the Securities Law. If the share buyback is made under any of the circumstances stipulated in (iii), (v) or (vi) hereof, centralized trading shall be adopted publicly.

A company may not accept its own shares as the subject matter of pledge.

**Transfer of Shares**

Shareholders of a joint stock limited company may transfer their shares in the company to other shareholders, or to parties outside the shareholders; where there are restrictions on share transfers in the company's articles of association, those restrictions shall apply. Pursuant to the Company Law, transfer of shares by shareholders shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No modifications of registration in the share register shall be carried out within 20 days prior to the convening of shareholder's meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law, administrative regulations or Securities Regulatory Agencies under the State Council on alternation of registration in the share register of listed companies, those provisions shall prevail.

Under the Company law, shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Where any laws, administrative regulations, or the securities regulatory authority under the State Council have other provisions regarding the transfer of shares of a listed company by its shareholders or actual controllers, those provisions shall prevail. Directors, supervisors and the senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure determined at the time of appointment. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from their positions with the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management. If shares are pledged within a restricted period for transfer specified by laws or administrative regulations, the pledgee shall not exercise the pledge during the restricted period for transfer.

### **Shareholders**

Under, among others, the Company Law, the rights of holders of ordinary shares of a joint stock limited company include:

- to receive return on assets, elect and replace directors and supervisors and determine matters relating to their remunerations;
- the right to attend or appoint a proxy to attend shareholders' meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect and copy, or appoint intermediary institutions such as accounting firms or law firms to inspect and copy the company's and its wholly-owned subsidiary's articles of association, share register, minutes of shareholder's meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports, in cases where a company rejects a shareholder's request to inspect the company's accounting books, the shareholder may initiate legal action in the people's court, and to make proposals or enquiries on the company's operations;
- the right to bring an action in the people's court to rescind resolutions passed by shareholder's meetings and board of directors where laws, administrative regulations or the articles of association is violated by the above resolutions except in cases where there are only minor defects in the procedure for convening the meeting or the voting method used in the meeting, which had no material impact on the resolution;

- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of residual properties of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include, among others, the obligation to abide by laws, administrative regulations and the Company's articles of association, to pay the subscription moneys in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

#### **Shareholders' Meetings**

The shareholders' meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law. Under the Company Law, the shareholders' meeting exercises the following principal powers:

- to elect or remove the directors and supervisors and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company's proposals for profit distribution plans and loss recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as provided for in the articles of association.

The shareholders' meeting may authorize the board of directors to make resolutions on the issuance of corporate bonds.

Shareholders' annual meetings are required to be held once every year. Under the Company Law, an extraordinary shareholders' meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in registered capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary meeting;
- whenever the board of directors deems necessary;
- when the board of supervisors so requests; or
- other circumstances as provided for in the articles of associations

Under the Company Law, shareholders' meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by a majority of the directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting. If a shareholder individually holding or shareholders collectively holding 10% or more of the company's shares, requests the convening of an extraordinary shareholders' meeting, the board of directors or the board of supervisors shall, within 10 days from the date of receiving the request, decide whether to convene the extraordinary shareholders' meeting and provide a written response to the shareholder(s).

Under the Company Law, notice of shareholders' meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of extraordinary shareholder's meetings shall be given to all shareholders 15 days prior to the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting.

Under the PRC Company Law, a single shareholder who holds, or several shareholders who jointly hold, 1% or more of the shares of the company may submit an interim proposal in writing to the board of directors 10 days before the meeting is held. The interim proposal shall include a specific issue for discussion along with any concrete matter for resolution. The board of directors shall, within two days upon receipt of the proposal, notify the other shareholders, and submit the said interim proposal to the meeting for deliberation except for any proposal that violates laws, administrative regulations, or the articles of association, or any proposal that falls outside the purview of the shareholders' meeting. The company shall not increase the shareholding percentage for shareholders proposing interim proposals.

Shareholders attending a shareholders' meeting shall have one voting right for each share they hold, except for shareholders of non-ordinary shares. The company's own shares held by the company do not carry voting rights.

Pursuant to the provisions of the articles of association or a resolution of the shareholders' meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of directors or supervisors to be elected at the shareholders' meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the Company Law, resolutions of the shareholders' meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the merger, division, dissolution, liquidation or change in the form of the company. The meeting shall not make resolutions on matters that are not clearly listed in the notices given to the shareholders.

Under the Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

### **Board**

Under the Company Law, a joint stock limited company shall have a board of directors, which shall consist of 3 or more members and may include employee representatives among them.

In the case of a company with three hundred or more employees, except when a board of supervisors has been established including a number of employee representatives among its members as required by law, the company's board of directors shall include employee representatives among its members. An employee representative on the board of directors shall be elected by the company's employees through the employee representative assembly, employee assembly, or other forms of democratic elections. A joint stock limited company with a smaller scale or fewer shareholders may appoint one director without establishing a board of directors to exercise the functions and powers prescribed for the board of directors by the Company Law. This director may serve concurrently as the company manager. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum. Resignation of a director shall be notified to the company in writing, and the resignation shall become effective on the date the company receives the notice, except in the circumstances as mentioned above, where the director shall continue to perform duties.

A joint stock limited company may, as stipulated in its articles of association, establish an audit committee within the board of directors composed of directors to exercise the functions and powers prescribed for the board of supervisors by this Law, without establishing a board of supervisor or supervisor. Under the Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' meetings and report on its work to the shareholders' meetings;
- to implement the resolutions passed in shareholders' meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- to determine the establishment of the company's internal management bodies;
- to determine the appointment or removal of the company manager and the manager's remuneration, and based on nominations by the manager, determine the appointment or removal of any deputy manager and the head of finance and their remuneration;

- to formulate the company's basic management system; and
- any other functions or powers specified in the articles of association or granted by the shareholders' meeting.

Any restrictions on the functions and powers of the board of directors in the articles of association shall not be enforceable against bona fide third parties.

### **Board Meetings**

Under the Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the board of supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director in writing to represent them, and the power of attorney shall specify the scope of authorization.

If a resolution of the board of directors violates the laws, administrative regulations, articles of association, or any resolution of the shareholders' meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

### **Chairman of the Board**

Under the Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.



**Qualification of Directors**

The Company Law provides that the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence or in the case of a suspended sentence, two years have not elapsed since the probation period was completed;
- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business licence revoked or been ordered to close down due to violations of the law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; or
- any individual identified as a subject of enforcement for breach of trust by the people's court for failure to repay a significant amount of overdue debts.

**Board of Supervisors**

A joint stock limited company shall have a board of supervisors composed of three or more members. A joint stock limited company may, as stipulated in its articles of association, establish an audit committee within the board of directors composed of directors to exercise the functions and powers prescribed for the board of supervisors by the Company Law, without establishing a board of supervisor or supervisor. A joint stock limited company with a smaller scale or fewer shareholders may appoint one supervisor without establishing a board of supervisors to exercise the functions and powers prescribed for the board of supervisors by the Company Law. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the board of supervisors shall be democratically elected by the employees at the employees' representative assembly, employees' meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairman of the board of supervisors is incapable of performing or not performing his duties, the vice chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice chairman of the board of supervisors is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the board of supervisors.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The board of supervisors of a company shall hold at least one meeting every six months. According to the PRC Company Law and the Guidelines for Articles of Association of Listed Companies (上市公司章程指引), a resolution of the board of supervisors shall be passed by more than half of all the supervisors.

The board of supervisors exercises the following powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their respective duties and to propose the dismissal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders' meeting;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of extraordinary shareholders' meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under the Company Law;
- to initiate proposals for resolutions to shareholders' meeting;
- to initiate proceedings against directors and senior management; and
- other powers specified in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operations of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

### **Manager and Senior Management**

Under the Company Law, a joint stock limited company shall have a manager who shall be appointed or removed by the board of directors.

The company manager shall report to the board of directors and exercise functions and powers as specified in the articles of association or as authorized by the board of directors. The manager shall attend board meetings.

According to the Company Law, senior management shall mean the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

### **Duties of Directors, Supervisors and Senior Management**

Directors, supervisors, and senior officers owe a duty of loyalty to the company and shall take measures to avoid conflicts of interest between their personal interests and the interests of the company, and shall not use their authority to seek improper benefits.

Directors, supervisors, and senior officers owe a duty of diligence to the company, and in the execution of their duties, shall exercise the usual and reasonable care that a manager should have for the maximum benefit of the company. Directors and senior management are prohibited from:

- embezzling company property, or misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;
- using his authority to engage in bribery or accept other illegal income;
- accept and possess commissions paid by a third party for transactions conducted with the company;
- unauthorized divulgence of confidential company information; or
- other acts in violation of their duty of loyalty to the company.

Directors, supervisors, and senior officers, whether directly or indirectly, entering into a contract or engaging in a transaction with the company, shall report matters related to the contract execution or transaction to the board of directors or the shareholders' meeting and obtain approval in accordance with the company's articles of association through resolutions of the board of directors or the shareholders' meeting. The provisions above shall also apply to the close relatives of directors, supervisors, or senior officers, enterprises directly or indirectly controlled by directors, supervisors, or senior officers or their close relatives, and parties having other related-party relationships with directors, supervisors, or senior officers who enter into contracts or engage in transactions with the company.

Directors, supervisors, and senior officers shall not use their positions to seek any business opportunity available to the company for themselves or others, except in any of the following circumstances:

- (1) Where the activity is reported to the board of directors or the shareholders' meeting and approved in accordance with the company's articles of association through resolutions of the board of directors or the shareholders' meeting; or
- (2) Where the company cannot exploit the business opportunity according to any laws, administrative regulations, or the company's articles of association.

Directors, supervisors, and senior officers shall not operate businesses, either self-owned or owned by others, similar to those of the company they serve, without reporting to the board of directors or the shareholders' meeting and obtaining approval in accordance with the company's articles of association through resolutions of the board of directors or the shareholders' meeting.

Income generated by directors or senior management in violation of aforementioned provisions shall be returned to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

If the shareholders' meeting requires the attendance of any director, supervisor, or senior management such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and data to the supervisory board, supervisors, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes law, administrative regulation or the articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate more than 1% of the company's shares consecutively for over 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association

in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institutes litigation at a people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company. Such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court. In cases where any director, supervisor, or senior officer of a wholly-owned subsidiary of the company contravenes law, administrative regulation or the articles of association in the performance of his/her duties resulting in any loss to the subsidiary of company, or the lawful rights and interests of the wholly-owned subsidiary of the company are infringed by any other person, resulting in any losses, any shareholder individually or shareholders collectively holding 1% or more of the shares for 180 or more consecutive days, may, pursuant to the above-mentioned provisions, make a written request to the board of supervisors or the board of directors of the wholly-owned subsidiary to initiate legal action in the people's court, or directly initiate legal action in their own name in the people's court.

### **Finance and Accounting**

Under the Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the Company Law, the company shall deliver its financial and accounting reports to all shareholders within the time limit stipulated in the articles of association and make its financial and accounting reports available at the company for inspection by the shareholders at least 20 days before the convening of an annual meeting of shareholders. A joint stock limited company that has publicly offered shares must also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory common reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory common reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory common reserve fund pursuant to the above provisions.

After allocation of the statutory common reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' meeting, allocate discretionary common reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of common reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the Company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value, the amount of capital obtained from the issuance of non-par value shares that is not included in the registered capital, and other items required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The Company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. When using a company's reserves to cover its losses, any discretionary reserve and statutory reserve balances shall first be used to cover such losses; if there is still a shortfall, the capital reserve may be used in accordance with regulations. Upon the conversion of statutory common reserve fund into an increase in registered capital, the balance of the statutory common reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The Company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

#### **Appointment and Retirement of Accounting Firms**

Pursuant to the Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' meeting, board of directors or board of supervisors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' meeting, board of directors, or board of supervisors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it employs without any refusal, withholding and misrepresentation.

#### **Distribution of Profits**

According to the Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve is drawn.

**Amendments to Articles of Association**

Any amendments to the company's articles of association must be made in accordance with the procedures set out in the company's articles of association. Pursuant to the PRC Company Law, the resolution of a shareholders' meeting regarding any amendment to a company's articles of association requires affirmative votes by more than two-thirds of the votes held by shareholders attending the meeting.

**Dissolution and Liquidation**

According to the Company Law, a company shall be dissolved by reason of the following: (i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (ii) the shareholders' meeting have resolved to dissolve the company; (iii) the company is dissolved by reason of merger or division; (iv) the business licence is revoked; the company is ordered to close down or be dissolved; or (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all its shareholders, on the grounds that the company suffers significant hardship in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) and (ii) above, provided that the company has not yet distributed its assets to shareholders, it may continue its existence by amending its articles of association or by resolution of the shareholders' meeting. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending a shareholders' meeting.

Where the company is dissolved in the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, it should be liquidated, and the director is the obligor of the company's liquidation, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The liquidation team shall be composed of directors, unless otherwise stipulated in the company's articles of association or appointed by a resolution of the shareholders' meeting. If the liquidators fail to fulfill their liquidation obligations in a timely manner, resulting in losses to the company or its creditors, they shall be liable for compensation.

If a liquidation group is not established within the prescribed period or fails to proceed with liquidation after forming a liquidation group, any stakeholders may apply to the people's court to designate relevant individuals to form a liquidation group for the liquidation. The people's court shall accept the application and promptly organize a liquidation group to conduct the liquidation.

If a company is dissolved due to the reason that its business licence is revoked, it is ordered to close down or be dissolved, the authority or company registration authority making the decision on the revocation of the business license or ordering the shutdown or dissolution may apply to the people's court to designate relevant individuals to form a liquidation group for the company's liquidation.

The liquidation group shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to allocate the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment and issue public notices in newspapers or the National Enterprise Credit Information Publicity System within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' meeting or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debts shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance to the foregoing provisions.



Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the people's court for a bankruptcy liquidation.

After the people's court accepts the bankruptcy application, the liquidation group shall hand over liquidation affairs to the administrator designated by the people's court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' meeting or the people's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration. Members of the liquidation group shall fulfill liquidation responsibilities with a duty of loyalty and diligence.

Any member of the liquidation group who neglects their liquidation responsibilities and causes losses to the company shall be liable for compensation; if losses are caused to any creditor due to intent or gross negligence, such member shall be liable for compensation.

Liquidation of a company declaring bankruptcy according to laws shall be processed in accordance with the laws on corporate bankruptcy.

### Overseas Listing

On 14 November 2019, CSRC promulgated the Notice on the Guidance of H-share Companies Applying for "Full Circulation" Business of Unlisted Shares in China (《H股公司境內未上市股份申請“全流通”業務指引》), which revised and came into effect on 10 August 2023. This provision is to regulate the listing and circulation (the "**Full Circulation**") of unlisted domestic shares of the H-share companies listed on the stock exchange of Hong Kong (including unlisted domestic capital stock held by domestic shareholders before overseas listing, unlisted domestic capital stock issued in China after overseas listing and unlisted shares held by foreign shareholders) to the Stock Exchange.

According to the Guidelines for the "Full Circulation" Program for Domestic Unlisted Shares of H-share Listed Companies, shareholders of domestic unlisted shares may determine by themselves through consultation the amount and proportion of shares, for which an application will be filed for circulation, provided that the requirements laid down in the relevant laws and regulations and set out in the policies for state-owned asset administration, foreign investment and industry regulation are met, and the corresponding H-share listed company shall be entrusted to file for the record for "Full Circulation" with the CSRC. An H-share listed company shall submit a report on the relevant situation to the CSRC within 15 days after the application for the registration of the transfer of shares in question with CSDCC is completed.

On 17 February 2023, the CSRC released the Trial Measures, together with six interpretative guidelines thereof, which became effective on 31 March 2023 (the “**Implementation Date**”). The Trial Measures, upon the Implementation Date, comprehensively improve and reform the existing regulatory regime for overseas offering and listing of PRC domestic companies’ securities, and regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime. According to the Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC within 3 working days after submitting the listing application documents to the overseas supervisory authorities and report relevant information.

### **Loss of Share Certificates**

If a registered share certificate is lost, stolen or destroyed, the relevant shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a people’s court to declare such certificate invalid. After the people’s court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement share certificate.

### **Suspension and Termination of Listing**

The Company Law has deleted provisions governing suspension and termination of listing. The PRC Securities Law (2019 revision) (《中華人民共和國證券法》(2019年修訂)) has also deleted provisions regarding suspension of listing. Where listed securities fall under the delisting circumstances stipulated by the stock exchange, the stock exchange shall terminate its listing and trading in accordance with the business rules.

Where the stock exchange decides on delisting of securities, it shall promptly announce and file records with the securities regulatory authority of the State Council.

### **Merger and Division**

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved. When a company merges with another company in which it holds 90% or more of the shares, the company being merged is not required to submit the merger to a resolution of the shareholders’ meeting, but it shall notify the other shareholders, and the other shareholders shall have the right to request the company to repurchase their equity or shares at a reasonable price.

If the payment for a merger to be made by a company does not exceed 10% of its net assets, a resolution of the shareholders’ meeting is not required for the merger, except as otherwise stipulated in the company’s articles of association. In cases where a merger is not subject to a resolution of the shareholders’ meeting according to above, it shall be subject to a resolution of the board of directors.

Pursuant to the PRC Company Law, a merger agreement shall be signed by merging companies and the involved companies shall prepare their respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger through a newspaper or the National Enterprise Credit Information Publicity System within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, demand the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers or the National Enterprise Credit Information Publicity System within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to such division shall be jointly borne by the separated companies.

## **SECURITIES LAW AND REGULATIONS**

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking relevant research and analysis. On 29 March 1998, the State Council consolidated the two departments and reformed the CSRC.

The Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) were promulgated on 22 April 1993 by the State Council to deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On 25 December 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The PRC Securities Law took effect on 1 July 1999 and was revised on 28 August 2004, 27 October 2005, 29 June 2013, 31 August 2014 and 28 December 2019, respectively. This is the first national securities law in the PRC, which is divided into 14 chapters and 226 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 224 of the PRC Securities Law provides that domestic enterprises shall comply with the relevant provisions of the State Council to list its shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

### ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “**Arbitration Law**”) was passed by the Standing Committee of the NPC on 31 August 1994, became effective on 1 September 1995 and was amended on 27 August 2009 and 1 September 2017. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body maybe recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made.

It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

An arrangement was reached between Hong Kong and the Supreme People's Court for the mutual enforcement of arbitral awards. On 18 June 1999, the Supreme People's Court adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland China and Hong Kong (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on 1 February 2000. Furthermore, on 26 November 2020, the Supreme People's Court promulgated the Supplemental Arrangement on Mutual Enforcement of Arbitral Awards between Mainland China and Hong Kong (《關於內地與香港特別行政區相互執行仲裁裁決的補充安排》), of which the articles 1 and 4 came into effect on 27 November 2020, and the articles 2 and 3 subsequently came into effect on 19 May 2021. In accordance with these arrangements, the courts of Hong Kong agree to enforce the awards made pursuant to the Arbitration Law by the arbitral authorities in the Mainland (the list to be supplied by the Legislative Affairs Office of the State Council (國務院法制辦公室) through the Hong Kong and Macao Affairs Office of the State Council (國務院港澳事務辦公室) and the people's courts of the Mainland agree to enforce the awards made in the Hong Kong pursuant to the Arbitration Ordinance of the Hong Kong. If the people's courts of the Mainland find that the enforcement of awards made by the Hong Kong arbitral bodies in the Mainland will be against public interests of the Mainland, or the courts of Hong Kong decide that the enforcement of the arbitral awards in Hong Kong will be against public policies of Hong Kong, the awards may not be enforced.

## **JUDICIAL JUDGMENT AND ITS ENFORCEMENT**

According to the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland China and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) promulgated by the Supreme People's Court on 3 July 2008 and implemented on 1 August 2008, in the case of final judgment, defined with payment amount and enforcement power, made between the court of China and the court of the Hong Kong Special Administrative Region in a civil and commercial case with written jurisdiction agreement, any party concerned may apply to the People's Court of China or the court of the Hong Kong Special Administrative Region for recognition and enforcement based on this arrangement. "Choice of court agreement in written" refers to a written agreement defining the exclusive jurisdiction of either the People's Court of China or the court of the Hong Kong Special Administrative Region in order to resolve dispute with particular legal relation occurred or likely to occur by the party concerned. Therefore, the party concerned may apply to the Court of China or the court of the Hong Kong Special Administrative Region to recognize and enforce the final judgment made in China or Hong Kong that meet certain conditions of the aforementioned regulations.

On 18 January 2019, the Supreme People’s Court and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the “**New Arrangement**”), which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgements in wider range of civil and commercial matters between Hong Kong and the PRC. The New Arrangement discontinued the requirement for a written jurisdiction agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme People’s Court and the completion of the relevant legislative procedures in the Hong Kong. The New Arrangement will, upon its effectiveness, supersede the Arrangement on Mutual Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland China and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Therefore, before the New Arrangement becomes effective it may be difficult or impossible to enforce a judgement rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a written jurisdiction agreement.

This Appendix contains a summary of the principal provisions of the Articles of Association adopted by the Company, which will become effective on the date on which the H Shares are listed on the Stock Exchange. The main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association of the Company, and therefore it may not contain all the information that is important for potential investors.

## **SHARES AND REGISTERED CAPITAL**

Shares of the Company are represented by stock. The shares issued by the Company shall be denominated in RMB. The par value per share is RMB1.00.

The Company shall issue shares in an open, fair and just manner, and each share of the same class shall have the same rights.

Shares of the same class issued at the same time shall be issued on the same conditions and at the same price. Any entity or individual shall pay the same price for each of the shares for which it or he or she subscribes for.

## **INCREASE, DECREASE AND REPURCHASE OF SHARES**

### **Capital Increase**

The Company may, based on its business and development needs and in accordance with the laws and regulations, increase its capital in the following ways, subject to separate resolutions of the shareholders' meeting:

1. Public offering of shares;
2. Non-public issuance of shares;
3. distributing bonus shares to its existing shareholders;
4. Conversion of capital reserve into share capital;
5. other means as is stipulated by laws, administrative regulations, or as approved by relevant regulatory authorities.

The board of directors may, in accordance with the Articles of Association or the authorization of the shareholders' meeting, and subject to compliance with applicable laws, regulations, and normative documents both domestically and internationally, decide to issue no more than 50% of the issued shares within three years. Such resolution of the board of directors to decide to issue shares shall be passed by more than two-thirds of all directors. But if non-monetary assets are valued as capital contributions, they shall be subject to the resolution of the shareholders' meeting.



**Capital reduction**

The Company may reduce its registered capital. When the company needs to reduce its registered capital, it must prepare a balance sheet and an inventory of assets.

The Company shall reduce its registered capital in accordance with the procedures stipulated in the Company Law, the GEM Listing Rules and other relevant regulations and the Articles of Association.

**Shares repurchase**

The Company shall not buy back its shares, except in one of the following circumstances:

1. reducing the registered capital of the Company;
2. merging with another company that holds shares in the Company;
3. using shares for employee stock ownership plan or equity incentives;
4. shareholders who object to resolutions of the shareholders' meeting on merger or division of the Company requesting the Company to buy back their shares;
5. to use the shares for conversion of corporate bonds issued by the Company which are convertible into shares;
6. where it is necessary for the Company to preserve its value and shareholders' interest;
7. other circumstances recognised by laws, administrative regulations, departmental rules, normative documents, securities regulatory rules of the place where the Company's shares are listed and other relevant regulations.

The Company may repurchase its shares through public centralised trading or other methods recognised by laws, administrative regulations, securities regulatory rules of the place where the Company's shares are listed and relevant regulatory authorities.

Where the Company repurchases its shares under the circumstances set out in items 3, 5 and 6 above, public centralised trading shall be adopted.

Where the Company repurchases its shares under the circumstances set out in items 1 and 2 above, a resolution shall be passed at the shareholders' meeting of the Company. Where the Company repurchases its shares under the circumstances set out in items 3, 5 and 6 above, a resolution may be passed at a Board meeting attended by more than two-thirds of the directors in accordance with the provisions of the Articles of Association or as authorised by the shareholders' meeting.



Where the Company repurchases its shares under the circumstances set out in item 1 above, such shares shall be cancelled within 10 days from the date of repurchase; where the Company repurchases its shares under the circumstances set out in items 2 and 4, such shares shall be transferred or cancelled within 6 months; where the Company repurchases its shares under the circumstances set out in items 3, 5 and 6, the total number of shares held by the Company shall not exceed 10% of the total issued shares of the Company, and such shares shall be transferred or cancelled within 3 years.

Where relevant laws, regulations, normative documents and the securities regulatory rules of the place where the shares of the Company are listed provide otherwise, such provisions shall prevail.

### **Transfer of Shares**

Shares issued by the Company prior to the public offering of shares shall not be transferred within one year from the date on which the Company's shares are listed and traded on the Stock Exchange.

Directors, supervisors and senior management of the Company shall declare to the Company their shareholdings in the Company and any changes thereof, and shall not transfer more than 25% of the total number of shares of the Company held by them each year during their terms of office determined at the time of appointment; the shares of the Company held by them shall not be transferred within one year from the date on which the shares of the Company are listed and traded. The above personnel shall not transfer the shares of the Company held by them within half a year after they leave the Company. If shares are pledged within the restricted transfer period stipulated by laws and administrative regulations, the pledgee shall not exercise the pledge right within the restricted transfer period.

If the Company's shareholders holding 5% (excluding the recognized clearing houses or their agents as defined in the relevant ordinances in force under the laws of Hong Kong from time to time) or above shares of the Company, Directors, Supervisors, senior management officers sell shares or other securities with an equity nature within six months after buying the same or buy shares or securities within six months after selling the same, the earnings arising therefrom shall belong to the Company and the Board shall recover such earnings. However, the restriction shall not be applicable to any sale of shares by a securities company holding 5% or above of the Company's shares as a result of its purchase and underwriting of the untaken shares after offering and other circumstances stipulated by CSRC.

The shares or other securities with an equity nature held by Directors, Supervisors, senior management officers and natural person shareholders referred to in the preceding paragraph include the shares or other securities with an equity nature held by their spouses, parents, children, and any of the above which is held by using others' accounts.

If the Company's Board does not comply with the provision of the first paragraph, the shareholders can request the Board to do so within 30 days. If the Board does not enforce such right within the aforesaid period, the shareholders are entitled to commence litigations in the people's court in their own names for the interests of the Company.

If the Company's Board does not enforce the provision of the first paragraph of this Article, the responsible Directors shall assume joint and severally liable in accordance with the laws.

### **REGISTER OF MEMBERS**

The Company shall establish a register of shareholders in accordance with the evidence provided by the securities registration authority.

The Company shall enter into a share custody agreement with the share registrar, regularly enquire the information of substantial shareholders and the changes in shareholdings (including pledge of equity interests) of substantial shareholders, and keep abreast of the shareholding structure of the Company. The Company may, based on the understandings or agreements reached between the competent securities regulatory authority of the State and overseas securities regulatory authorities, keep the register of H Shares shareholders overseas and entrust overseas agencies to manage it. The original of register of holders of H Shares shall be maintained in Hong Kong; a copy of the register of shareholders of H shares shall be kept at the Company's domicile.

When the Company convenes a shareholders' meeting, distributes dividends, conducts liquidation or engages in other activities that require the confirmation of the identity of shareholders, the Board or the convener of the shareholders' meeting shall determine the record date. Shareholders whose names appear on the register of shareholders after the close of trading on the record date shall be the shareholders entitled to relevant interests.

### **RIGHTS AND OBLIGATIONS OF SHAREHOLDERS**

Shareholders of the Company shall enjoy the following rights:

1. to receive dividends and other distributions in proportion to the number of shares held;
2. to request, summon, preside over, attend or appoint a proxy to attend shareholders' meetings in accordance with the laws, and to exercise the corresponding voting rights;
3. to supervise the operation of the Company, making suggestions or enquiries;
4. to transfer, give or pledge the shares held by them in accordance with the laws, administrative regulations and the Articles of Association;
5. to review or copy the Company's and its wholly-owned subsidiary's articles of association, the register of members, minutes of shareholders' meetings, resolutions of the Board meetings, resolutions of the Board of Supervisors meetings and financial and accounting reports;

6. in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in proportion to the number of shares held;
7. to request the Company to buy back the shares of shareholders objecting to resolutions of the shareholders' meeting concerning merger or division of the Company;
8. other rights stipulated by laws, administrative regulations, departmental rules or the Articles of Association.

Shareholders of the Company shall assume the following obligations:

1. to abide by laws, administrative regulations and the Articles of Association;
2. to pay subscription monies according to the number of shares subscribed and the method of subscription;
3. not to make divestment unless in the circumstances stipulated by laws and regulations;
4. not to abuse the rights of shareholders to damage the interests of the Company or that of other shareholders; not to abuse the independent status of the Company as a legal person and the limited liability of shareholders to damage the interests of the creditors of the Company;
5. other obligations imposed by laws, administrative regulations, securities regulatory rules of the place where the Company's shares are listed and the Articles of Association.

Shareholders of the Company who abuse their shareholders' rights and cause losses to the Company or other shareholders shall be liable for compensation in accordance with the law. Shareholders of the Company who abuse the independent status of the Company as a legal person and the limited liability of shareholders to evade debts and seriously damage the interests of the creditors of the Company shall bear joint and several liabilities for the debts of the Company.

### **RESTRICTIONS ON RIGHTS OF THE CONTROLLING SHAREHOLDERS**

The controlling shareholders and de facto controllers of the Company shall not use their connected relations to damage the interests of the Company. If the violation causes losses to the Company, it shall be liable for compensation.

The controlling shareholders and de facto controllers of the Company shall have fiduciary duties towards the Company and its public shareholders. The controlling shareholder shall exercise its rights as a capital contributor in strict compliance with the laws. The controlling shareholder shall not damage the legitimate rights and interests of the Company and public shareholders by means of profit distribution, asset restructuring, external investment, fund appropriation, loan guarantee, etc., and shall not use its controlling status to damage the interests of the Company and public shareholders.

**SHAREHOLDERS' MEETING****General Provisions of Shareholders' Meetings**

The shareholders' meeting is the organ of authority of the Company and shall exercise the following functions and powers:

1. to elect and replace directors and supervisors and to decide on matters relating to the remuneration of directors and supervisors;
2. to consider and approve the reports of the Board;
3. to consider and approve the report of the Board of Supervisors;
4. to consider and approve the Company's profit distribution plans and loss recovery plans;
5. to resolve on the increase or reduction of the registered capital of the Company;
6. to resolve on the issue of corporate bonds;
7. to resolve on the merger, division, dissolution, liquidation or change of corporate form of the Company;
8. amendments to the Articles of Association;
9. to resolve on the appointment and dismissal of the accounting firm of the Company;
10. to consider and approve the guarantee matters stipulated in Article 48 of the Articles of Association;
11. to consider the purchase or disposal of material assets within one year with an amount exceeding 30% of the latest audited total assets of the Company;
12. to consider related party transactions required by laws, administrative regulations or the securities regulatory rules of the place where the Company's shares are listed to be decided by the shareholders' meeting.
13. to consider and approve the change in use of proceeds;
14. to consider share incentive schemes and employee share ownership schemes;
15. to resolve on the purchase of shares of the Company under the circumstances specified in Article 24, items (1) and (2) of the Articles of Association.

16. to consider other matters required by laws, administrative regulations, departmental rules, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association to be decided by the shareholders' meeting.
17. The above-mentioned powers of shareholders' meeting shall not be exercised by the Board or other institutions or individuals by way of authorization. In addition to the above matters, the general meeting may authorise or entrust the Board and/or its authorised persons to handle the matters authorised or entrusted by it without violating the laws and regulations and the mandatory provisions of the relevant laws, regulations and regulatory rules of the place where the Company's shares are listed.

Shareholders' meetings are divided into annual shareholders' meetings and extraordinary shareholders' meetings. The annual shareholders' meeting shall be convened once a year within six months after the end of the previous accounting year.

The Company shall convene an extraordinary shareholders' meeting within two months from the date of occurrence of any of the following circumstances:

- (1) the number of directors is less than the number stipulated in the Company Law or less than two-thirds of the number specified in the Articles of Association;
- (2) when the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) when shareholders individually or jointly holding 10% or more of the Company's shares so request;
- (4) when deemed necessary by the Board;
- (5) when proposed by the Board of Supervisors;
- (6) other circumstances stipulated by laws, administrative regulations, departmental rules, securities regulatory rules of the place where the Company's shares are listed or the Articles of Association.

#### **Summoning of Shareholders' Meetings**

Shareholders' meetings shall be generally summoned by the Board. If the Board of Directors is unable or fails to fulfill its duty to convene a shareholders' meeting, the Board of Supervisors shall promptly convene and preside over it; If the Board of Supervisors does not convene and preside over the meeting, shareholders who individually or collectively hold more than 10% of the company's shares for more than 90 consecutive days may convene and preside over the meeting on their own.

The independent non-executive Directors are entitled to propose to the Board to convene an extraordinary shareholders' meeting. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, give a written reply on whether or not to convene the extraordinary shareholders' meeting within 10 days after receiving the proposal from the independent non-executive Directors.

If the Board agrees to convene the extraordinary shareholders' meeting, a notice of such meeting shall be issued within five days after the resolution of the Board is passed. If the Board does not agree to convene the extraordinary shareholders' meeting, it shall explain the reasons and make an announcement.

The Board of Supervisors shall have the right to propose to the Board to convene an extraordinary shareholders' meeting in writing. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, give a written reply on whether to convene the extraordinary shareholders' meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary shareholders' meeting, a notice of such meeting shall be issued within five days after the resolution of the Board is passed. Any changes to the original proposal made in the notice shall be approved by the Board of Supervisors.

If the Board does not agree to convene the extraordinary shareholders' meeting or fails to give a reply within 10 days after receiving the proposal, the Board shall be deemed to be unable or fail to perform the duty of convening the shareholders' meeting, and the Board of Supervisors may summon and preside over the meeting on its own.

Shareholders individually or jointly holding 10% or more of the Company's shares shall have the right to request the Board of Directors in writing to convene an extraordinary shareholders' meeting. Such written request shall state the subject of the meeting and present a complete proposal. Shareholders shall sign the relevant documents in person and shall not entrust others (including other shareholders). The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, give a written reply on whether to convene the extraordinary shareholders' meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary shareholders' meeting, a notice of such meeting shall be issued within five days after the resolution of the Board is passed. Any change to the original request made in the notice shall be subject to the consent of the relevant shareholders.

If the Board does not agree to convene an extraordinary shareholders' meeting or does not reply within 10 days upon receipt of the proposal, the shareholders individually or jointly holding more than 10% of the Company's shares shall have the right to propose to the Board of Supervisors to convene an extraordinary shareholders' meeting, and such proposal shall be made in writing.

If the Board of Supervisors agrees to convene the extraordinary shareholders' meeting, it shall issue a notice of shareholders' meeting within five days upon receipt of the request. Any changes to the original request in the notice shall be approved by the relevant shareholders.

If the Board of Supervisors fails to issue the notice of the shareholders' meeting within the prescribed period, it shall be deemed that the Board of Supervisors will not convene and preside over the shareholders' meeting, and shareholders individually or jointly holding 10% or more of the Company's shares for more than 90 consecutive days may summon and preside over the meeting by themselves.

### **Proposals at Shareholders' Meetings**

When the Company convenes a shareholders' meeting, the Board, the Board of Supervisors and shareholders individually or jointly holding more than 3% of the Company's shares shall have the right to submit proposals to the Company.

Shareholders individually or jointly holding 1% or more of the Company's shares may submit ad hoc proposals in writing to the convener 10 days before a shareholders' meeting is convened. Temporary proposals should have clear agenda items and specific resolution matters. The convener shall issue a supplementary notice of the shareholders' meeting within two days upon receipt of the proposal to announce the contents of the provisional proposal, notify other shareholders and submit the temporary proposal to the shareholders' meeting for review. For the publication of the supplementary notice of the shareholders' meeting, if there are special provisions in the securities regulatory rules of the place where the shares of the Company are listed, such provisions shall prevail, provided that such provisions are not in violation of the Company Law, the Securities Law, the Administrative Measures and the Guidelines for the Articles of Association of Listed Companies. If the shareholders' meeting is postponed due to the issuance of a supplementary notice of the shareholders' meeting pursuant to the securities regulatory rules of the place where the Company's shares are listed, the shareholders' meeting shall be postponed pursuant to the securities regulatory rules of the place where the Company's shares are listed.

Except as provided in the preceding paragraph, the convener shall not amend the proposals set out in the notice of the shareholders' meeting or add any new proposals after issuing the notice of the shareholders' meeting.

No vote shall be taken and no resolution shall be made at the shareholders' meeting on any proposal which is not set forth in the notice of the shareholders' meeting or which does not fall within the authorized scope of the shareholders' meeting, does not relate to specific topics and matters to be decided, or does not comply with laws, administrative regulations, securities regulatory rules of the place where the Company's shares are listed or the Articles of Association.

**Notice of Shareholders' Meetings**

The convener shall notify all shareholders by way of written notice 21 days before the annual shareholders' meeting and shall notify all shareholders by way of written notice 15 days before the extraordinary shareholders' meeting.

Provided that the relevant laws, regulations, securities regulatory rules of the place where the Company's shares are listed are met, and the relevant procedures are followed, the company may issue notices for shareholders' meetings of shareholders through the company website and/or designated websites specified by Stock Exchange, or in any other manner permitted by the GEM Listing Rules and the Articles of Association.

**Convening of Shareholders' Meetings**

All ordinary shareholders (including preferred shareholders with voting rights restored) registered on the record date or their proxies are entitled to attend the shareholders' meeting. They shall speak and exercise their voting rights in accordance with the relevant laws, regulations, the GEM Listing Rules and the Articles of Association.

Individual shareholders who attend the meeting in person shall produce their identity cards or other effective document or proof of identity and stock account cards. Proxies of individual shareholders shall produce their valid identity cards and the power of attorney of the shareholder.

Shareholder that is a legal person shall be represented at the meeting by its legal representative or a proxy appointed by it. If a legal representative attends the meeting, he/she should produce his/her identity card and valid proof that he/she is a legal representative; if a proxy attends the meeting, the proxy should produce his/her identity card and a written power of attorney issued by the legal representative of the legal person shareholder in accordance with the law (unless a shareholder is a recognised clearing house as defined in the relevant ordinances in force from time to time under the laws of Hong Kong or its nominee (hereinafter referred to as a "**Recognised Clearing House**")).

If the shareholder is a Recognised Clearing House (or its nominee), the shareholder may authorise one or more persons as it thinks fit to act as its representative (s) at any shareholders' meeting or any class shareholders' meeting; however, if more than one person are so authorised, the power of attorney shall specify the number and class of shares in respect of which each such person is authorised, and the power of attorney shall be signed by the authorised personnel of the Recognised Clearing House. The person so authorised may attend the meeting on behalf of the Recognised Clearing House (or its nominee) to exercise the rights (without being required to present share certificate, notarized authorization and/or further evidence to prove that he/she is duly authorised) as if he/she was an individual shareholder of the Company.

The proxy form shall contain a statement that in the absence of instructions from the shareholder whether the proxy may vote as he/she thinks fit.



If the proxy form is signed by a person authorised by the principal, the power of attorney or other authorization documents shall be notarized. The instrument appointing a proxy, the notarized power of attorney or other authorization documents shall be placed at the domicile of the Company or at such other place as specified in the notice convening the meeting.

If the principal is a legal person, its legal representative or such person as is authorised by resolution of its board of directors or other governing body to act as its representative may attend the shareholders' meeting of the Company.

### **Resolutions of Shareholders' Meetings**

Resolutions of the shareholders' meeting are divided into ordinary resolutions and special resolutions.

Ordinary resolutions shall be passed by votes representing more than half of the voting rights represented by the shareholders (including proxies) present at the meeting.

A special resolution shall be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.

The following matters shall be approved by ordinary resolutions at a shareholders' meeting:

1. work reports of the Board and the Board of Supervisors;
2. profit distribution plans and loss recovery plans formulated by the Board;
3. appointment and removal of members of the Board and members of the Board of Supervisors, their remuneration and method of payment;
4. issuance of corporate bonds;
5. annual reports of the Company;
6. matters other than those required by the laws, administrative regulations or the Articles of Association to be adopted by special resolution.

The following matters shall be approved by special resolutions at a shareholders' meeting:

1. increase or reduction of the registered capital of the Company;
2. division, division, merger, dissolution and liquidation of the Company;
3. amendments to the Articles of Association;

4. purchase or disposal of material assets or provision of guarantee by the Company within one year with an amount exceeding 30% of the latest audited total assets of the Company;
5. share incentive scheme;
6. other matters stipulated by laws, administrative regulations, the securities regulatory rules of the place where the Company's shares are listed or the Articles of Association, the Rules of Procedure of the Shareholders' Meeting, and other matters considered by the shareholders' meeting, by way of ordinary resolution, to have a material impact on the Company and need to be approved by special resolution.

## **DIRECTORS AND BOARD OF DIRECTORS**

### **Directors**

Directors shall be elected or replaced by the shareholders' meeting, and may be dismissed by the shareholders' meeting before the expiry of their terms of office. The term of office of the Directors shall be 3 years, and they may be re-elected and re-appointed.

The term of office of the Directors shall commence from the date of their appointment until the expiry of the term of the current session of the Board. Where the re-election of directors is not held in time after the term of office of the existing directors has expired, or where the number of members of the board of directors falls below the quorum due to the resignation of any director, the said director shall continue fulfilling the duties as director pursuant to laws, administrative regulations, departmental rules and the Articles of Association until a new director is elected.

If a director resigns, they shall notify the company in writing, and the resignation shall take effect on the date the company receives the notice. However, under the circumstances specified in the preceding paragraph above, the director shall continue to perform their duties.

On the premise of complying with relevant laws and administrative regulations, the shareholders' meeting may dismiss any director whose term of office has not yet expired by ordinary resolution. The dismissal shall take effect on the date of the resolution. If a director is dismissed before the expiration of his term without justifiable reasons, the director may demand compensation from the company.

Directors are not required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to the retirement of Directors upon reaching any age limit.

### **The Board**

The Company shall have a board of directors which shall be accountable to the shareholders' meeting. The Board shall consist of nine Directors, including six executive and/or non-executive Directors and three independent non-executive Directors.

The Board shall exercise the following powers:

1. to summon shareholders' meetings and report its work to the shareholders' meetings;
2. to implement the resolutions of the shareholders' meeting;
3. to decide on the Company's business plans and investment plans;
4. to formulate the Company's profit distribution plans and loss recovery plans;
5. to formulate proposals for the increase or reduction of the Company's registered capital, the issue of bonds or other securities and listing plans;
6. to formulate plans for material acquisitions, purchase of shares of the Company under the circumstances specified in Article 24, items (1) and (2) of the Articles of Association or merger, division, dissolution and change of corporate form of the Company;
7. to decide on the Company's external investment, acquisition and disposal of assets, pledge of assets, external guarantees, entrusted wealth management, connected transactions, external donations and other matters in accordance with the laws, regulations, the securities regulatory rules of the place where the shares of the Company are listed and within the scope authorised by the shareholders' meeting;
8. with attendance of more than two-thirds of the directors, to decide on purchase of shares of the Company under the circumstances specified in Article 24, items (3), (5) and (6) of the Articles of Association;
9. to decide on the establishment of the Company's internal management structure;
10. to decide on the appointment or dismissal of the Company's general manager, secretary to the Board and other senior management, and decide on their remuneration, rewards and punishments; to decide on the appointment or dismissal of the Company's deputy general manager, person in charge of finance and other senior management based on the nomination of the general manager, and decide on their remuneration, rewards and punishments;
11. to formulate the basic management system of the Company;
12. to formulate proposals for any amendment to the Articles of Association;
13. to manage the information disclosure of the Company;
14. to propose to the shareholders' meeting the appointment or replacement of the accounting firm that audits the Company;

15. to listen to the work report of the general manager of the Company and inspect the work of the general manager;
16. other functions and powers conferred by laws, administrative regulations, departmental rules, securities regulatory rules of the place where the Company's shares are listed, the Articles of Association or the shareholders' meeting.

The restrictions on the powers of the Board of Directors in the company's Articles of Association shall not counteract those of bona fide counterparties. Matters beyond the scope of authorization of the shareholders' meeting shall be submitted to the shareholders' meeting for consideration.

## **SENIOR MANAGEMENT**

### **General Manager**

The general manager shall be accountable to the Board and exercise the following powers:

1. to be in charge of the production, operation and management of the Company, organise the implementation of the resolutions of the Board and report to the Board;
2. to organise the implementation of the Company's annual business plan and investment plan;
3. to draft plans for the establishment of the Company's internal management structure;
4. to draft the basic management system of the Company;
5. to formulate the specific rules and regulations of the Company;
6. to propose to the Board to appoint or dismiss other senior management personnel of the Company;
7. to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
8. to exercise other powers conferred by the Articles of Association or the Board.

The general manager is to attend board meetings.

**Secretary to the Board**

The Company shall have a secretary to the Board, who shall be responsible for the preparation of the shareholders' meetings and Board meetings of the Company, keeping of documents, management of shareholders' information of the Company and handling matters such as information disclosure.

The secretary to the Board shall comply with the relevant provisions of laws, administrative regulations, departmental rules and the Articles of Association.

**BOARD OF SUPERVISORS**

The Company shall have a Board of Supervisors. The Board of Supervisors shall consist of five Supervisors including two employees representative Supervisor and shall have one chairman. The chairman of the Board of Supervisors shall be elected by more than half of all Supervisors.

The board of supervisors shall comprise shareholder representatives and an appropriate proportion of the company's staff representatives, of which the proportion of staff representatives shall not be less than one-third. The employee representatives of the Board of Supervisors shall be democratically elected by the Company's employees at the employee representative assembly, employee meeting or otherwise.

The Board of Supervisors exercises the following powers:

1. it shall review the regular reports of the Company prepared by the Board and to provide written review opinions;
2. to examine the financial affairs of the Company;
3. to supervise the directors and senior management in their performance of their duties and to propose the dismissal of directors and senior management who have violated laws, administrative regulations, the Articles of Association or the resolutions of the shareholders' meetings;
4. to demand rectification from a Director or senior management when the acts of such persons are detrimental to the interests of the Company;
5. to propose the convening of extraordinary shareholders' meetings and to summon and preside over shareholders' meetings when the Board fails to perform the duty of summoning and presiding over shareholders' meetings under the Company Law;
6. to submit proposals to the shareholders' meeting;
7. to initiate proceedings against directors and senior management in accordance with Article 189 of the Company Law;

8. To investigate any irregularities identified in the operation of the Company; if necessary, to engage professional institutions such as accounting firms and law firms to assist its work at the expense of the Company.

Resolutions of the Board of Supervisors shall be passed by an absolute majority of supervisors.

## **FINANCIAL AND ACCOUNTING SYSTEM**

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and the requirements of the relevant state authorities.

The company shall submit, disclose, and/or present annual reports, interim reports, preliminary performance announcements, and other regulatory documents in accordance with the laws, regulations, securities regulatory rules of the place where the Company's shares are listed and other normative documents.

## **NOTICES**

Subject to the laws, administrative regulations, departmental rules and the securities regulatory rules of the place where the Company's shares are listed, a notice of the Company shall be given in the following manner:

1. by hand;
2. by mail;
3. by way of announcement;
4. by fax or email;
5. other means stipulated by securities regulatory rules of the place where the Company's shares are listed or the Articles of Association.

As required by the GEM Listing Rules, the company may provide or send company communications to H shares shareholders through the means designated the company and/or the Stock Exchange website, or by electronic means, provided that it complies with laws, administrative regulations, departmental rules, securities regulatory of the stock exchange on which the company's shares are listed, and the Article of Association.

Where a notice of the Company is published by way of announcement, the said notice shall be deemed as received by all relevant persons once it is published.

**DISSOLUTION AND LIQUIDATION OF THE COMPANY**

The Company shall be dissolved for the following reasons:

1. the term of its operations as is stipulated in the Articles of Association has expired or events of dissolution specified in the Articles of Association have occurred;
2. the shareholders' meeting resolves to dissolve the Company;
3. dissolution is necessary due to merger or division of the Company;
4. the Company's business licence is revoked, the Company is ordered to close down or be revoked in accordance with the law;
5. Where the Company encounters serious difficulties in its operation and management and its continuous existence will cause significant losses to the interests of shareholders, and such difficulties cannot be resolved through other means, shareholders holding more than 10% of the voting rights of all shareholders of the Company may request the People's Court to dissolve the Company.

If the company encounters the reasons for dissolution as stipulated in the preceding paragraph, it shall publicize the reasons for dissolution through the National Enterprise Credit Information Publicity System within ten days. Where the Company is dissolved pursuant to items 1 and 2 above and has not distributed any property to shareholders, it may continue to exist by amending the Articles of Association or by a resolution of the shareholders' meeting. Any amendment to the Articles of Association under those circumstances must be approved by more than two-thirds of the voting rights held by the shareholders present at the shareholders' meeting. Where the Company is dissolved pursuant to items 1, 2, 4 and 5 above, the director is the liquidation obligor of the company, a liquidation committee shall be established and the liquidation shall commence within 15 days after the occurrence of the cause of dissolution. The liquidation committee shall be composed of directors or persons determined by the shareholders' meeting. If the liquidation obligor fails to fulfill the liquidation obligation in a timely manner and causes losses to the company or creditors, they shall bear the liability for compensation. If the liquidation team is not established within the deadline for liquidation or fails to liquidate after the establishment of the liquidation team, interested parties may apply to the People's Court to designate relevant personnel to form a liquidation team for liquidation. The People's Court shall accept the application and promptly organize a liquidation team to carry out liquidation.

The liquidation committee shall notify creditors within 10 days from the date of its establishment, and publish an announcement in a newspaper recognised by the stock exchange where the Company's shares are listed or the National Enterprise Credit Information Publicity System within 60 days.

If the liquidation committee discovers that the Company's assets are insufficient to repay its debts after cleaning up the Company's assets and preparing a balance sheet and an inventory of assets, it shall apply to the People's Court for a declaration of insolvency in accordance with the law.

Upon completion of the liquidation, the liquidation committee shall prepare a liquidation report which shall be submitted to the shareholders' meeting or the people's court for confirmation, and shall submit the same to the company registration authority, apply for cancellation of the company's registration, and publish an announcement on the termination of the company.

### **AMENDMENTS TO THE ARTICLES**

The Company shall amend the Articles of Association in any of the following circumstances:

- (1) after amendments are made to the Company Law or relevant laws, administrative regulations, departmental rules and securities regulatory rules of the place where the shares of the Company are listed, the provisions of the Articles of Association are in conflict with the amended laws, administrative regulations, departmental rules and securities regulatory rules of the place where the shares of the Company are listed;
- (2) there is a change in the Company's situation, which is inconsistent with the matters recorded in the Articles of Association;
- (3) the shareholders' meeting decides to amend the Articles of Association.

The amendments to the Articles of Association adopted by the shareholders' meeting shall be submitted to the competent authorities for approval if they are subject to approval by the competent authorities. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with the laws.



**A.     FURTHER INFORMATION ABOUT OUR COMPANY****1.     Establishment of our Company**

Our Company was established in the PRC as a joint-stock cooperative enterprise on 28 March 2000, converted into a limited liability company on 12 July 2023 and subsequently converted into a joint stock company with limited liability on 31 October 2023. We established a place of business in Hong Kong at 46/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, and was registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on 8 December 2023. Ms. Cheung Lai Ha, a joint company secretary of our Company, has been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus.

**2.     Changes in registered capital of our Company**

On 28 March 2000, our Company was established as a joint-stock cooperative enterprise with a registered capital of RMB190,000.

On 31 December 2005, our registered capital was increased to RMB194,000.

On 31 December 2008, our registered capital was increased to RMB199,000.

On 30 July 2009, our registered capital was increased to RMB1,820,000.

On 12 July 2023, our Company was converted into a limited liability company.

On 31 July 2023, our registered capital was increased to RMB5,000,000.

On 31 October 2023, our Company was converted into a joint stock company with limited liability. Upon completion of such conversion, the share capital of our Company was RMB20,000,000 divided into 20,000,000 Shares of nominal value of RMB1 each.

On 6 November 2023, our share capital was increased to RMB23,750,000.

Assuming the Offer Size Adjustment Option is not exercised, immediately upon completion of the Share Offer, the share capital of our Company will be RMB33,929,000, made up of 23,750,000 Unlisted Shares and 10,179,000 H Shares, with a nominal value of RMB1 each.

Assuming the Offer Size Adjustment Option is exercised in full and immediately upon completion of the Share Offer, the share capital of our Company will be RMB35,455,000, made up of 23,750,000 Unlisted Shares and 11,705,000 H Shares, with nominal value of RMB1 each.

Save as disclosed in this paragraph and in “History, Development and Corporate Structure – Major Corporate Development and Shareholding Changes” in this prospectus, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this prospectus.

**3. Restriction of the share repurchase**

For details of the restrictions on the share repurchase by our Company, see “Summary of the Articles of Association of the Company” in Appendix V to this prospectus.

**4. Resolutions of all Shareholders passed on 28 November 2023**

At our Shareholders’ meeting held on 28 November 2023, among other things, the following resolutions were passed by our Shareholders:

- (a) approving the issue of the H Shares by our Company and the Listing;
- (b) subject to completion of the Share Offer, the Articles of Association have been approved and adopted, which shall become effective on the Listing Date; and
- (c) approving the Board to handle all matters relating to, among other things, the issue of the H Shares and the Listing.

**5. Registration under Part 16 of the Companies Ordinance**

Our Company has established a place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at 46/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong. Our Company has been registered as non-Hong Kong company under Part 16 of the Companies Ordinance. Ms. Cheung Lai Ha, a joint company secretary of our Company, has been appointed as agent of our Company for the acceptance of service of process in Hong Kong.

**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**

**1. Summary of material contracts**


The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company within the two years preceding the date of this prospectus and are or may be material:

- (a) the Deed of Non-Competition;
- (b) the Deed of Indemnity; and
- (c) the Public Offer Underwriting Agreement.




**2. Intellectual property rights of our Company**

**(a) Trademarks**

As at the Latest Practicable Date, our Company had registered the following trademarks which we consider to be material to our business:

No.	Trademark	Trademark number	Class	Place of registration	Expiry date
1.	粤集信	306389425	35, 38, 42	Hong Kong	31 October 2033
2.		306389434	35, 38, 42	Hong Kong	31 October 2033
3.	华信信测	73751923	42	PRC	27 April 2034
4.	信义信测	73765012	42	PRC	27 April 2034
5.	粤集信	74813405	35	PRC	20 April 2034
6.	粤集信	74823357	38	PRC	20 April 2034
7.	粤集信	74813395	42	PRC	27 June 2034

As at the Latest Practicable Date, our Company had applied for registration of the following trademarks which we consider to be material to our business:

No.	Trademark	Application number	Class	Place of application	Date of application
1.		73759770	38	PRC	29 August 2023
2.		73767134	42	PRC	29 August 2023
3.		73772709	35	PRC	29 August 2023
4.	集信国控	306633586	35, 38, 42	Hong Kong	7 August 2024

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**APPENDIX VI STATUTORY AND GENERAL INFORMATION**

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**(b) Domain names**

As at the Latest Practicable Date, our Company had registered the following domain name:

<b>Domain name</b>	<b>Registered owner</b>	<b>Registration date</b>	<b>Expiry date</b>
www.xyjiance.cn	Our Company	26 February 2016	26 February 2027

**(c) Software copyright**

As at the Latest Practicable Date, our Company had registered the following software copyright:

<b>Name</b>	<b>Copyright owner</b>	<b>Registration number</b>	<b>First publication date</b>	<b>Date of approval</b>	<b>Place of registration</b>
Testing and Inspection Information Artificial Intelligent Management System V1.0 (信測檢測信息智能管理系統V1.0)	Our Company	2023SR1226932	8 August 2020	12 October 2023	PRC

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**APPENDIX VI STATUTORY AND GENERAL INFORMATION**

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**(d) Patent**

As at the Latest Practicable Date, our Company had applied for registration of the following patent which we consider material to our business:

No.	Title of patent	Patent applicant	Registration number	Date of application	Place of registration
1.	An intelligent supervision platform for water basin management (一種用於流域水環境治理的智慧監管平台)	Sun Yat-Sen University and our Company	2023115639892	21 November 2023	PRC
2.	A project schedule management system and management method (一種項目進度管理系統及管理方法)	Our Company	2024101185808	29 January 2024	PRC
3.	Material delivery pallet for construction material testing (建築材料檢測用的材料送檢托盤)	Our Company	2024205981718	26 March 2024	PRC
4.	Material delivery rotary table for construction material testing (建築材料檢測用的材料送檢轉盤)	Our Company	2024206396213	29 March 2024	PRC

**3. Related party transactions**

Save as disclosed in Note 27 to the Accountant's Report, the text of which is set out in Appendix I to this prospectus, during the three years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

**C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS****1. Directors and Supervisors***(a) Disclosure of interests of Directors and Supervisors*

None of our Directors and Supervisors or their associates was engaged in any dealings with our Company during the two years preceding the date of this prospectus.

*(b) Particulars of Directors' and Supervisors' service contracts**(i) Directors*

Our Company entered into a service contract with each of our Directors on 13 August 2024. Each of the service contracts is for a fixed term ending on 25 October 2026, unless terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein, and provisions on removal and re-election as set forth in the Articles of Association.

*(ii) Supervisors*

Our Company entered into a service contract with each of our Supervisors on 13 August 2024. Each of the service contracts is for a fixed term ending on 25 October 2026, and is subject to termination provisions therein, and provisions on removal and re-election as set forth in the Articles of Association.

Pursuant to the respective service contracts, our executive Directors and Supervisors are not entitled to any service fee but are each entitled to a discretionary management bonus in such sum as our Board may in its absolute discretion determine based on the review and advice of the remuneration committee of our Board and the financial performance of our Company and the market conditions. Our non-executive Directors are not entitled to any service fee. Each of Ms. Liu Hongge, Ms. Deng Dian and Mr. Luo Qiling, our independent non-executive Directors, is entitled to an annual service fee of RMB300,000, RMB300,000 and RMB300,000, respectively, with effect from 13 August 2024.

None of our Directors or Supervisors is expected to receive any other remuneration for holding their office as a Director or Supervisor, respectively.

Save as disclosed aforesaid, none of our Directors or Supervisors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by our Company within one year without the payment of compensation (other than statutory compensation).

**(c) *Remuneration of Directors***

The aggregate emoluments paid and benefits in kind granted by our Company to our Directors in respect of FY2021, FY2022, FY2023 and 6M2024 were nil, nil, RMB1,065,000 and RMB550,000, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Company to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2024 is expected to be approximately RMB1.1 million.

None of our Directors or any past directors of our Company has been paid any sum of money for each of FY2021, FY2022, FY2023 and 6M2024 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of our Company or of any other office in connection with the management of the affairs of our Company.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of FY2021, FY2022, FY2023 and 6M2024.

**(d) *Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Share Offer***

Immediately following completion of the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option, none of our Directors or Supervisors had any interests or short positions in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the GEM Listing Rules.

**2. Interest discloseable under the SFO and substantial shareholders**

Save as disclosed in “Substantial Shareholders” in this prospectus, our Directors are not aware of any person (other than our Director or chief executive of our Company) who will, immediately following completion of the Share Offer (assuming that the Offer Size Adjustment Option is not exercised), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

**3. Disclaimers**

Save as disclosed in paragraphs headed “– 1. Directors and Supervisors – (d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Share Offer” and “– 2. Interest discloseable under the SFO and substantial shareholders” above in this section:

- (a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or upon the exercise of the Offer Size Adjustment Option, our Directors are not aware of any person (not being a Director, Supervisor or chief executive of our Company) who will, immediately following completion of the Share Offer, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of us;
- (b) none of our Directors or Supervisors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed. None of our Directors nor any of the parties listed in “– D. Other Information – 8. Qualification of experts” below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the H Shares either in his/her own name or in the name of a nominee;



- (c) none of our Directors nor any of the parties listed in “– D. Other Information – 8. Qualification of experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us; and
- (d) save in connection with the Underwriting Agreements, none of the parties listed in “– D. Other Information – 8. Qualification of experts” below:
  - (i) is interested legally or beneficially in any securities of any member of us; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

## **D. OTHER INFORMATION**

### **1. Tax and other indemnities**

Our Controlling Shareholder has entered into a deed of indemnity with and in favor of our Company (being the contract referred to in “– B. Further Information about the Business of our Company – 1. Summary of Material Contracts” above) to provide indemnities to our Company in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation, and whether or not such tax liabilities shall be paid or payable before or after the Listing Date.

### **2. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company.

### **3. Litigation**

As at the Latest Practicable Date, our Company is not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

### **4. Preliminary expenses**

We have not incurred any material preliminary expenses.

**5. Promoter**

The promoters of our Company (the “**Promoters**”) are Xinyi City CEQS Center and Xinyi Xinhui.

Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any Promoters in connection with the Share Offer.

**6. Agency fees or commissions received**

The Underwriters will receive a commission of 4.0% of the aggregate Offer Price payable for the Offer Shares, out of which they will pay any sub-underwriting commissions. We may, at our sole and absolute discretion, pay to any or all the Underwriters an additional incentive fee of up to but not exceeding 2.0% of the aggregate Offer Price of the Offer Shares from the Share Offer, including proceeds from the exercise of the Offer Size Adjustment Option.

The aggregate commissions and fees payable by us in relation to the Share Offer together with the Stock Exchange listing fees, SFC transaction levy, the Stock Exchange trading fee, AFRC transaction levy, legal and other professional fees and printing and other expenses relating to the Share Offer at the Offer Price of HK\$9.5 per H Share (the mid-point of the proposed range of the Offer Price) are estimated to amount to approximately HK\$42.3 million in total (assuming that the Offer Size Adjustment Option is not exercised).

**7. Joint Sponsors**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus and any H Shares which may be issued upon the exercise of the Offer Size Adjustment Option on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Joint Sponsors are independent from our Company pursuant to Rule 6A.07 of the GEM Listing Rules.

The Joint Sponsors will be paid by our Company fee of HK\$8.4 million to act as the joint sponsors to the Share Offer.

**8. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
Huajin Corporate Finance (International) Limited	Licensed corporation under the SFO to carry on Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
Yue Xiu Capital Limited	Licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activities
Jingtian & Gongcheng	Qualified PRC lawyers
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)  Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
China Insights Industry Consultancy Limited	Industry consultant

**9. Consents of experts**

Each of Huajin Corporate Finance (International) Limited, Yue Xiu Capital Limited, Jingtian & Gongcheng, PricewaterhouseCoopers and China Insights Industry Consultancy Limited has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal opinion and/or opinion (as the case may be) and the references to their names, addresses, qualifications or summaries of opinions included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

**10. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

**11. Taxation of holders of H Shares**

Dealings in H Shares registered on our Company's H Shares register of members will be subject to Hong Kong stamp duty. Intending holders of H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in H Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in H Shares.

Profits from dealings in H Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty, the current rate of which is 0.1% of the consideration or, if higher, the value of the H Shares being sold or transferred. Information in relation to taxation is set out in Appendix III to this prospectus.

**12. Miscellaneous**

- (a) Save as disclosed in "History, Development and Corporate Structure – Major Corporate Development and Shareholding Changes", "Share Capital" and "Structure and Conditions of the Share Offer" in this prospectus:
- (i) within two years preceding the date of this prospectus:
- no share or loan capital of our Company has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company; and
  - no commission (except commission to the Underwriters) has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company;

- (ii) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) there are no arrangements under which future dividends are waived or agreed to be waived;
  - (iv) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
  - (v) our Company has no outstanding convertible debt securities or debentures; and
  - (vi) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company since 30 June 2024 (being the date to which the latest audited financial statements of our Company were made up);
- (c) our Directors confirm that there has not been any interruption in the business of our Company which may have or has had a significant effect on the financial position of our Company in the 12 months preceding the date of this prospectus; and
- (d) no part of the equity and debt securities of our Company, if any, is currently listed on or dealt in on any other stock exchange or trading system nor is any listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought.

### **13. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) the written consents referred to in “Statutory and General Information – D. Other Information – 9. Consents of experts” in Appendix VI to this prospectus, and
- (b) copies of the material contracts referred to in “Statutory and General Information – B. Further Information about the Business of our Company – 1. Summary of material contracts” in Appendix VI to this prospectus.

**2. DOCUMENTS AVAILABLE ON DISPLAY**

Copies of the following documents will be available on display on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and our Company ([www.xyjiance.cn](http://www.xyjiance.cn)) for a period of 14 days from the date of this prospectus:

- (a) our Articles of Association;
- (b) the Accountant’s Report received from PricewaterhouseCoopers in respect of our historical financial information for the Track Record Period, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of our Company for the years ended 31 December 2021, 2022 and 2023, and for the six months ended 30 June 2024;
- (d) the report on the unaudited pro forma financial information of our Company received from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC Company Law, the PRC Securities Law, the Trial Measures together with their unofficial English translation;
- (f) the legal opinions prepared by our PRC Legal Advisers, Jingtian & Gongcheng, in respect of certain aspects of our Company and the property interests of our Company in the PRC;

- (g) the CIC Report;
- (h) the material contracts referred to in “Statutory and General Information – B. Further Information about Our Business – 1. Summary of material contracts” in Appendix VI to this prospectus;
- (i) the service contracts referred to “Statutory and General Information – C. Further Information about our Directors, Supervisors and Substantial Shareholders – 1. Directors and Supervisors – (b) Particulars of Directors’ and Supervisors’ service contracts” in Appendix VI to this prospectus; and
- (j) the written consents referred to in “Statutory and General Information – D. Other Information – 9. Consents of experts” in Appendix VI to this prospectus.



廣東集信國控檢測認證  
技術服務中心股份有限公司

GUANGDONG SYNTRUST GK TESTING AND CERTIFICATION  
TECH SERVICE CENTER CO., LTD.