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OVERVIEW

We are a well-established general contracting construction group in Hunan Province with over 40 years of operating history. According to the F&S Report, we (i) were one of the top ten non-state owned construction enterprises in terms of construction revenue in 2021 among 3,438 non-state owned construction enterprises in Hunan Province with a market share of approximately 0.2% in 2021; and (ii) ranked the fifth among 302 non-state owned construction enterprise with first grade general contractor qualification in Hunan Province in terms of construction revenue in 2021, with a market share of approximately 0.2% in 2021. In 2021, Hunan Province accounts for approximately 4.5% of the market size of construction industry in the PRC. We possess six first-grade construction qualifications: (i) first-grade qualification in building construction general contracting (建築工程施工總承包壹級); (ii) first-grade qualification in municipal and public construction general contracting (市政公用工程施工總承包壹級); (iii) first-grade qualification in building renovation and decoration specialised contracting (建築裝修裝飾工程專業承包壹級); (iv) first-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級); (v) first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包壹級); and (vi) first-grade qualification in lifting equipment installation construction specialised contracting (起重設備安裝工程專業承包壹級). We also possess six other second-grade and third-grade contracting qualifications covering aspects such as electrical and mechanical construction, curtain wall construction, highway construction, water resources and electric power construction and environmental protection construction. For details, please refer to the paragraph headed “Licences, Qualifications and Permits” in this section.

We were granted various awards for achieving high standards in construction quality, including the National Quality Project Silver Award (國家優質工程銀質獎), the Furong Prize (芙蓉獎), the highest honour for construction quality in Hunan Province awarded by Hunan Province Association of Construction Industry (湖南省建築業協會), and Shennong Prize (神農獎), being the highest honour for construction quality in Zhuzhou awarded by Zhuzhou Construction Industry Association (株洲市建築業協會). In addition, we were also awarded various accolades in recognition of our emphasis on work safety, such as three of our completed projects being recognised as one of the Standardised Construction Project Safety Construction Sites for National Exchange Study (全國範圍組織學習交流的建設工程項目施工安全生產標準化工地) in 2017, 2018 and 2020, respectively, for our effort in adopting and implementing the standardised construction safety system, and we were recognised as the 2017 City Outstanding Enterprise in Production Safety (2017年度全市安全生產工作優秀企業) for our contribution in promoting production safety in Zhuzhou. For details of the accolades obtained by our Group, please refer to the paragraph headed “Our Business Operations — Awards and recognitions” in this section.

During the Track Record Period, we primarily focused on the provision of construction services comprising: (i) civil building construction services, provision of construction contracting mainly as general contractor for residential, industrial and commercial construction projects; (ii)

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municipal works construction services which mainly consisted of construction of urban roads, education institutions, sports stadiums and water supply works; (iii) foundation works services which include foundation construction as well as earthwork construction; (iv) prefabricated steel structure construction services; and (v) other specialised contracting works which includes building renovation and decoration construction specialised contracting. We provide comprehensive construction services to customers throughout the construction process from project procurement, management, construction to supervision and to a lesser extent, we also engage in provision of construction machinery and equipment service.

Being the fifth-ranked non-state owned construction enterprise with first grade general contractor qualification in Hunan Province in terms of construction revenue in 2021 and having an operating history of over 40 years, we are well-positioned to benefit from the continuous development of Hunan Province and have built a successful track record in the construction industry of Southern China. Leveraging on our industry experience, we tapped into Hainan Province market since 2010 and currently we have 22 branch offices across various provinces in the PRC as at the Latest Practicable Date.

Leveraging on our construction expertise accumulated during over 40 years of operating history, we have participated in the construction of the following notable projects in recent years:

Project Name	Description of project	Project Type	Progress as at the Latest Practicable Date
Langting Lanjiang Main Structure* (朗廷·覽江)	High-rise building with a total height of 183.5 metres and a total construction area of 118,198m ² in Zhuzhou, which was recognised by the Zhuzhou Association of Construction Industry (株洲市建築業協會) in April 2020 as the tallest construction-in-progress building in Zhuzhou	Civil building construction	Completed in FY2021
Zhongtian Hangxiao Steel Structure Prefabricated Building Base Phase I Construction and R&D Building* (中天杭蕭鋼構裝配式建築基地(一期)工程和科研樓)	A prefabricated steel structure plant together with a steel structure research and development integrated building with 11 floors and a total construction area of approximately 47,559.2m ² in Zhuzhou	Prefabricated steel structure construction	Completed in FY2021
Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期))	Social housing in Hainan Province, with a total construction area of 257,278m ²	Civil building construction	On-going

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Project Name	Description of project	Project Type	Progress as at the Latest Practicable Date
Tongdao County Sports Stadium* (通道縣體育館)	A sports stadium in Tongdao Dong Autonomous County of Hunan Province with a total construction area of 20,805m ² , comprising sports stadium, swimming pool, sports ground and ancillary facilities	Municipal works construction	On-going
Chunteng Village* (春藤小鎮)	A group of residential buildings in Zhuzhou comprising 22 blocks with a total construction area of 292,568m ² , among which the East Lot (Blocks 10-13 together with the basement) and Phase III were both recognised as the Standardised Construction Project Safety Construction Sites for National Exchange Study (全國範圍組織學習交流的建設工程項目施工安全生產標準化工地) by the Construction Safety Branch of the China Association of Construction Industry (中國建築業協會建築安全分會) and Block 13 was being awarded the Hunan Province Outstanding Construction Project (湖南省優質工程)	Civil building construction	Phase III completed in FY2020 and other parts still on-going
Zhuzhou Jianning International Experimental College Phase II* (株洲市建寧國際實驗學校(高中部)二期)	Phase II of a college in Zhuzhou with a total construction area of 18,911m ² , comprising a sports stadium, library and art gallery, which was being awarded the Hunan Province Outstanding Construction Project (湖南省優質工程)	Municipal works construction	Completed in FY2019
Qi Bo Yuan Xing Xiang Dian and Second-Hand Vehicles Trading Centre* (汽博園形象店和二手車交易中心)	The largest trading centre for vehicles in Zhuzhou as recognised by the Zhuzhou Association of Construction Industry (株洲市建築業協會) on 22 May 2020, with a total construction area of approximately 51,424.8m ²	Civil building construction	Completed in FY2019 <i>(Note)</i>

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Project Name	Description of project	Project Type	Progress as at the Latest Practicable Date
Zhong'ou Kun Lun Shoufu Phase I Construction (中歐•昆侖首府一期工程)	A group of residential buildings in Zhuzhou with a total construction area of 150,757m ² , which was being recognised as the Hunan Province Construction Industry New Technology Application Demonstration Construction (湖南省建築業新技術應用示範工程)	Civil building construction	Completed in FY2018
Lai Yin Village* (萊茵小鎮)	A group of residential buildings with total construction area of 308,651m ² in Zhuzhou, among which Block 29 was accredited as AAA-level Safe and Civilized Standard Construction Site (AAA級安全文明標準化工地) by the China Association Construction Industry (中國建築業協會) while Blocks 30, 31 and 32 were awarded the Hunan Province Outstanding Construction Project (湖南省優質工程)	Civil building construction	Completed in the year ended 31 December 2017

Note: Qi Bo Yuan Xing Xiang Dian and Second-Hand Vehicles Trading Centre* (汽博園形象店及二手車交易中心) project comprises the Second-Hand Vehicles Trading Centre* (二手車交易中心) project and the Xing Xiang Dian* (形象店) project, which were completed in the year ended 31 December 2018 and FY2019 respectively according to the respective project completion inspection certificate.

We have been dedicated to R&D for improvement in our construction know-how essential for the advancement of our construction efficiency and quality, which in turn enhance our competitiveness with the industry. For details, please refer to the paragraph headed “Our Business Operations — R&D and know-how” in this section.

Our business and scale of operations grew steadily over the years. Our total revenue increased by approximately RMB1.5 million from approximately RMB1,821.9 million in FY2019 to approximately RMB1,823.4 million in FY2021. We also recorded substantial growth in our profit with our profit and total comprehensive income for the year, which increased by approximately RMB11.0 million, from approximately RMB50.9 million in FY2019 to approximately RMB61.9 million in FY2021, representing a CAGR of approximately 10.3%. For 3Q2021 and 3Q2022 our total revenue was also increased from approximately RMB1,325.4 million to RMB1,366.0 million, and our profit and total comprehensive income was also increased from approximately RMB47.8 million to RMB51.2 million during the same period.

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With our over 40 years of operating history and experience in the construction industry, our experienced management team, our technical excellence as supported by our broad range regulated construction qualifications, in-house R&D capability, we are confident that we are able to capture growth opportunities in the PRC construction industry.

COMPETITIVE STRENGTHS

We believe we have the following competitive strengths which differentiate our Group from our competitors:

We are one of the leading general contracting construction enterprises with long operating history in Hunan Province

We are a well-established general contracting construction group in Hunan Province with over 40 years of operating history. According to the F&S Report, we were (i) the fifth-ranked non-state owned construction enterprise with first grade general contractor qualification in Hunan Province, in terms of revenue generated from construction contracting business in 2021; and (ii) one of the top ten non-state owned construction enterprises in Hunan Province in terms of construction revenue in 2021. Throughout our four decades of experience in the construction industry, we have expanded from Hunan Province and have established presence across various provinces in Southern China. As at the Latest Practicable Date, we have established 22 branch offices in different cities in Hunan Province, Hainan Province, Hubei Province, Fujian Province and Guangdong Province in the PRC to expand our exposures in different regions of the Southern China.

During the Track Record Period, we were engaged in 307 projects and recognised a total revenue of RMB6,781.2 million from construction contracts. As at 30 September 2022, we had 143 on-going projects with an aggregate original contract sum of approximately RMB8,701.6 million.

We believe by leveraging our construction expertise accumulated during our over 40 years of operating history and our leading position in Hunan Province, we would continue to grow and expand our market share in the industry.

We leverage our broad range of regulated qualifications to undertake a wide range of construction projects

The construction contracting industry in the PRC is highly regulated. We possess a broad range of regulated qualifications in the construction industry, covering various construction categories. As at the Latest Practicable Date, we possess six first-grade construction qualifications: (i) first-grade qualification in building construction general contracting (建築工程施工總承包壹

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級); (ii) first-grade qualification in municipal and public construction general contracting (市政公用工程施工總承包壹級); (iii) first-grade qualification in building renovation and decoration specialised contracting (建築裝修裝飾工程專業承包壹級); (iv) first-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級); (v) first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包壹級); and (vi) first-grade qualification in lifting equipment installation construction specialised contracting (起重設備安裝工程專業承包壹級). We also possess six other second-grade and third-grade contracting qualifications covering different aspects such as electrical and mechanical construction, curtain wall construction, environmental protection construction. For details, please refer to the paragraph headed “Licences, Qualifications and Permits” in this section.

These qualifications allow us to undertake a variety of civil building construction and municipal works construction for general construction as well as various specialised construction projects and provide us with competitive edge over our competitors.

We are a renowned market player in the construction industry in Hunan Province as demonstrated by numerous awards accredited to us

We have been granted various awards for achieving high standards in construction quality, including National Quality Project Silver Award (國家優質工程銀質獎), the Furong Prize (芙蓉獎), the highest honour for construction quality in Hunan Province awarded by Hunan Association of Construction Industry* (湖南省建築業協會) and Shennong Prize (神農獎), the highest honour for construction quality in Zhuzhou awarded by Zhuzhou Construction Industry Association* (株洲市建築業協會). In addition, we were granted various accolades in recognition of our emphasis on work safety such as three of our completed projects being recognised as one of the Standardised Construction Project Safety Construction Sites for National Exchange Study (全國範圍組織學習交流的建設工程項目施工安全生產標準化工地) in 2017, 2018 and 2020, respectively, for our effort in adopting and implementing the standardised construction safety system, and we were recognised as the 2017 City Outstanding Enterprise in Production Safety (2017年度全市安全生產工作優秀企業) for our contribution in promoting production safety in Zhuzhou. We have also been awarded a number of awards by government authorities in recognition of our credibility. During the Track Record Period, we have been rated as Grade A Tax Credit Unit (納稅信用A級單位) by Hunan Province State Administration of Taxation of the PRC (湖南省國家稅務總局) and Hunan Province Local Administration of Taxation (湖南省地方稅務局). For details, please refer to the paragraph headed “Awards and Recognitions” in this section for more accolades obtained by our Group.

We obtained a vast majority of our projects through tendering, including public tendering and tender by invitation. We believe our renowned reputation in Southern China construction industry as demonstrated by the numerous accolades accredited to us can provide us with competitive edge over our competitors to secure new construction contracts from existing and potential customers.

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We possess R&D capabilities and expertise in developing know-how for construction use

We are committed to developing and adopting innovative construction know-how for the goal of increasing our construction efficiency and quality, which in turn enhance our competitiveness within the construction industry. As at the Latest Practicable Date, our R&D department has 6 employees. We have also been engaged in R&D continuously and researched on R&D topics covering different aspects such as steel structure construction techniques, green building technology and foundation works construction methods during the Track Record Period, which were implemented in our construction process. For FY2019, FY2020, FY2021 and 3Q2022, our total R&D expenses amounted to approximately RMB60.8 million, RMB54.1 million, RMB56.7 million and RMB42.1 million, respectively, for the purpose of improving our construction methods and our know-how of our construction process. As our Group believes that the R&D activities will bring long-term benefits to our Group, our Group devoted substantial resources in R&D activities, developed 24 patents, and undertook 114 R&D topics during the Track Record Period and up to the Latest Practicable Date. For details, please refer to the paragraph headed “Our Business Operations — R&D and know-how” in this section.

In recognition of our R&D capabilities, achievements and initiatives, Zhongtian Construction, our principal subsidiary has been accredited the status of High and New Technology Enterprise (高新技術企業) since 2018, and has been enjoying a preferential EIT rate of 15%, (as compared to the standard EIT rate of 25%).

We believe that our dedicated effort in R&D and our construction expertise experience accumulated through our long history allow us to detect and adapt to the changing market trends and our customers’ needs, keep ourselves abreast of the evolving technological advancements in the construction industry and differentiate ourselves from our competitors, which in turn further strengthens our market position.

Well-positioned to capture the latest development trend of green building, prefabricated construction methods and EPC model in the PRC

We strive to enhance our competitiveness through leveraging on our optimised contracting model and construction methods to win bidding and capitalise on business opportunities.

Prefabricated buildings are becoming increasingly popular in the PRC construction industry given its efficiency, quality and environmental-friendly attributes according to the F&S Report. Prefabricated construction method involves the assembling of a large portion of prefabricated units, thereby shortening the construction period, reducing the use of manpower, reducing the waste of materials, lowering energy consumption and pollution. These advantages of prefabricated building construction can address the various challenges faced by the PRC construction industry,

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including the surging labour costs as a result of the ageing population and the decreasing number of workers who are willing to engage in the construction industry as well as tightening environmental protection requirements by the PRC government. Hence, the PRC government is actively promoting the development of prefabricated building. In February 2017, the State Council issued Opinions on Promoting the Sustainable and Healthy Development of the Construction Industry (國務院辦公廳關於促進建築業持續健康發展的意見), which proposed that prefabricated buildings are encouraged to develop, and it should account for 30% of new buildings by 2025.

According to the F&S Report, considering the on-going government supportive policies and the increasing maturity of the market in the next five years, the market size of prefabricated steel structure civil building in the PRC is projected to reach RMB3,247.7 billion by 2026 while the prefabricated steel structure civil building market in Hunan Province is projected to reach RMB114.2 billion in 2026, representing a CAGR of 33.3% from 2022 to 2026.

Recently, the EPC construction model has also been encouraged by various policies of the PRC government including the Several Opinions on Further Promoting the Development of General Contracting on Construction JS [2016] No. 93 (《關於進一步推進工程總承包發展的若干意見》建市[2016]93號) issued by MOHURD in May 2016 and the National Standard Code for General Contracting Management of Construction Projects (國家標準《建設項目工程總承包管理規範》) issued by the MOHURD in May 2017.

We possess first-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級), which is the highest level of qualification in steel structure construction. In order to tap into these latest development trends of the PRC construction industry, in November 2017, we entered into a strategic EPC Tripartite Framework Agreement with Hangxiao Technology and Hunan Design Institute, a state-owned company established in the PRC to form a business alliance in developing prefabricated steel structure building construction for residential properties under the EPC model, pursuant to which Hunan Design Institute will provide comprehensive design services, while Hangxiao Technology will be responsible for the provision of prefabricated steel structure products, and our Group will handle the implementation of prefabricated steel structure construction works, as well as the provision of warranty services. With our efforts in keeping up with these latest development, we have undertaken 12 prefabricated steel structure construction projects during the Track Record Period, and we believe we are well-positioned to tap into the latest development trend of PRC construction industry which can fuel us for future growth in the long run.

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Our experienced and dedicated senior management team and highly skilled personnel in construction industry

We believe our experienced and stable management team with extensive knowledge in the construction industry and who are also our Shareholders is fundamental to our Group in building a solid foundation for the subsequent development of our business. Our senior management team is under the leadership of Mr. Yang, the chairman of our board and an executive Director who has over 25 years of experience in the construction industry and has been serving as the management of our Group for over 15 years. Our senior management team and key technical personnel also have extensive management skills, operating experience and industry expertise, and many of them have been working for us for a significant portion of their professional career. For details, please refer to the section headed “Directors and Senior Management” in this document. Over the years of our development, our senior management team is supported by our skilled personnel. As at the Latest Practicable Date, our Group has two doctorate degree’s holders, 10 master degree’s holders, 52 first-grade qualified constructors and 97 second-grade qualified constructors. We believe that the leadership, vision and extensive experience of our management team will continue to build upon our core strengths to execute our business plan and drive us to future growth and success.

BUSINESS STRATEGIES

We strive to attain sustainable growth and continue to leverage our market position in the competitive construction industry and seek to promote long-term shareholder value by implementing the following business strategies:

Expand business through funding our capital needs and cash flows for upcoming projects and enhance our market presence to capture more business opportunities

We make progress billing to our customers for our construction contracts. For cases when several prescribed milestones are stipulated in the relevant construction contracts, we are entitled to start making progress billing only after the first milestone has been reached. Accordingly, during the Track Record Period, as we incur material costs and subcontracting costs during the initial stage of these projects, we experience a net cash outflow before reaching the milestone that we were entitled to bill our customers. According to the F&S Report, it is common for construction contracts to include several prescribed milestones in the PRC construction industry and thus leading to main contractors usually having a net cash outflow at the initial stage of construction projects. During the Track Record Period, our Group utilised bank and other borrowings as well as internal resources to finance such upfront costs. Due to the timing mismatch between the cash inflows and cash outflows of a typical construction project, we are required to

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carefully assess the initial working capital requirements of business opportunity before we proceed to submit our tender. We also manage and monitor our working capital and available banking facilities closely to ensure that we have sufficient financial resources to implement our projects.

Our Directors believe that, after [REDACTED], our market presence will be significantly enhanced and thereby allowing us to capture future business opportunities and consolidating our market position in the construction industry including Hunan Province and Hainan Province. Our Directors further believe that a [REDACTED] platform and our enhanced brand image will allow us to reach out to more customers and enable us to undertake more construction projects. In line with our aim to further capture the growing construction market in the PRC, we expect to require the dedication of additional financial resources as the initial working capital to invest in our future projects.

Moreover, we aim to continuously expand to other regional markets in Southern China to further capture the business opportunities brought by the growth of the PRC construction industry through establishing branch offices in Southern China cities, such as Shenzhen and Zhuhai, which our Directors believe can increase our business coverage and capture more market opportunities.

In view of the above, we intend to apply approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), or [REDACTED]% of the net [REDACTED] of the [REDACTED], to fund our upfront expenditure of three projects on hand as part of our expansion strategy. Please refer to section headed “Future Plans and Use of [REDACTED]” for further details.

Invest in construction machinery and equipment to enhance our technical equipment capability

In order to strengthen our position to undertake construction works projects, we have invested and will continue to invest in construction machinery and equipment including construction lifts, construction cranes, excavators and bulldozers. As at 30 September 2022, we maintained approximately 51 units and 52 units of construction cranes and construction lifts, respectively. For details, please refer to the paragraph headed “Our Business Operations — Raw materials, machinery and equipment and suppliers — Machinery and equipment” in this section. Our Directors believe that having our own construction machinery and equipment allows us to reduce our reliance on suppliers for leasing of machinery and equipment for our building construction projects and enhance our flexibility in managing our work schedules and maintaining our work quality and safety.

In view of the above, we intend to apply approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), or [REDACTED]% of the net [REDACTED] of the [REDACTED], to acquire and/or replace our construction machinery and equipment. For details, please refer to the section headed “Future Plans and Use of [REDACTED]” in this document.

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Further strengthen our R&D capabilities to embrace the latest development trend of PRC construction industry

We believe that our high-quality and safe construction performance is largely attributable to our R&D capability, and is critical to our sustainable growth and further expansion of our business in the future. Accordingly, we are devoted to R&D with the goal of driving improvement in construction technologies and increasing operating efficiency. Going forward, we will continue strengthening our R&D capabilities and commit to the development and improvement of our construction methods to enhance the overall quality of our construction works, keeping pace with latest development trend in the PRC construction industry including but not limited to the use of prefabricated construction and green building technology. We believe it will provide us with competitive edge over our competitors and allow us to capture more business opportunities and to complete our construction projects in a more efficient manner and with better quality control management.

In view of the above, we intend to apply approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), or [REDACTED]% of the net [REDACTED] of the [REDACTED], to fund the establishment and operation of our know-how centre including (i) recruiting professionals; (ii) purchasing equipment and software; (iii) financing the operating costs including purchasing the materials to be used in R&D; and (iv) paying the rent and renovation costs of the know-how centre to strengthen our R&D capabilities, with a particular focus on the R&D of the know-how for prefabricated steel structure construction which is being increasingly adopted by market participants, as well as other traditional construction technology. For details, please refer to section headed “Future Plans and Use of [REDACTED]” in this document.

Capitalise on the latest development trend of green building, prefabricated construction methods and EPC model in the PRC

According to the F&S Report, the construction industry in China has developed significantly in recent years and innovative technologies, building techniques and practice including prefabricated building and green building are being increasingly adopted by the market participants and the EPC model has also been encouraged by various policies of the PRC government. For details, please refer to paragraph headed “Competitive Strengths — Well-positioned to capture the latest development trend of green building, prefabricated construction methods and EPC model in the PRC” in this section.

With our first-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級), which is the highest level of qualification in steel structure construction and our increasing effort in the R&D in prefabricated steel structure construction through the

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establishment of the know-how centre, we intend to expand our business by undertaking more prefabricated steel structure construction projects in the future. Moreover, we will also be actively seeking the opportunity to conduct construction projects under EPC model.

We believe we can capitalise on the latest development trend and increase our market share to solidify our position as a leading construction enterprise in Zhuzhou.

Strive to secure more projects from Government-related Entities

Our customers include both government entities, state-owned enterprises and state-invested enterprises (collectively, the “**Government-related Entities**”) and private enterprises. For FY2019, FY2020, FY2021 and 3Q2022, approximately RMB662.9 million, RMB453.3 million, RMB447.7 million and RMB676.5 million of our revenue was generated from Government-related Entities, representing approximately 36.4%, 25.6%, 24.6% and 49.5% of our total revenue for each of FY2019, FY2020, FY2021 and 3Q2022, respectively.

Our Directors considered that the projects from Government-related Entities are generally less vulnerable or sensitive to the property sales market or individual performance or financial conditions of the project owners in the PRC than the projects from non-Government-related Entities. Government-related Entity customers also in general have good creditability and had minimal history of default. Therefore, to maintain a healthy customer mix, leveraging our Group’s experience and proven track records in undertaking projects from Government-related Entities, we intend to put more focus on securing new projects from Government-related Entities. Our Board will also perform periodic review on the existing customer mix and to make appropriate adjustment when needed to cope with the market appetite.

OUR BUSINESS OPERATIONS

During Track Record Period, we principally engage in provision of services contracting of (i) civil building construction, (ii) municipal works construction, (iii) foundation works, (iv) prefabricated steel structure construction and other specialised contracting works which are further described as follows:

Civil building construction

During the Track Record Period, majority of our revenue was generated from civil building construction business. We provide general contracting building services for residential, industrial and commercial construction projects. We hold the first-grade qualification in building construction general contracting (建築工程施工總承包一級).

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Municipal works construction

We provide municipal works construction services. We hold the first-grade qualification in municipal and public construction general contracting (市政公用工程施工總承包壹級). Our municipal work construction business includes construction of urban roads, education institutions, sports stadiums, tunnels and underground traffic construction, water supply works, sewage treatment works, thermal works, gas pipeline construction, different types of municipal domestic refuse disposal construction and urban square construction.

Foundation works

We provide foundation works construction services. We hold the first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包壹級). Our business in foundation works include foundation construction and earthwork construction.

Prefabricated steel structure construction

We provide prefabricated steel structure construction. We hold the first-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級). Our prefabricated steel structure construction business mainly includes the construction of bogie welding plant, enclosure systems, building and structural works for steel structure buildings.

Other specialised contracting works

We provide other specialised contracting works, which includes building renovation and decoration works services and others. We hold various specialised contracting construction licences including the first-grade qualification in building renovation and decoration specialised contracting (建築裝修裝飾工程專業承包壹級). Our building renovation and decoration works business mainly comprises woodwork, suspended ceiling works, painting and the paving of tiles.

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The following table sets forth a breakdown of our revenue by project type for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	% of total		% of total		% of total		% of total		% of total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Revenue from construction contracts										
Civil building construction	888,497	48.8	1,031,904	58.3	885,259	48.5	657,407	49.6	670,050	49.1
Municipal works construction	669,011	36.7	485,033	27.4	427,745	23.5	262,359	19.8	461,373	33.8
Foundation works	146,162	8.0	120,067	6.8	114,195	6.3	81,161	6.1	22,455	1.6
Prefabricated steel structure construction works	62,650	3.5	106,345	6.0	369,761	20.3	305,023	23.0	202,563	14.8
Other specialised contracting works (Note).	49,666	2.7	17,857	1.0	17,170	0.9	12,924	1.0	3,796	0.3
Sub-total	1,815,986	99.7	1,761,206	99.5	1,814,130	99.5	1,318,874	99.5	1,360,237	99.6
Revenue from provision of construction machinery and equipment service										
	5,930	0.3	8,694	0.5	9,254	0.5	6,518	0.5	5,793	0.4
Total	1,821,916	100	1,769,900	100	1,823,384	100	1,325,392	100	1,366,030	100

Note: Our other specialised contracting works mainly include building renovation and decoration works.

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	% of total		% of total		% of total		% of total		% of total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Revenue from construction contracts										
Commercial projects	134,780	7.4	341,054	19.3	318,983	17.5	250,751	18.9	324,097	23.7
Residential projects	671,504	36.9	632,442	35.7	573,834	31.5	456,076	34.5	380,056	27.8
Industrial projects	276,905	15.2	218,079	12.3	209,274	11.5	139,634	10.5	100,917	7.4
Public facilities projects	731,506	40.2	566,392	32.0	708,800	38.9	471,131	35.5	554,400	40.6
Others	1,291	0.1	3,239	0.2	3,239	0.2	1,282	0.1	767	0.1
Subtotal	1,815,986	99.7	1,761,206	99.5	1,814,130	99.5	1,318,874	99.5	1,360,237	99.6
Revenue from provision of construction machinery and equipment service										
	5,930	0.3	8,694	0.5	9,254	0.5	6,518	0.5	5,793	0.4
Total	1,821,916	100	1,769,900	100	1,823,384	100	1,325,392	100	1,366,030	100

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Provision of construction machinery and equipment service

We primarily allocated our self-owned construction machinery and equipment including construction cranes and construction lifts to support our construction projects in Zhuzhou during the Track Record Period. However, in the event that there were idle construction lifts or construction cranes which were not deployed in our construction projects in Zhuzhou, we might lease them to our customers.

Under our typical leasing arrangements with our customers, we may be required to provide technical staff for operating the respective machinery and equipment, as well as responsible for the repair, maintenance, transportation and installation during the rental period.

A vast majority of our construction projects were awarded through tenders. On a few occasions, we were engaged in several related projects and/or entered into multiple contracts. The following table sets forth the breakdown of revenue from construction contracts attributable to contracts obtained through (i) public tender; (ii) invitation to tender and (iii) non-tender for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Public tender	1,583,995	87.2	1,388,135	78.8	1,326,880	73.1	943,267	71.5	1,060,777	78.0
Invitation to tender (<i>Note</i>).	230,698	12.7	369,832	21.0	484,011	26.7	374,325	28.4	298,152	21.9
Subtotal for tender	1,814,693	99.9	1,757,967	99.8	1,810,891	99.8	1,317,592	99.9	1,358,929	99.9
Non-tender	1,293	0.1	3,239	0.2	3,239	0.2	1,282	0.1	1,308	0.1
Total revenue from construction contracts	1,815,986	100	1,761,206	100	1,814,130	100	1,318,874	100	1,360,237	100

Note: Invitation to tender mainly include tenders for ancillary services in relation to main tender obtained through public tender and tenders to related companies.

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The following table sets forth the breakdown of revenue by geographical locations for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	% of total		% of total		% of total		% of total		% of total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
Hunan Province	1,302,621	71.5	1,326,848	74.9	1,381,893	75.8	1,024,227	77.3	921,761	67.5
— Zhuzhou	1,051,711	57.7	1,136,903	64.2	1,211,754	66.5	897,561	67.7	723,417	53.0
— Other cities	250,910	13.8	189,945	10.7	170,139	9.3	126,665	9.6	198,344	14.5
Hainan Province	402,306	22.1	376,546	21.3	388,687	21.3	263,981	19.9	388,745	28.5
Others (<i>Note</i>)	116,989	6.4	66,506	3.8	52,804	2.9	37,184	2.8	55,524	4.0
Total	1,821,916	100	1,769,900	100	1,823,384	100	1,325,392	100	1,366,030	100

Note: Others mainly include Hubei Province, Zhejiang Province, Fujian Province, Guangdong Province, Jiangsu Province and Jiangxi Province. We have not established branch office in Zhejiang Province, Jiangsu Province and Jiangxi Province as at the Latest Practicable Date.

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The table below sets forth the details of the movements of the number of on-going construction and completed construction projects of our Group by project type of our Group during the Track Record Period and up to the Latest Practicable Date:

	Civil building construction		Municipal works construction		Foundation works		Prefabricated steel structure construction works		Other specialised contracting works		Total	
	Number of contracts attributed	Contract sum ⁽³⁾ RMB'000	Number of contracts attributed	Contract sum ⁽³⁾ RMB'000	Number of contracts attributed	Contract sum ⁽³⁾ RMB'000	Number of contracts attributed	Contract sum ⁽³⁾ RMB'000	Number of contracts attributed	Contract sum ⁽³⁾ RMB'000		
FY2019												
Opening on-going projects ⁽¹⁾	80	3,168,509	73	2,373,491	13	231,681	1	45,418	5	108,911	172	5,928,010
Add: new construction projects contracted	12	441,338	16	529,323	3	110,671	1	56,706	1	1,527	33	1,139,565
Deduct: construction projects completed ⁽²⁾	33	449,379	25	654,744	9	195,614	—	—	3	104,446	70	1,404,183
Closing on-going construction projects	59	3,160,468	64	2,248,070	7	146,738	2	102,124	3	5,992	135	5,663,392
FY2020												
Opening on-going projects ⁽¹⁾	59	3,160,468	64	2,248,070	7	146,738	2	102,124	3	5,992	135	5,663,392
Add: new construction projects contracted	16	1,201,803	10	321,895	6	131,954	5	670,550	6	30,355	43	2,356,557
Deduct: construction projects completed ⁽²⁾	17	570,047	15	265,240	3	73,329	1	213	1	1,527	37	910,356
Closing on-going construction projects	58	3,792,224	59	2,304,725	10	205,363	6	772,461	8	34,820	141	7,109,593
FY2021												
Opening on-going projects	58	3,792,224	59	2,304,725	10	205,363	6	772,461	8	34,820	141	7,109,593
Add: new construction projects contracted	12	925,233	10	164,605	6	80,471	5	42,257	4	12,590	37	1,225,156
Deduct: construction projects completed	13	360,483	17	314,511	1	35,933	1	45,418	—	—	32	756,345
Closing on-going construction projects	57	4,356,974	52	2,154,819	15	249,901	10	769,300	12	47,410	146	7,578,404
3Q2022												
Opening on-going projects	57	4,356,974	52	2,154,819	15	249,901	10	769,300	12	47,410	146	7,578,404
Add: new construction projects contracted	9	1,393,562	9	208,603	—	—	2	7,524	2	20,705	22	1,630,394
Deduct: construction projects completed	10	106,432	11	391,074	2	3,512	1	6,144	1	37	25	507,199
Closing on-going construction projects	56	5,644,104	50	1,972,348	13	246,389	11	770,680	13	68,078	143	8,701,599
After Track Record Period and up to the Latest Practicable Date												
Opening on-going projects	56	5,644,104	50	1,972,348	13	246,389	11	770,680	13	68,078	143	8,701,599
Add: new construction projects contracted	1	54,039	3	85,754	—	—	—	—	—	—	4	139,793
Deduct: construction projects completed	—	—	—	—	—	—	—	—	—	—	—	—
Closing on-going construction projects	57	5,698,143	53	2,058,102	13	246,389	11	770,680	13	68,078	147	8,841,392

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Notes:

- 1 Opening on-going projects represented projects that have confirmed engagements, excluding (i) those inactive and immaterial projects which generated aggregate revenue and incurred aggregate cost of less than RMB10,000 over the Track Record Period and (ii) new contracted construction projects for the corresponding financial year/period.
- 2 A construction project is considered completed when (i) an acceptance of project completion inspection report issued by the relevant government authority(ies) is issued; or (ii) revenue being fully recognised with respect to contract sum as amended from time to time. Please refer to the section headed “Business — Operation process — Completion and acceptance” in this document for further details.
- 3 Contract sums do not include any variation orders and/or VAT.
- 4 Part of the closing contract sum of on-going projects has already been recognised as revenue by our Group during the Track Record Period and up to the Latest Practicable Date.

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Completed construction projects

The following table sets out information regarding the top 10 construction projects in terms of total revenue recognised during the Track Record Period completed by our Group up to the Latest Practicable Date:

No.	Project name and project Code	Customer	Project type	Description of works	Location of project	Start date	Completion date (Note 3)	Approximate project period	Original contract sum (Note 1,2)	Adjustment/ variation order received on or before the Latest Practicable Date (Note 2)	Revenue recognised before the Track Record Period (Note 2)	Revenue recognised during FY2019 (Note 2)	Revenue recognised during FY2020 (Note 2)	Revenue recognised during FY2021 (Note 2)	Revenue recognised during 3Q2022 (Note 2)	Total revenue recognised during the Track Record Period (Note 2)
									RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Langfang Lantian Main Structure (朗防-蘭天) (8208)	Zhuzhou Langfang Real Estate Development Company Limited* (株洲朗防房地產開發有限公司) ("Langfang Real Estate")	Civil building construction	Residential complex construction	Junction of Changjiang North Road and Liaonan Road, Tianyuan District, Zhuzhou* (株洲市天元區長江北路與龍崗路交界處)	August 2018	March 2021	32 months	136,364	132,047	79,291	56,650	74,866	56,880	—	183,396
2	Jindong Jiao Lake* (金東灣子湖) (8200)	Hunan Liling Underlake Wicca City Development and Construction Co., Ltd.* (湖南醴陵城下五步湖開發建設有限公司)	Civil building construction	Residential complex construction	Junction of Fenghuang Avenue and Gocui Road, Liling City, Hunan Province* (湖南省醴陵市鳳凰大道與國槐路交界處)	August 2018	November 2021	40 months	195,140	10,818	38,153	115,848	35,740	16,217	—	167,805
3	Changjun Yunlong Evermental School (Second Phase)* (長郡雲龍實驗學校(二期)) (8207)	Zhuzhou Economic Development Zone Industrial Park Development Co., Ltd.* (株洲經濟開發區產業園發展有限公司), Zhuzhou Yunlong Development Investment Holding Group Real Estate Co., Ltd.* (株洲雲龍開發投資集團置業有限公司) and Zhuzhou Yunlong Demonstration Area Management Committee Social Affairs Department* (株洲雲龍示範區管理委員會社會事業部) ("Zhuzhou Economic Development Group")	Municipal works construction	Education institution construction	The former campus of Central South University of Forestry and Technology, Xiangzhang Community, Xuebin Street Office, Zhuzhou Yunlong Demonstration District* (株洲市森林學院原中南林業科技大學株洲校區)	January 2019	March 2021	26 months	130,048	33,923	19	117,573	31,455	14,784	—	163,812
4	Chuangge Mansion* (創格公寓) (8241)	Zhongtong Holdings Group	Civil building construction	Residential complex construction	Junction of Huangshan West Road and West Loop Ring Road, Tianyuan District, Zhuzhou* (株洲市天元區黃山西路與西環路交界處)	April 2018	March 2021	36 months	124,879	90,884	58,347	63,701	89,687	4,003	—	157,391
5	Chuangge Village, Third Phase* (創格小鎮二期) (8233)	Zhongtong Holdings Group	Civil building construction	Residential complex construction	Junction of Liyu South Road and Beiguo Mountain Middle Road, Zhuzhou* (株洲市栗雨南路與柏樹山中路交界處)	October 2017	November 2020	38 months	196,845	84,839	125,384	152,301	3,999	—	(17)	156,283
6	Sanya Summer Experience Plaza* (三亞夏日體驗廣場) (8922)	Customer E	Foundation works	Piling and earthwork	Northeast Junction of Yun Road and Yun Road, Sanya City, Hainan Province* (海南省三亞市雲南路與雲南路交界處)	May 2019	December 2019	8 months	73,394	7,072	—	73,394	6,985	87	—	80,466
7	Zhongtong Hanguao Steel Structure Prefabricated Building Base Phase I, R&D Buildings* (中大航鋼鐵結構配電室基礎一期) (8235)	Zhongtong Holdings Group	Prefabricated Steel Structure Construction	Factory premise construction	Jinshan Science and Technology Industrial Park, Hejiang District, Zhuzhou* (株洲市醴陵區金山科技工業園)	March 2019	April 2021	26 months	56,706	22,273	—	42,229	25,055	10,133	1,482	78,979

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No.	Project name and project Code	Customer	Project type	Description of works	Location of project	Start date	Completion date (Note 3)	Approximate project period	Original contract sum (Note 1,2)	Adjustment/ variation order received on or before the Last Practicable Date (Note 2)	Revenue recognised before the Track Record Period (Note 2)	Revenue recognised during FY2019 (Note 2)	Revenue recognised during FY2020 (Note 2)	Revenue recognised during FY2021 (Note 2)	Revenue recognised during 3Q2022 (Note 2)	Total revenue recognised during the Track Record Period (Note 2)
									RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
8	Changjun Yunlong Experimental School (Third Phase)* (長郡雲龍實驗學校(三期)) (長郡)	Zuzhou Economic Development Group	Municipal works construction	Public facilities construction	The former campus of Central South University of Forestry and Technology, Xiangzhang Community, Xuebin Street Office, Zuzhou Yunlong Demonstration District* (株洲雲龍示範學校新區) 湖南株洲市天元區學林街辦事處	September 2019	September 2021	25 months	64,838	11,926	—	27,403	32,933	10,924	5,904 (Note 8)	76,764
9	Changde Xiangjiang Yuezhou* (常德香江悅洲) (8735)	Customer Group D	Civil building construction	Residential complex construction	Wuling District adjacent to Dingling Park, Changde City, Hunan Province* (湖南省常德市武陵區龍井公園)	June 2018	September 2021	40 months	146,738	21,873	106,587	35,881	16,998	3,991 (Note 9)	1,660	58,530
10	Vehicle Plant Living Zone Renovation* (車輛廠生活區改造) (8272)	Zuzhou Heang District Housing and Urban Rural Development Bureau* (株洲市荷塘區住房和城鄉建設局)	Civil building construction	Residential complex construction	Living area of Zuzhou Vehicle Factory, Heang District, Zuzhou* (株洲市荷塘區車輛廠生活區)	October 2018	March 2020	18 months	83,923	1,122	27,812	50,333	1,617	5,283 (Note 10)	—	57,233

Notes:

- The relevant contract may comprise more than one project and the original contract sums refer to the sums of whole contract instead of a particular project.
- The original contract sums and revenue recognised for our projects are excluding VAT. The discrepancies between the original contract sum and the total revenue recognised during the Track Record Period are due to adjustment for VAT (if any) and (i) the amount of variation orders agreed by the parties in respect of each projects and such variation orders may be in the form of supplemental agreements for additional construction works undertaken by us or modifications of the scope of work previously agreed in the original contracts; and (ii) final payment sum pending to confirm from respective customers after the acceptance of project completion inspection report issued.
- Completion date was based on (i) the date of completion as shown on the acceptance of project completion inspection certificate; or (ii) revenue being fully recognised with respect to contract sum as amended from time to time.
- Such amount represented revenue recognised under the input method as a result of the preparation work undertaken by our Group in FY2018 prior to the actual start date of Changjun Yunlong Experimental School (Second Phase)* (長郡雲龍實驗學校(二期)) project.
- The negative amount represented the adjustment to the final settlement value as determined during the settlement audit process.
- This project was completed in December 2019 based on the date of completion as shown on the acceptance of project completion inspection certificate. The revenue recognised during FY2020 and FY2021 represented the amount of variation order agreed by the parties in July 2020 after obtaining the said acceptance.
- This project was completed in April 2021 based on the date of completion as shown on the acceptance of project completion inspection certificate. The revenue recognised during 3Q2022 represented the amount of variation agreed by both parties after project completion.
- This project was completed in September 2021 based on the date of completion as shown on the acceptance of project completion inspection certificate. The revenue recognised during 3Q2022 represented the amount variation agreed by both parties after project completion.
- This project was completed in September 2021 based on the date of completion as shown on the acceptance of project completion inspection certificate. The revenue recognised during 3Q2022 represented the amount of variation agreed by both parties after project completion.
- This project was completed in March 2020 based on the date of completion as shown on the acceptance of project completion inspection certificate. The revenue recognised during FY2021 represented the amount of variation agreed by both parties after project completion and the remaining minor work due to changes made in accordance with the variation order.

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On-going construction projects

As at the Latest Practicable Date, we had 147 on-going construction projects. Such on-going construction projects have an aggregate original contract sum (excluded VAT) of approximately RMB8,841.4 million. The following table sets out information regarding the top 10 on-going construction projects undertaken by our Group as at the Latest Practicable Date in terms of total revenue recognised during Track Record Period:

No.	Project name and project code	Customer	Project type	Description of works	Location of project	Start date	Expected completion date (Note 3)	Approximate contract period (Note 3)	Original contract sum (Note 1, 2)	Revenue recognised on or before the Latest Practicable Date (Note 2)	Revenue recognised during FY2019 (Note 2)	Revenue recognised during FY2020 (Note 2)	Revenue recognised during FY2021 (Note 2)	Revenue recognised during FY2022 (Note 2)	Total revenue recognised during Track Record Period (Note 2)	Revenue expected to be recognised in FY2023 (Note 4)	Revenue expected to be recognised in FY2024 (Note 4)
									RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Zhongtiao Lian* (中天·龍台) (8337)	Zhongtiao Holdings Group	Prefabricated steel structure construction	Residential complex construction	South of Yandi Avenue, North of Yanning Road, East of Liyu Road, West of Lihai Road, Tianyuan District, Zhuzhou* (株洲市天元區營盤大道以西, 燕子嶺路以北, 栗雨路以南, 聯合路以西)	October 2020	June 2024	45 months	611,102	—	—	57,425	286,669	170,677	514,711	13,770	27,540
2	Hainan Lixun Meitun Science and Technology Park* (海南力信美頓科學園) (9828)	Customer P	Civil building construction	Complex building construction	32 Kilometers from Haiyu West Line, Beilan Town, Changan County, Hainan Province* (海南省文昌縣保羅田鎮海宇西線32公里處)	April 2020	December 2023	45 months	334,862	82,300	—	220,518	133,130	56,646	410,294	1,430	5,719
3	Dongfang Xin'an Homeland (Phase I)* (東方新安家園(二期)) (8775)	Shouhang Xingda Investment Co., Ltd.* (東方信誠興達投資有限公司)	Civil building construction	Social housing construction	South side of Dongfang Road, Dongfang City, Hainan Province* (海南省東方市東風路南側)	January 2016	October 2023	94 months	708,655	—	320,827	57,475	8,801	12,322	212,450	40,471	134,905
4	Chaling County People's Hospital Phase II* (榮陵縣人民醫院二期) (9838)	Chaling County People's Hospital* (榮陵縣人民醫院)	Civil building construction	Public facilities construction	Chaling County People's Hospital, Zhuzhou City* (株洲市茶陵縣人民醫院院內)	October 2020	December 2023	39 months	174,391	—	—	13,740	120,461	35,700	169,901	88	3,392
5	Zhongyuan Gusheng Plaza Phase I (中源國盛廣場一期) (9833)	Customer M	Civil building construction	Commercial building construction	North of Yada Gusheng Road, Danzhou City, Hainan Province* (海南省儋州市那大國盛路二期)	November 2020	December 2023	38 months	111,927	45,882	—	16,840	60,550	68,346	145,736	2,444	9,658
6	Sanya City Third Ring Road* (三亚市三環路) (9816)	Customer T	Municipal works construction	Urban roads construction	West from Yun Road (junction of the Peang River Express Ring Road), East from junction of the Lizhi Express Ring Road, along Xibaopo Village, Heiba Village and Baopo Village, Sanya City, North, Hainan Province* (海南省三亚市龍北龍南大道新海鐵路站至新海鐵路站東側至新海鐵路站東側出口路, 沿龍北龍南大道, 西巴坡村、夏家村、俄家村等村鎮)	December 2016	December 2023	84 months	177,447	103,754	57,339	19,268	8,132	58,202	145,191	32,436	8,109
7	Zhongyuan Gusheng Plaza Phase II* (中源國盛廣場二期) (9839)	Customer M	Civil building construction	Commercial building construction	North of Yada Gusheng Road, Danzhou City, Hainan Province* (海南省儋州市那大國盛路二期)	May 2021	March 2023	23 months	107,339	36,883	—	—	68,335	67,782	136,135	6,430	1,617

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No.	Project name and project code	Customer	Project type	Description of works	Location of project	Start date	Expected completion date (Note 3)	Approximate contract period	Original contract sum (Note 2)	Revenue recognised during the Track Record Period (Note 2)	Revenue recognised during FY2019 (Note 2)	Revenue recognised during FY2020 (Note 2)	Revenue recognised during FY2021 (Note 2)	Revenue recognised during 3Q2022 (Note 2)	Total revenue recognised during the Track Record Period (Note 2)	Revenue expected to be recognised in 2022Q4 (Note 4)	Revenue expected to be recognised in FY2023 (Note 4)	Revenue expected to be recognised in FY2024 (Note 4)
8	Jinzhong International School* 金州國際學校(9330)	Zhuzhou Jincheng Investment Holding Group Co., Ltd.* (株) 湖南金州投資控股集團有限公司	Municipal works construction	Public facilities construction	South from Jinying Road, West from Jinqian Road, North from Jinhong East Road, Heang District, Zhuzhou City* (株洲市雁環區金州路以西、金龍東路以北)	October 2020	December 2023	26 months	RMB'000 127,359	—	—	3,640	37,779	61,669	RMB'000 125,088	436	1,745	—
9	Haochuang Bihai Shiqiang Gomah Project* 高創碧海坊 光創海月(9332)	Customer X	Civil building construction	Residential complex construction	Jiu Long Avenue, Jiasuo New District, Ledang County, Hainan Province* (海南省樂東縣九所鎮加蘇大道)	December 2020	September 2023	30 months	89,277	30,840	26,576	37,786	43,182	107,544	10,058	2,615	—	—
10	Tower 20 Linyin Village* 萊茵 小鎮20號(9329)	Zhuzhou Holdings Group	Civil building construction	Residential complex construction	849 Hengji North Road, Zhuzhou City* (株) 洲市紅橋北路849號	June 2020	September 2023	40 months	80,678	23,168	27,845	29,281	46,720	103,846	22	63	—	—

Notes:

- The relevant contract may comprise more than one project and the original contract sums refer to the sums of whole contract instead of a particular project.
- The original contract sums and revenue recognised for our projects are excluding VAT. The discrepancies between the original contract sum and the total revenue recognised during the Track Record Period are due to adjustment for VAT (if any) and the amount of variation orders agreed by the parties in respect of each projects. Such variation orders may be in the form of supplemental agreements for additional construction works undertaken by us or modifications of the scope of work previously agreed in the original contracts.
- Expected completion date was based on the respective contract or progress schedule amended from time to time.
- Such amount is only an estimate and is subject to change due to actual progress and completion date of the projects.
- The construction works of the project was slowed down in FY2021 pending the clearance of certain parts of the construction site by the relevant government authority. The project has resumed construction upon the completion of clearance of the relevant construction site since June 2022. In light of the latest development, we and Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) mutually agreed to extend the project completion date to October 2023.

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Top 10 construction projects for each year/period during the Track Record Period

The following table sets out information regarding our top 10 construction projects for each of FY2019, FY2020, FY2021 and 3Q2022 in terms of revenue contribution to our Group in each of the respective years/period during the Track Record Period:

Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the year	revenue for the year
						RMB'000	
<i>FY2019</i>							
1.	Chunteng Village Third Phase* (春藤小鎮三期) (8333)	Zhongtian Holdings Group	Civil building construction	Residential complex construction project	Junction of Liyu South Road and Bogu Mountain Middle Road, Zhuzhou* (株洲市栗雨南路與博古山中路交匯處)	152,301	8.4
2.	Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) (8773)	Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司)	Civil building construction	Social housing construction project	South side of Dongfeng Road, Dongfang City, Hainan Province* (海南省東方市東風路南側)	133,852	7.3
3.	Changjun Yunlong Experimental School (Second Phase)* (長郡雲龍實驗學校(二標))	Zhuzhou Economic Development Group	Municipal work construction	Education institution construction	The former campus of Central South University of Forestry and Technology, Xiangzhang Community, Xuelin Street Office, Zhuzhou Yunlong Demonstration District* (株洲雲龍示範區學林街道辦事處香樟社區原中南林業科技大學株洲校址內)	117,573	6.5
4.	Jindong Taozi Lake* (金東陶子湖)	Hunan Liling Underglaze Wucai City Development and Construction Co., Ltd.* (湖南醴陵釉下五彩城開發建設有限公司)	Civil building construction	Residential complex construction project	Junction of Fenghuang Avenue and Guoci Road, Liling City, Hunan Province* (湖南省醴陵市鳳凰大道與國瓷路交匯處)	115,848	6.4
5.	Sanya Summer Experience Plaza* (三亞夏日體驗廣場) (9822)	Customer E	Foundation works	Piling and earthwork	Northeast Junction of Yuxin Road and Yuxiu Road, Sanya City, Hainan Province* (海南省三亞市育新路與育秀路交匯處東北側)	73,394	4.0
6.	Chunteng Mansion* (春藤公館) (8741)	Zhongtian Holdings Group	Civil building construction	Residential complex construction project	Junction of Huangshan West Road and West Loop Ring Road, Tianyuan District, Zhuzhou* (株洲市天元區黃山西路與西環綫輔道交界處)	63,701	3.5

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Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the year	revenue for the year
						<i>RMB'000</i>	
7.	Sanya City Third Ring Road* (三亞市三環路) (9816)	Customer T	Municipal work construction	Urban roads construction	West from Yuxin Road (junction of the Penang River Express Ring Road), East from junction of the Lizhigou Express Ring Road, along Xiabaopo Village, Hakka Village and Baopo Village, Sanya City North, Hainan Province* (海南省三亞市市區北側, 西起育新路(環城高速檳榔河連接處)東至環城高速荔枝溝出口路, 沿途經過下抱坡村、客家村、抱坡村等鄉鎮)	57,589	3.2
8.	Langting Lanjiang Main Structure* (朗廷·覽江) (8208)	Langting Real Estate	Civil building construction	Residential complex construction project	Junction of Changjiang North Road and Lushan Road, Tianyuan District, Zhuzhou* (株洲市天元區長江北路與盧山路交匯處側)	56,650	3.1
9.	Vehicle Plant Living Zone Renovation* (車輛廠生活區改造) (8272)	Zhuzhou Hetang District Housing and Urban Rural Development Bureau* (株洲市荷塘區住房和城鄉建設局)	Civil building construction	Residential complex construction project	Living area of Zhuzhou Vehicle Factory, Hetang District, Zhuzhou* (株洲市荷塘區株洲車輛廠生活區紅綫範圍內)	50,333	2.8
10.	Zhongtian Hangxiao Steel Structure Prefabricated Building Base Phase I R&D Building* (中天杭蕭鋼構裝配式建築基地(一期)科研樓) (8285)	Zhongtian Holdings Group	Prefabricated steel structure construction works	Factory premise construction project	Jinshan Science and Technology Industrial Park, Hetang District, Zhuzhou* (株洲市荷塘區金山科技工業園)	42,329	2.3
<i>FY2020</i>							
1.	Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) (9828)	Customer P	Civil building construction	Complex building construction project	32 kilometres from Haiyu West Line, Bailian Town, Chengmai County, Hainan Province* (海南省澄邁縣百蓮鎮海渝西綫32公里處)	220,517	12.5
2.	Chunteng Mansion* (春藤公館) (8741)	Zhongtian Holdings Group	Civil building construction	Residential complex construction project	Junction of Huangshan West Road and West Loop Ring Road, Tianyuan District, Zhuzhou* (株洲市天元區黃山西路與西環綫輔道交界處)	89,687	5.1

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Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the year	revenue for the year
						RMB'000	
3.	Langting Lanjiang Main Structure* (朗廷·覽江) (8208)	Langting Real Estate	Civil building construction	Residential complex construction project	Junction of Changjiang North Road and Lushan Road, Tianyuan District, Zhuzhou* (株洲市天元區長江北路與盧山路交匯處側)	74,866	4.2
4.	Dongfang Xin'an Homeland (Phase II)* (東方市新安家園(二期)) (8773)	Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司)	Civil building construction	Social housing construction project	South side of Dongfeng Road, Dongfang City, Hainan Province* (海南省東方市東風路南側)	57,474	3.2
5.	Zhongtian Lutai* (中天·麓台) (8337)	Zhongtian Holdings Group	Prefabricated steel structure construction	Residential complex construction project	South of Yandi Avenue, North of Yanziling Road, East of Liyu Road, West of Lihe Road, Tianyuan District, Zhuzhou* (株洲市天元區炎帝大道以南，燕子嶺路以北，栗雨路以東，栗合路以西)	57,425	3.2
6.	Tongdao County Sports Stadium* (通道縣體育館) (8655)	Customer U	Municipal works construction	Sports stadium construction project	Tongdao Dong Autonomous County, Hunan Province* (湖南省通道侗族自治區)	49,680	2.8
7.	Chunteng Village Third Phase Earthwork* (春藤三期土石方) (8399)	Zhongtian Holdings Group	Foundation works	Earthwork	Yandi Avenue North, Wuguang New City, Tianyuan District, Zhuzhou* (株洲市天元區武廣新城炎帝大道北側)	47,583	2.7
8.	Shui Zhu Jiayuan* (水竹佳苑) (8378)	Customer W	Civil building construction	Residential complex construction project	Junction of Shuizhu Road and Guihua Road, Hetang District, Zhuzhou* (株洲市荷塘區水竹路與桂花路交匯處)	45,643	2.6
9.	Zhuzhou Zhongmei Hospital* (株洲中美醫院) (8222)	Customer Q	Civil building construction	Public facilities construction project	Junction of Hetang Avenue and Yantong Road, Zhuzhou City, Hunan Province* (湖南省株洲市荷塘大道與燕塘路交匯處)	44,674	2.5
10.	Panlong Yulan Valley* (磐龍玉蘭谷)	Zhuzhou Economic Development Group	Civil building construction	Residential complex construction project	Side of Yunlong Avenue West, Yunlong Demonstration Zone, Zhuzhou* (株洲雲龍示範區雲龍大道西側)	38,334	2.2

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Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the year	revenue for the year
						RMB'000	
<i>FY2021</i>							
1.	Zhongtian Lutai* (中天·麓台) (8337)	Zhongtian Holdings Group	Prefabricated steel structure construction	Residential complex construction project	South of Yandi Avenue, North of Yanziling Road, East of Liyu Road, West of Lihe Road, Tianyuan District, Zhuzhou* (株洲市天元區炎帝大道以南，燕子嶺路以北，栗雨路以東，栗合路以西)	286,609	15.7
2.	Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) (9828)	Customer P	Civil building construction	Complex building construction project	32 kilometres from Haiyu West Line, Bailian Town, Chengmai County, Hainan Province* (海南省澄邁縣百蓮鎮海渝西線32公里處)	133,130	7.3
3.	Chaling County People's Hospital Phase II* (茶陵縣人民醫院(二期)) (8938)	Chaling County People's Hospital* (茶陵縣人民醫院)	Civil building construction	Public facilities construction	Chaling County People's Hospital, Zhuzhou City* (株洲市茶陵縣人民醫院院內)	120,461	6.6
4.	Zhongyuan Guosheng Plaza Phase II* (中源國盛廣場(二期)) (9839)	Customer M	Civil building construction	Commercial building construction project	North of Nada Guosheng Road, Danzhou City, Hainan Province* (海南省儋州市那大國盛路北側)	68,353	3.7
5.	Liuyang Jiangwan School (Phase I)* (瀏陽江灣學校(一期))	Customer N	Municipal works construction	Public facilities construction projects	Tonghui Village and Xiejia Village, Chunkou Town, Liuyang City, Changsha* (長沙瀏陽市淳口鎮同輝村、謝家村)	60,991	3.3
6.	Zhongyuan Guosheng Plaza Phase I* (中源國盛廣場(一期)) (9833)	Customer M	Civil building construction	Commercial building construction project	North of Nada Guosheng Road, Danzhou City, Hainan Province* (海南省儋州市那大國盛路北側)	60,550	3.3
7.	Jincheng International School* (金城國際學校) (9830)	Zhuzhou Jincheng Investment Holding Group Co., Ltd.* (株洲金城投資控股集團有限公司)	Municipal works construction	Education Institution construction	South of Jinjing Road, West of Jinquan Road, North of Jinlong East Road, Hetang District, Zhuzhou City* (株洲市荷塘區金精路以南、金泉路以西、金龍東路以北)	57,779	3.2
8.	Langting Lanjiang Main Structure* (朗廷·覽江) (8208)	Langting Real Estate	Civil building construction	Residential complex construction project	Junction of Changjiang North Road and Lushan Road, Tianyuan District, Zhuzhou* (株洲市天元區長江北路與盧山路交匯處側)	56,880	3.1

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Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the year	revenue for the year
<i>RMB'000</i>							
9.	Amusement and Intelligent Equipment R&D and Production Base Construction (Phase I)* (遊樂和智能裝備研發生產基地建設一期) (8888)	Customer Group C	Civil building construction	Factory premise construction project	Rail Transit City, Shifeng District, Zhuzhou City* (株洲市石峰區軌道交通城)	56,205	3.1
10.	Fengxi Region Water, Electricity, Road, Land Levelling and Ancillary Works* (楓溪片區地塊三通一平及附屬工程) (8313)	Customer F	Civil building construction	Public facilities construction	Lusong District, Zhuzhou City* (株洲市蘆淞區)	45,437	2.5

Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the period	revenue for the period
<i>RMB'000</i>							
<i>3Q2022</i>							
1	Zhongtian Lutai* (中天·麓台) (8337)	Zhongtian Holdings Group	Prefabricated steel structure construction	Residential complex construction	South of Yandi Avenue, North of Yanziling Road, East of Liyu Road, West of Lihe Road, Tianyuan District, Zhuzhou* (株洲市天元區炎帝大道以南，燕子嶺路以北，栗雨路以東，栗合路以西)	170,677	12.5
2	Kairuisi Project Phase I* (凱睿思(一期)項目) (8997)	Hunan Kairuisi New Material Technology Co., Ltd.* (湖南凱睿思新材料科技有限公司)	Civil building construction	Factory premise construction	East of Jinyue Road, West of Dashi Bridge, Xinma Industrial Park, Tianyuan District, Zhuzhou City* (株洲市天元區新馬工業園金月路以東，大石橋以西)	82,781	6.1
3	Zhongyuan Guosheng Plaza Phase I* (中源國盛廣場(一期)) (9833)	Customer M	Civil building construction	Commercial building construction	North of Nada Guosheng Road, Danzhou City, Hainan Province* (海南省儋州市那大國盛路北側)	68,346	5.0

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Ranking	Project name and project code	Customer	Project type	Description of works	Location of project	Amount of	% of total
						revenue recognised for the period	revenue for the period
						RMB'000	
4	Xupu County Chengbei School Supporting Facilities Construction Project* (瀘浦縣城北學校配套設施建設工程)(瀘浦001)	Xupu County Urban Construction Investment Co., Ltd.* (瀘浦縣城市建設投資有限公司)	Municipal works construction	Public facilities construction	Surrounding of Chengbei School, Xupu County* (瀘浦縣城北學校周邊)	67,832	5.0
5	Zhongyuan Guosheng Plaza Phase II* (中源國盛廣場(二期))(9839)	Customer M	Civil building construction	Commercial building construction	North of Nada Guosheng Road, Danzhou City, Hainan Province* (海南省儋州市那大國盛路北側)	67,782	5.0
6	Jincheng International School* (金城國際學校) (9830)	Zhuzhou Jincheng Investment Holding Group Co., Ltd.* (株洲金城投資控股集團有限公司)	Municipal works construction	Public facilities construction	South from Jinjing Road, West of Jinquan Road, North of Jinlong East Road, Hetang District, Zhuzhou City* (株洲市荷塘區金精路以南、金泉路以西、金龍東路以北)	61,669	4.5
7	Sanya City Third Ring Road* (三亞市三環路) (9816)	Customer T	Municipal works construction	Urban roads construction	West of Yuxin Road (junction of the Penang River Express Ring Road), East of junction of the Lizhigou Express Ring Road, along Xiabaopo Village, Hakka Village and Baopo Village, Sanya City North, Hainan Province* (海南省三亞市市區北側,西起育新路(環城高速檳榔河連接處)東至環城高速荔枝溝出口路,沿途經過下抱坡村、客家村、抱坡村等鄉鎮)	58,202	4.3
8	Hainan Lixun Meilun Science and Technology Park* (海南力迅美倫科創園) (9828)	Customer P	Civil building construction	Complex building construction	32 kilometres from Haiyu West Line, Bailian Town, Chengmai County, Hainan Province* (海南省澄邁縣百蓮鎮海渝西綫32公里處)	56,646	4.1
9	Independent Entrepreneurial Park Block H Plant* (自主創業園H地塊廠房) (8288)	Customer Y	Civil building construction	Factory premise construction	Phase I of Independent Entrepreneurial Park, Tianyi Science and Technology City, Zhuzhou City* (株洲市天易科技城自主創業園一期地塊)	49,179	3.6
10	Tower 20 Laiyin Village* (萊茵小鎮20棟) (9829)	Zhongtian Holdings Group	Civil building construction	Residential complex construction	849 Hongqi North Road, Zhuzhou City* (株洲市紅旗北路849號)	46,720	3.4

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Backlog and New Contract Value

Backlog represents an estimate of the remaining contract value of our construction projects as at a certain date. For details, please refer to the section headed “Risk Factors — Risks relating to our business — Backlog may not be indicative of our future results of operations.” in this document. New contract value represents the aggregate contract sum (excluded VAT) of construction projects undertaken by us during a specified period. The following table sets forth the movement in contract value of backlog of our construction projects by business segments during the Tack Record Period:

	Civil building construction	Municipal works construction	Foundation works	Prefabricated steel structure construction works	Other specialised contracting works (Note 1)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
FY2019						
Opening contract value of backlog	1,135,156	813,588	56,068	17,243	38,083	2,060,138
Add: new construction projects contracted . .	441,338	529,323	110,671	56,706	1,527	1,139,565
Add: adjustment/variation orders	165,581	48,111	19,295	9,326	10,200	252,513
Less: revenue recognised	888,497	669,011	146,162	62,650	49,666	1,815,986
Ending contract value of backlog (Note 2) . .	853,578	722,011	39,872	20,625	144	1,636,230
FY2020						
Opening contract value of backlog	853,578	722,011	39,872	20,625	144	1,636,230
Add: new construction projects contracted . .	1,201,803	321,895	131,954	670,550	30,354	2,356,556
Add: adjustment/variation orders	228,962	56,091	2,795	18,662	3,686	310,196
Less: revenue recognised	1,031,904	485,033	120,067	106,345	17,857	1,761,206
Ending contract value of backlog (Note 2) . .	1,252,439	614,964	54,554	603,492	16,327	2,541,776
FY2021						
Opening contract value of backlog	1,252,439	614,964	54,554	603,492	16,327	2,541,776
Add: new construction projects contracted . .	925,233	164,605	80,471	42,257	12,591	1,225,157
Add/(less): adjustment/variation orders . . .	101,966	60,207	7,763	2,420	3,638	175,994
Less: revenue recognised	885,259	427,745	114,195	369,761	17,170	1,814,130
Ending contract value of backlog (Note 2) . .	1,394,379	412,031	28,593	278,408	15,386	2,128,797
3Q2022						
Opening contract value of backlog	1,394,379	412,031	28,593	278,408	15,386	2,128,797
Add: new construction projects contracted . .	1,393,562	208,603	—	7,524	20,705	1,630,394
Add/(less): adjustment/variation orders . . .	237,960	98,111	5,423	20,420	3,683	365,597
Less: revenue recognised	670,050	461,373	22,455	202,563	3,796	1,360,237
Ending contract value of backlog (Note 2) . .	2,355,851	257,372	11,561	103,789	35,978	2,764,551
After Track Record Period and up to the Latest Practicable Date						
Opening contract value of backlog	2,355,851	257,372	11,561	103,789	35,978	2,764,551
Add: new construction projects contracted . .	54,039	85,754	—	—	—	139,793
Add/(less): adjustment/variation orders . . .	—	—	—	—	—	—
Less: revenue recognised	75,374	57,700	12	7,989	2,156	143,231
Ending contract value of backlog (Note 2) . .	2,334,516	285,426	11,549	95,800	33,822	2,761,113

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Notes:

1. Our other specialised contracting works mainly include building renovation and decoration works.
2. Ending contract value of backlog means the opening contract value plus contract value of new projects minus revenue recognised during the relevant year/period indicated.

Our Liquidity Position

Our Directors are of the view that, in order to undertake more large-scale projects, it is essential and crucial for us to carefully and prudently maintain a strong liquidity position at all times to ensure our smooth business operations and to be able to devote sufficient resources in the implementation of our business plans.

We recorded net cash from operating activities of approximately RMB96.1 million, RMB42.5 million and RMB31.6 million for FY2019, FY2020 and FY2021, respectively. We recorded net cash used in operating activities of approximately and RMB26.0 million for 3Q2022. The level of our bank balances and cash went through a typical rise and fall cycle each year as affected by the intake of new projects and the progress of on-going projects. As at 30 September 2022, we had cash and cash equivalents of approximately RMB127.0 million.

Cash requires for our current operation scale

Our Group’s cash and cash equivalents is generally required to be utilised in the following ways: (i) to satisfy needs of working capital for the daily operations under our Group’s current operation scale; and (ii) to fund part of the upfront expenditures of our construction projects from time to time.

(a) Needs of working capital for daily operations

In line with the PRC construction industry, our Group requires a substantial amount of working capital to run our daily operations and satisfy our payment obligations from time to time, including payments to our suppliers, subcontractors, direct labour and staff.

To ensure we have sufficient funding for our operations and we are able to meet our payment obligations from time to time, our Group will maintain at all times a reasonable level of working capital for our daily operations, which is generally not less than the aggregate sum of (a) the payment to our Group’s suppliers in respect of the material costs; (b) the payment to our Group’s subcontractors in respect of the subcontracting costs; and (c) the payment of our Group’s direct

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labour and other staff costs for at least two months. Based on our current operation scale, it is estimated that our working capital needs generally amount to not less than approximately RMB100 million by month.

It is crucial for our Group to meet our payment obligations in a timely manner. Delayed payments to any of our suppliers, subcontractors and/or direct labour and staff may have negative impact on our project progress and as such may affect our project delivery schedule. All of the above could have an adverse impact on our Group’s reputation in the PRC construction services industry and hinder our business development.

(b) Funding part of the upfront expenditures at the initial stage of our new projects undertaken from time to time

In line with the industry practice according to the F&S Report, our Group generally has a net cash outflow at the initial stage of our new projects. Depending on the nature, size, duration, scope, specification and complexity of the projects to be undertaken, our Group generally has to incur significant upfront expenditures such as payment for raw material costs, labour costs, subcontracting costs and insurance costs during the initial stages of our projects before reaching the prescribed milestones so that we are entitled to bill our customer. With reference to projects undertaken during the Track Record Period and according to the F&S Report, it is estimated that an average upfront expenditure equivalent to approximately 20% of the total contract value would be required.

We generally experience a net cash outflow at the initial stages of our projects primarily due to the difference in timing between our upfront expenditure payments at the initial stages of our projects and our receipt of progress payments from our customers upon reaching prescribed milestones or completion of our construction works. Generally, we are entitled to bill our customers according to value of work performed after the commencement of the construction works, ranging from 70% to 85% of the total value of the work performed as stipulated in the relevant construction contract (with exceptions as stated in the paragraph headed “Our business operations — Operating process — Project implementation phase — Progress billing to customers” in this section) and credit terms of up to three months are usually granted to our customers. In addition, such work progress shall be reviewed, inspected and certified by relevant professional parties engaged by our customers, which may cause further delay of receiving the first progress payment from our customers. The difference between the credit terms granted to our customers and those granted by our suppliers and subcontractors, coupled with the time required for assessing our completion progress by our customers and for making payment application as mentioned above, would result in net cash outflow. Accordingly, our Group’s working capital is generally tied up until we receive substantial progress payments from our customers and we generally have to fund our upfront expenditures by utilising our internal resources.

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In light of the above, it is imperative for our Group to adopt a prudent financial management strategy and to strive to maintain a robust liquidity position and a reasonable level of working capital buffer to support our current operation scale and anticipated business expansion. Further, it is also essential for our Group to maintain a healthy buffer at all times to maintain our Group's reputation in the PRC construction services industry, so as to allow our Group to capture potential business opportunities from time to time.

No third party payment

Save for the expenditure and project cost paid by our employees as reimbursement which is incidental to our ordinary course of business, our revenue and expenses were genuinely and directly settled by our customers or us, respectively, and not by or via any other third parties, including any connected person or related party of our Group during the Track Record Period. Where payment was made by our shareholders as our employees, the amounts are recorded as amounts due to related parties on the combined statements of financial position of our Group.

Contracting Models

Our construction contracting business mainly includes the following models:

- ***PC model***: under this model, we are responsible for the procurement of general equipment and materials for construction. In addition, we are in charge of the execution of the construction plan in accordance with the design plan and schedule provided by the project owner.
- ***EPC model***: under this model, depending on the terms of the contract, we cooperate with third party design institute before the construction begins and throughout the EPC projects to provide contracting services for either the entire project or for certain stages in the project including survey, design, procurement, construction, testing and commissioning of an engineering project, or any combination of the above. We are responsible to the project owner for the construction quality, safety and timely delivery and cost of the project.
- ***Specialised subcontracting model***: under this approach, the general contractor or project owner directly subcontract a portion of the project that requires specialised qualifications.

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The following table sets forth a breakdown of our revenue from construction contracts by construction contracting business models for the periods indicated:

	FY2019		FY2020		FY2021		3Q2021		3Q2022	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
PC model	1,634,568	90.1	1,565,974	88.9	1,285,054	70.8	929,097	70.4	994,282	73.1
EPC model	139,369	7.7	188,444	10.7	517,079	28.5	380,667	28.9	356,451	26.2
Specialised subcontracting model	42,049	2.2	6,788	0.4	11,997	0.7	9,110	0.7	9,504	0.7
Total revenue from construction contracts	1,815,986	100	1,761,206	100	1,814,130	100	1,318,874	100	1,360,237	100

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the contract value of our on-going construction projects contracted under EPC model amounting to approximately RMB528.2 million, RMB1,443.8 million, RMB1,396.3 million and RMB1,529.9 million, respectively. The increase in contract value of construction projects under EPC model in FY2020 was due to the effectiveness of EPC model to optimise costs and resources throughout the construction projects and our Group was awarded with three new projects under the EPC model in FY2020, in particular the Zhongtian Lutai* (中天·麓台) project which has a total contract sum (excluding VAT) of approximately RMB611.1 million. Our growth in the contract amount of construction projects under the EPC model representing a CAGR of approximately 30.5% throughout the Track Record Period, which was in line with the industry trend of approximately 30.2% from 2021 to 2025. The increment was mainly due to Zhongtian Lutai* (中天·麓台) project that recognised approximately RMB286.6 million in FY2021 compared to RMB57.4 million in FY2020. However, our Company has no present plan to focus on EPC model instead of PC model in the near future.

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Since November 2017, we have formed an alliance with Hangxiao Technology and Hunan Design Institute, a state-owned company established in the PRC to increase our chance to undertake projects under EPC model, by way of the entering into of the EPC Tripartite Framework Agreement. Summary of the material terms of our EPC Tripartite Framework Agreement with Hangxiao Technology and Hunan Design Institute regarding the joint development of prefabricated steel structure building system for residential properties under the EPC model is as follows:

Date of the EPC Tripartite Framework Agreement:	16 November 2017
Parties:	Hunan Design Institute, Hangxiao Technology and Zhongtian Construction. For details of Hangxiao Technology, please refer to the paragraph headed “Customers and suppliers — Overlapping of customers and suppliers” in this section and the section headed “History, Development and Reorganisation — Disposal of interests in Hangxiao Technology” in this document.
Nature of the EPC Tripartite Framework Agreement:	Separate specific agreements will be entered into for each project.
Term of the EPC Tripartite Framework Agreement:	Effective since 16 November 2017 until the expiry of the licence to use a series of patents relating to “Steel Structural Residential System” (鋼結構住宅體系) held by Hangxiao Technology on 30 May 2027. The licence to use a series of patents relating to “Steel Structural Residential System” (鋼結構住宅體系) as owned by Hangxiao Steel Structure was initially granted by Hangxiao Steel Structure to Zhongtian Construction pursuant to a cooperation agreement between Hangxiao Steel Structure and Zhongtian Construction dated 31 May 2017, which was subsequently amended by an agreement entered into among Hangxiao Steel Structure, Hangxiao Technology and Zhongtian Construction on 21 March 2018 (together, the “ Patent Licence Agreements ”), where the party being licensed to use a series of patents relating to “Steel Structural Residential System” (鋼結構住宅體系) as owned by Hangxiao Steel Structure was amended from Zhongtian Construction to Hangxiao Technology, as the patents in relation to the Patent Licence Agreements mainly involve the technologies for the design and manufacture of steel structure which is more relevant to the principal business of Hangxiao Technology and the licence to use those patents were transferred to Hangxiao Technology at the time when it commenced the design and manufacture of steel structure business.

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Scope of cooperation:

The parties to the EPC Tripartite Framework Agreement will utilise their respective strengths to jointly develop prefabricated steel structure building system for residential properties under the EPC model, whereby Hunan Design Institute shall be responsible for providing engineering services, while Hangxiao Technology shall be responsible for provision of prefabricated steel structure products and Zhongtian Construction shall be responsible for the construction works.

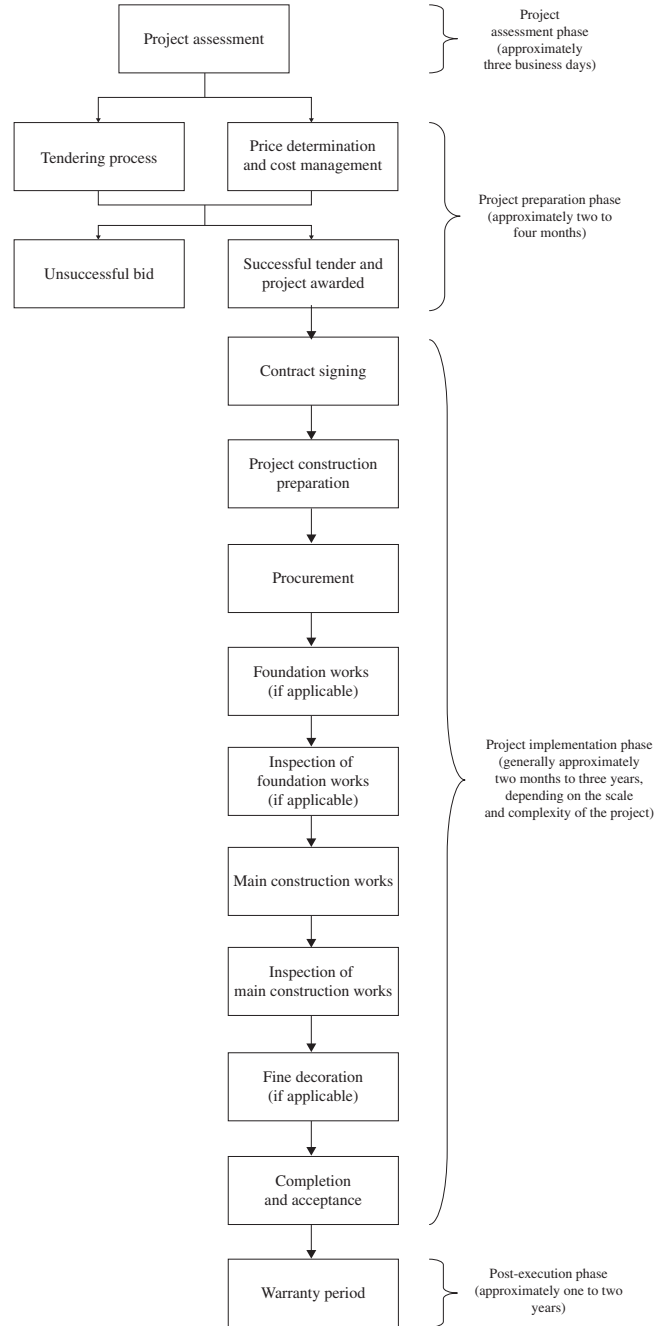
Hangxiao Steel Structure, one of the shareholders of Hangxiao Technology who was responsible for providing technical know-how and expertise for the business operation and development of Hangxiao Technology, has granted a licence to Hangxiao Technology to use a series of patents relating to “Steel Structural Residential System” (鋼結構住宅體系) as owned by Hangxiao Steel Structure pursuant to the Patent License Agreements. We contemplated to enter into the cooperation agreement with Hunan Design Institute and Hangxiao Technology at the time of establishing Hangxiao Technology in September 2017 in order to jointly develop prefabricated steel structure building system for residential properties under the EPC model by way of leveraging the engineering and design qualification possessed by Hunan Design Institute to provide comprehensive design services, as well as utilising the licence to use a series of patents relating to “Steel Structural Residential System” (鋼結構住宅體系) as held by Hangxiao Technology to provide prefabricated steel structure products.

During the Track Record Period, there was one project operated under the EPC Tripartite Framework Agreement.

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Operation Process

The following chart demonstrates the typical operation process of our business:



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Project assessment phase

Our market operation department makes efforts to identify and explore business opportunities. Please refer to the paragraph headed “Sales and Marketing” in this section for further details of our sales and marketing activities. To prepare tender submission proposal for construction projects, we will collect public and available information of construction projects from the government and the internet.

An internal assessment will be conducted to determine whether to undertake the potential construction project, taking into account various factors including technical requirements, commercial terms, estimated costs, location, availability and capacity of our resources and customer background. Generally, we are required to complete the project assessment within three business days.

Project preparation phase

Awards of our construction projects by our customers are generally by way of public tender or invitation to tender. Pursuant to the Bidding Law of the People’s Republic of China (中華人民共和國招標投標法) promulgated by the SCNPC on 30 August 1999 and amended on 27 December 2017, projects related to, among others, large-scale infrastructure, public utilities and other projects related to general public interests and public security must be awarded through tender. For details, please refer to the section headed “Regulatory Overview — Administration of tender and bid” in this document. The project preparation phase detailed as follows typically takes approximately two to four months.

Tendering process

When we determine to pursue and bid for the potential construction projects, we are required to prepare the tender submission proposal in accordance with requirements set out in the tender document through conducting detailed project analysis. We will carry out a comprehensive review on the technical and machinery requirements, payment terms and scope of work of the construction projects, as well as a detailed risk assessment and analysis on the customer. We will include estimates of costs and the construction work required for different aspects of the project in the tender submission proposal. Our market operation department will finalise the tender submission proposal and submit the document before the tender submission deadline.

Various departments are involved in the tendering process. For example, our market operation department will conduct a market analysis on the tendering, our technical quality department will evaluate the construction plan, which our finance department will ensure we have sufficient funding for the project.

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In FY2019, FY2020, FY2021 and 3Q2022, we submitted 114, 172, 102 and 179 tender documents, respectively, and the number of projects awarded to us were 32, 33, 26 and 19 respectively, and our tender success rates were approximately 28.1%, 19.2%, 25.5% and 10.6%, respectively. After the Track Record Period and up to the Latest Practicable Date, we submitted 56 tender documents, of which five projects were awarded to us and our tender success rate of the period was 8.9%. On a few occasions, we were engaged in several related projects and/or entered into multiple contracts with the same customer by way of one single tender. We believe that (i) the decrease in tender success rate from approximately 28.1% in FY2019 to approximately 19.2% in FY2020 was mainly because we were focusing on projects with larger contract sum in FY2020 compared to FY2019; (ii) the increase in tender success rate from approximately 19.2% in FY2020 to 25.5% in FY2021 was mainly because we are more selective in submitting tenders, and focus on quality instead of quantity of the tender proposals; and (iii) the decrease in tender success rate in 3Q2022 was due to our focus on projects with larger scale contract sum in 3Q2022 compared to 3Q2021.

Price determination and costs management

We determine the price quote for the tender process based on a number of factors, including the costs of raw materials, cost of machinery and equipment, subcontracting costs, labour costs, complexity of the construction and a mark-up.

Our construction contracts will be either on a fixed-unit-price or fixed-total-price basis. Our fixed-total-price contracts quote a fixed total contract value, which may include a price adjustment mechanism. Such price adjustment mechanism generally allows adjustment of price in the event that: (i) we experience major raw material price fluctuations of 3% to 5%; (ii) we are required to provide additional services; (iii) certain force majeure events occur; or (iv) policy adjustments take place. Our fixed-unit-price contracts contain fees to be determined by a unit price and actual amount of work performed. The total settlement price may be fixed or adjustable by negotiation with reference to a government-published price and market price.

We are exposed to cost fluctuations as a main contractor. In order to control our price risk, fixed-unit-price contracts, where the total price is adjustable, are preferred. We will accept and enter into fixed-total-price contracts if the scale of construction project is small or as requested by our customers. In this situation, we will try to negotiate to include a price adjustment mechanism in our fixed-total-price contracts.

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Project Implementation Phase

Contract Signing

For each of the construction project, we will enter into a construction contract with customer. The principal terms of construction contract typically include: (i) contract term; (ii) pricing and price adjustment; (iii) payment term; (iv) performance guarantee; (v) project delays and damages; (vi) subcontracting; (vii) breach of contract; (viii) compensation; and (ix) early termination. During the Track Record Period, other than the EPC Tripartite Framework Agreement, we did not have any other material long-term strategic cooperation agreement with our customers.

The following sets forth a summary of the principal terms of our typical construction contracts:

Contract term : Typically two months to three years, and depending on the scale and complexity of the construction project, the projects may extend beyond three years.

Pricing and price adjustment : Usually on a fixed-total-price basis or fixed-unit-price basis (i.e. final contract sum to be determined based on agreed unit rates and measurement of quantities of work done as well as the price adjustment mechanism provided in the contract).

Fixed-unit price contracts contain fees to be determined by a unit price and actual work performed, and the final settlement price may be fixed or adjustable by negotiation with reference to a government-published price.

If during the course of the project there is any material change in the scope of work (such as the work quantity, change in the timetable of the project or additional work is required as agreed by both parties), or in the cost of certain raw materials or labour costs, the price may be adjusted according to the schedule of rates which form part of the contract or a pre-determined formula based on the unit prices of the main raw materials and government price indexes where applicable. Supplemental agreements will be entered into between us and our customers to document the price adjustments.

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Payment term : During the project implementation phase, unless there are specific milestones stipulated in the relevant contracts, the progress billable amount is based on a progress billable percentage, generally ranging from 70% to 85%, of the total value of the work performed, as stipulated in the relevant construction contract (with exceptions as stated in the paragraph headed "Our business operations — Operating process — Project implementation phase — Progress billing to customers" in this section) .

If specific milestones are stipulated in the contracts, generally speaking, we are able to start billing at an agreed percentage, generally ranging from 70% to 85%, of the total value of work performed upon achieving the relevant milestone (with exceptions as stated in the paragraph headed "Our business operations — Operating process — Project implementation phase — Progress billing to customers" in this section) . The billable percentages may vary upon reaching different milestones and typical milestones stipulated in construction contracts include (i) the completion of the foundation works and/or the basement of the buildings; (ii) the completion of the main structure and/or the roofing of the buildings; and (iii) the removal of exterior frames of the buildings.

The total amount we are entitled to make billing to our customers (on an accumulative basis) is generally up to 95% to 97% of the final settlement value after the completion and acceptance (including the settlement audit).

Usually retention money of 3% to 5% of the final settlement value will be retained by our customers for a warranty period of one year to two years after the completion and acceptance of the project. The retention money is usually paid by our customers to us in instalments during the warranty period or paid in full after the warranty period.

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Subject to negotiation with our customers on a case-by-case basis, our Group may negotiate for an advance payment arrangement with our customer, under which our Group is given an advance payment which amounts to 10% to 30% of the contract value, payable by our customer upon entering into of the construction contract.

Performance guarantee : We may be required to pay performance guarantee in the form of a letter of guarantee or deposit of not exceeding 10% of the contract value or a specified amount stipulated in the construction contracting contract.

Customers are entitled to deduct or require the issuing bank to pay upon receiving a confirmation from the issuing bank if we fail to fulfil our obligations regarding project quality, project schedule and safety management set forth in the construction contracting contract.

The amount of performance deposits as at 31 December 2019, 2020 and 2021 and 30 September 2022 and the Latest Practicable Date was approximately RMB27.4 million, RMB25.5 million, RMB19.0 million, RMB14.7 million and RMB14.0 million, respectively. The amount of performance bonds issued by our bank(s) as at 31 December 2019, 2020 and 2021 and 30 September 2022 and the Latest Practicable Date was approximately RMB20.5 million, RMB12.5 million, nil, RMB2.5 million and RMB2.5 million, respectively.

Project delays and damages : If the project is delayed due to the customer's fault (e.g. providing the wrong blueprint, altering the scope of work, or causing delay in providing materials etc.), we are normally entitled to extend the construction period and/or increasing our fees. However, if the project is delayed due to other factors (e.g. delay due to occurrence of force majeure events), we are normally required to report to the customer and make arrangements to minimise the loss. In addition, we are usually entitled to an extension of time for completion of the contract works in such cases. The party that causes a delay in the project will be liable to pay liquidated damages as stipulated under the contract.

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Subcontracting : Depending on the scale and complexity of each project, we may be allowed to engage subcontractors to provide some of the specialised construction services required. Generally, we are required to inform and obtain approval from customers before we engage subcontractors. For details, please refer to the paragraph headed "Subcontracting" in this section.

Breach of Contract : Usually, customers will be deemed to have breached the contract if they (i) fail to provide us with prior notice of commencement of construction works within the timeframe as specified in the construction contract; (ii) delay in making payments without our prior consent; (iii) alter the scope of work without any prior agreement; (iv) in the event that the construction is temporary stopped, fail to provide us with a reasonable notice of returning to work; (v) fail to provide the materials in the agreed qualities, quantities and/or formulations; and/or (vi) express explicitly or by action not performing principal obligations under the contract.

Usually, we will be deemed to have breached the contract if we (i) fail to meet the agreed quality standard or fail to meet the inspection standard; (ii) cause delay in the construction works without any reasonable excuse; (iii) fail to meet the "Safe and civilised construction" standard under the PRC laws and regulations; and (iv) causing any accidents or quality incidents which incur losses to our customers or end users due to reasons attributable to us.

Compensation : Generally, the party in breach of contract is required to pay a fix amount of damages to the aggrieved party to compensate for its losses. In some cases, we may alternatively negotiate with our customers and enter into a separate agreement in relation to the compensation amount and settlement matters.

Bonus : For a limited number of projects, specific conditional bonus was stipulated in the contract, which can be broadly categorised into targeted award bonus and targeted project schedule bonus.

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Early termination : Generally, it may be early terminated: (i) by mutual agreement between parties; (ii) by us in the event that the customer delays payment without prior agreement to extend the payment schedule, and such delays have not been rectified within the timeframe as specified in the construction contract; (iii) by the customer in the event that we subcontract the construction work in whole or in part without prior approval from the customer; (iv) by any party due to a breach by the other party which prevents the performance of the contract; or (v) upon the occurrence of a force majeure event. In such an event, the customer shall settle all outstanding payments including compensation to us, and all remaining construction works will cease and performance guarantee will be released.

Apart from pre-agreed bonus as discussed above, there might also be discretionary bonus granted to us by our customers which is not stipulated in the terms of the contracts. However, as confirmed by our Directors, we did not receive any pre-agreed bonus nor discretionary bonus from our customers during the Track Record Period.

Project Construction Preparation

Upon execution of the construction contract, we will establish a project management team with an assigned project manager. Members of our project management team normally include project manager, site manager, technical manager, quality manager and safety manager, project accountant, material manager and data officer. The project management team members will be responsible for the construction, inspection, safety, quality control, procurement of raw material, machinery and equipment, and other general administrative works related to the construction project. We will formulate a work plan for each construction project we undertake. Such plan would include setting management milestones, thereby dividing the project into various stages, which we would estimate the time required for the project and arrange to make plan for procurement of raw materials and equipment and manpower accordingly.

For projects adopting the EPC contracting models, we may cooperate with third-party design institutes to formulate the construction blueprint and design plan before the construction begins.

Depending on the scale and complexity of the construction project, we may arrange to engage third parties to provide labour services and certain specialised subcontracting services. Please refer to the paragraph headed “Raw Materials, Machinery and Equipment and Suppliers — Subcontracting” in this section for further details.

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Procurement

Our work safety, procurement and subcontracting department and cost and contract department are responsible for procuring the raw materials and equipment required under our construction projects. For details of our procurement from suppliers, please refer to the paragraph headed "Raw Materials, Machinery and Equipment and Suppliers — Suppliers" in this section.

Progress billing to customers

Generally, according to the construction contracts entered into between our Group and the customers, we are entitled to bill the customers based on the following:

- (i) During the project implementation phase, unless there are specific milestones stipulated in the relevant contracts, the progress billable amount is based on a progress billable percentage, generally ranging from 70% to 85%, of the total value of the work performed, as stipulated in the relevant construction contract.
- (ii) If specific milestones are stipulated in the contracts, generally speaking, we are able to start billing at an agreed percentage, generally ranging from 70% to 85%, of the total value of work performed upon achieving the relevant milestone. The billable percentages may vary upon reaching different milestones and typical milestones stipulated in construction contracts include (i) the completion of the foundation works and/or the basement of the buildings; (ii) the completion of the main structure and/or the roofing of the buildings; and (iii) the removal of exterior frames of the buildings.
- (iii) After the completion and acceptance (including the settlement audit), the total billing amount that we are entitled to make billing to our customers (on an accumulative basis) is generally up to 95% to 97% of the final settlement value (i.e. the finalised total value of work after the settlement audit). The remaining 3% to 5% will be retained by our customers as retention money for a warranty period which generally lasts for one year to two years after the completion and acceptance of the project.

It is the general case that the construction projects undertaken by our Group normally have a range of 70% to 85% progress billable percentage. According to the F&S Report, the percentage of performed work that can be billed to customers out of all work performed before settlement audit is comparable to those of our industry peers and our Group's billing process and the timing of billing were comparable to those of our industry peers on the basis that (i) payments for the construction services are generally made upon achieving key milestones set forth in the

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construction services contracts; and (ii) the industry peers are generally entitled to bill the customers 50% to 90% of the total amounts of the work performed during the performance of the construction works before the settlement audit.

According to Hunan Engineering Management Society, there will be different progress billable percentages for construction projects of different types and in different regions. When facing customers with strong bargaining power, such as large enterprises, state-owned enterprises or government-related customers and those involving in landmark projects, construction companies are generally willing to accept special payment terms (for example, little prepayment or with lower progress billable percentages) and agree to bear large upfront costs in a bid to participate in large-scale or landmark projects, which is common and reasonable in the construction industry in the PRC.

Thus, our Directors are of the view that the payment terms of our Group's projects were reasonable and in line with those adopted by our industry peers.

Further, according to the F&S Report, attributed to the potential benefits that a construction company can enjoy by undertaking such projects, it is common (i) for landmark projects to have relatively special payment terms (including little prepayment or with lower progress billable percentages); and (ii) for PRC construction companies, which have sufficient cashflow, experience, manpower and expertise, to undertake such projects.

Reasons that we accepted projects with special payment terms

There are certain occasions that may lead to our Group undertaking some projects with special payment terms with substantial upfront project cost to be incurred with little or no prepayment or progress payment from the customer in the early stage of the project or with lower progress billable percentages.

Since the shares of Zhongtian Construction became quoted on the NEEQ in 2017, the business of our Group has entered into a rapid development stage and we would like to attain further growth by gaining better reputation and more experience through undertaking more large-scale or landmark projects so as to enhance our bargaining power in the future.

Therefore, for some relatively large-scale public infrastructure projects or landmark building construction projects, we may undertake these projects even if the construction project stipulated some special payment terms (i.e. substantial upfront project cost to be incurred with little or no prepayment or progress payment from the customer in the early stage of the project or with lower progress billable percentages) after considering, among other things, (i) the benefit to our reputation and market position after undertaking the projects; (ii) the expected profitability to the

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project; and (iii) the impact to the financial and liquidity position of our Group. Below are some projects with special circumstances that our Group experienced special payment terms during the Track Record Period:

Special circumstances of Yueyang Wangjia River Improvement Work (岳陽王家河治理工程) project*

Yueyang Wangjia River Improvement Work* (岳陽王家河治理工程) project concerned a relatively large-scale public infrastructure with a total contract sum (exclude VAT) of approximately RMB61.0 million and we were being engaged before the Track Record Period more than ten years ago in 2012 where we were at an earlier stage of development. Despite its prolonged billing schedule, our Group negotiated with the customer of Yueyang Wangjia River Improvement Work* (岳陽王家河治理工程) project, and received from it early payment of approximately RMB14.9 million up to 31 December 2017, representing approximately 24.4% of the contract sum. The overall project was profitable. The settlement audit was also completed on 9 February 2021 with no adjustment on the accumulated revenue recognised and 93.2% of the total settlement sum has been settled by this customer. Our Directors considered that as (i) this particular project brought favourable results to us by enriching our credentials in large-scale public infrastructure projects; and (ii) the prolonged billing schedule did not negatively affect our on-going business development and performance, it is reasonable to agree to incur such a substantial amount of contract costs with little prepayment before the first payment milestone from the customer.

Our Directors confirmed that the customer of Yueyang Wangjia River Improvement Work* (岳陽王家河治理工程) project is an Independent Third Party and the contract terms were determined after arms' length negotiation between our Group and this customer.

Special circumstances of Langting Lanjiang Main Structure (朗廷•覽江) project*

The Langting Lanjiang Main Structure* (朗廷•覽江) project is a project for the construction of a building with a total of 47 storeys and a height of 170 metres. It was considered as a landmark project and was recognised by the Zhuzhou Association of Construction Industry (株洲市建築業協會) in April 2020 as the tallest construction-in-progress building in Zhuzhou. For this project, we were entitled to make a series of progress billing upon reaching the agreed project milestones as stipulated in the construction contract. The first milestone of the project is the completion of 15 storeys of the main structure of the buildings including completing its foundation work. Only after reaching this milestone, we were entitled to bill 50% of the total value of work performed, while the progress billable percentage is lower than the general billing terms of

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70-85% of the total value of work performed. However, we negotiated for and received an early payment of approximately RMB21.7 million, representing approximately 15.9% of the original contract sum, at the early stage of the project up to March 2019.

Since the shares of Zhongtian Construction became quoted on the NEEQ in 2017, our business entered a rapid development stage. Despite the special billing schedule, having considered that (i) Langting Lanjiang Main Structure* (朗廷•覽江) project as a landmark project which could greatly enhance our reputation and would be a precious opportunity for us to demonstrate our capability in order to attract more business opportunities in the future; (ii) the expected gross profit margin of the Langting Lanjiang Main Structure* (朗廷•覽江) project; (iii) our then cashflow position; and (iv) our increasing experience and capability to undertake this sizeable project, our Directors are of the view that it is in the interest of our Group to undertake the project in spite of its special billing terms.

In light of the above, our Directors considered that it is reasonable for a construction contractor to agree to incur such a substantial amount of contract costs before the first payment milestone given that (i) our Group received early payment of approximately RMB21.7 million, representing approximately 15.9% of the original contract sum and (ii) there is sufficient cashflow; and (iii) it is probable that such project will bring along abundant benefits to our Group.

Our Directors confirmed that Langting Real Estate (the customer of Langting Lanjiang Main Structure* (朗廷•覽江) project) is an Independent Third Party and the contract terms were determined after arms' length negotiation between our Group and Langting Real Estate.

Corporate governance measures for assessing future construction projects

To enhance corporate governance measures for assessing future construction projects and to ensure the financial impacts have been taken due consideration before undertaking projects with special payment terms (i.e. with substantial upfront project cost to be incurred with minimal or no prepayment or progress payment from the customer in the early stage of the project), we have adopted the following governance measures for assessing the payment terms of construction projects.

When there are potential construction projects with special payment terms or relatively high risk, a tender assessment committee comprising the persons-in-charge of the market operation department, cost and contract department, finance department, legal department, etc. of our Group will consider whether we should proceed with such project after weighing in various factors including, (i) whether the project is a landmark building or large-scale municipal projects that could enhance our profile and hence attract more business opportunities in the future; (ii) the creditability and the repayment ability of the customer; (iii) the potential impact of the project on

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the cashflow and financial position of our Group; (iv) estimated costs and profitability of the project; and (v) availability and capacity of our resources. We would only enter into such construction contracts only if it has obtained unanimous approval by the members of the tender assessment committee.

Accordingly, during the Track Record Period, as we incur material costs and subcontracting costs during the initial stage of some projects, we experience a net cash outflow before reaching the milestone that we were entitled to bill our customers. According to the F&S Report, it is common for construction contracts to include several prescribed milestones in the PRC construction industry and thus leading to main contractors usually has a net cash outflow at the initial stage of construction projects.

Project Construction and Ongoing Inspection

For building construction projects, the construction process typically involves (i) foundation works, (ii) main construction works, and/or (iii) fine decoration. Typically, the foundation works would include earthwork, pile foundation works, while main construction works would include formwork, reinforcement works, concrete works, masonry works, mechanical and electrical works and ancillary works. We have adopted project management and control procedures and carried out our construction works in accordance with such procedures.

For construction projects involving construction of urban roads which typically include roadbed drainage works, subgrade excavation, subgrade filling and subgrade completion, the construction process typically starts with roadbed construction, followed by road base construction, pavement construction, road accessory works and facilities. We have adopted project management and control procedures and carried out our construction works in accordance with such procedures.

Depending on the respective project duration, we generally formulate construction schedules and report the progress to customers on a monthly basis.

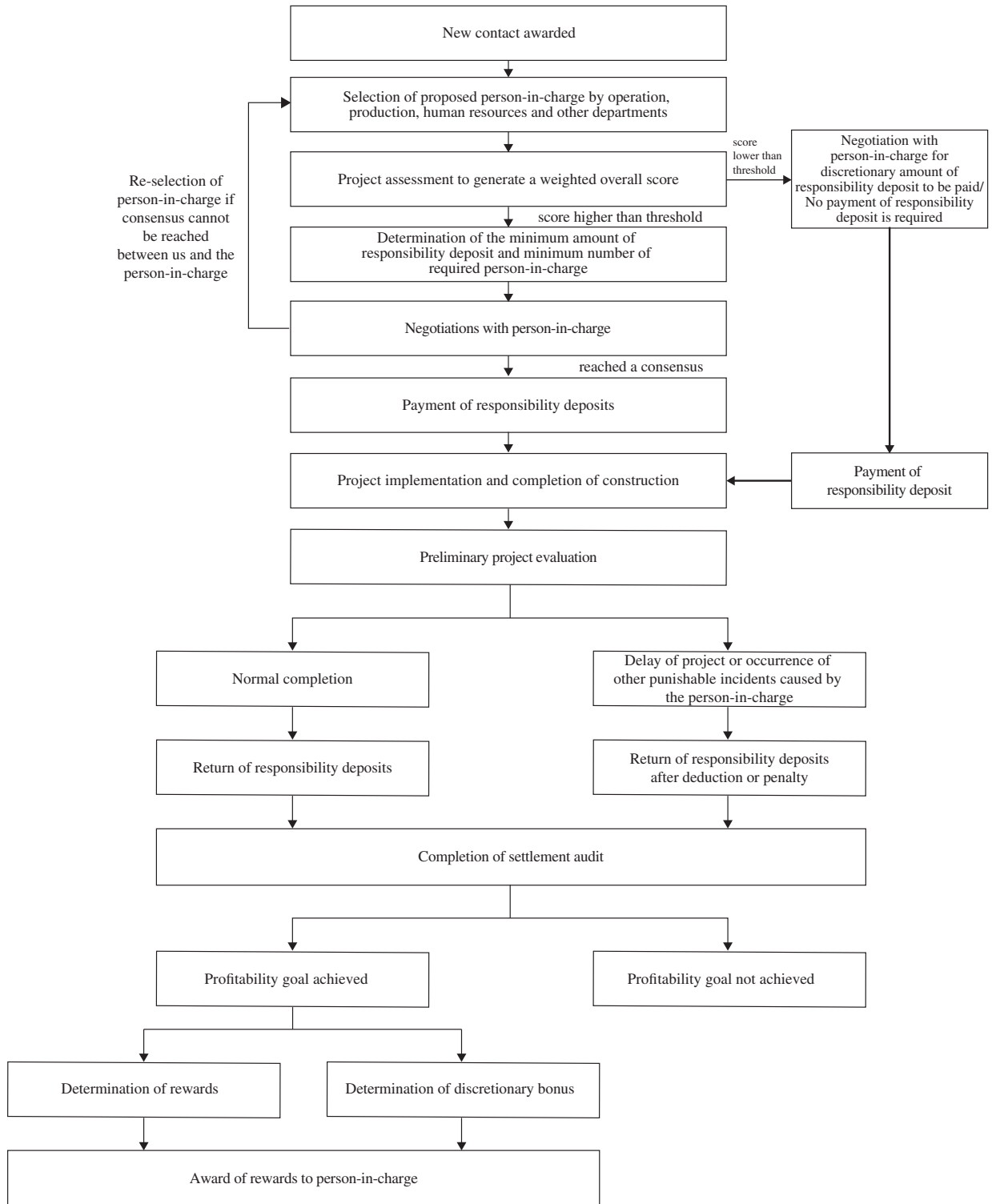
Project Management

Project management responsibility system

Since the shares of Zhongtian Construction were quoted on the NEEQ in 2017, our business had been growing rapidly and the number of our construction projects had increased. In light of the growing business scale, to enhance the accountability of the persons-in-charge of the construction projects and in line with the industry practice, we had put in place a project management responsibility system for better monitoring of our construction projects.

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The following chart demonstrates the typical operation flow of our project management responsibility system:



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Project assessment

We assess each project individually in determining whether a project should be managed under the project management responsibility system. We adopt a scoring system taking into account the factors below and generate a weighted overall score for each project:

- (i) **Technicality of the project** — Technicality consideration includes scale, duration, features, specific technical requirements and difficulties of the project, which are the most crucial factors that may affect the profitability and risk management of a project. We rely on the technical report prepared by our senior engineer with first class registered constructor qualification that is independent of the relevant construction project, which in general will highlight the technicality considerations of the project and identify the concerned areas that need to be handled by the person(s)-in-charge. The technical report will also be reviewed by our another senior engineer and further confirmed by our general manager. The higher the technical requirement of a project, and the higher the risk exposed to us, therefore, the more likely that the project would be managed under the project management responsibility system.
- (ii) **Competence of the person-in-charge** — our operation, production and human resources departments will jointly select suitable employee from the project management department, to take up the role of a person-in-charge. We will consider both the employee's project management experience in our Group and the employee's prior performance to determine his/her competence. For example, if the proposed person-in-charge is less experienced or has an average performance record, the weighted overall score will be higher and the project is more likely to be managed under the project management responsibility system.
- (iii) **Other considerations** — our deputy general manager, who is the head of the market operation team, will also assess other commercial parameters of the project, including but not limited to, other special terms of the project and favourability of the payment schedule as stipulated in the construction contract.

The weighted overall score would be generated based on the above factors to determine (i) whether the project should be managed under the project management responsibility system; and (ii) the minimum amount of responsibility deposits and the minimum number of person(s)-in-charge we require for the project.

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As at 31 December 2019, 2020 and 2021 and 30 September 2022, 40.0%, 42.6%, 38.4% and 32.9% of our projects (in terms of numbers) and 70.4%, 74.8%, 66.7% and 55.9% of our projects (in terms of contract sum), respectively, are managed under the project management responsibility system.

Negotiation with person(s)-in-charge

After project assessment, we would negotiate the amount of the responsibility deposits to be placed with each of the person(s)-in-charge, which should not be lower than the required minimum responsibility deposits level based on the corresponding weighted overall score. The higher the weighted overall score, the higher the minimum responsibility deposits level would be required for the project to be fulfilled by the person(s)-in-charge in that project. In any event, the total amount of responsibility deposits paid should be less than 10% of the contract sum of a project. In the case where such weighted overall score is less than a certain level, responsibility deposit is not strictly required for such project.

We would conduct commercial negotiation with the proposed person(s)-in-charge and allow him/her to decide whether he/she would participate in the responsibility deposit arrangement and the amount he/she is willing to place as responsibility deposits of that project. During the Track Record Period, the actual responsibility deposits paid by the relevant person(s)-in-charge was less than 6% with an average of 1.0% of the original contract sum of the relevant project.

If consensus could not be reached, we would go through the person-in-charge selection and the project assessment process again.

During the Track Record Period, depending on the availability and capacity of the person-in-charge, each person-in-charge may be responsible for more than one project and each project may have more than one person-in-charge.

Payment of responsibility deposits

Upon reaching consensus with the person-in-charge on the amount of responsibility deposits, we discuss the payment term of the responsibility deposits with the person-in-charge during the commercial negotiation and generally the responsibility deposits were paid in full or by instalment during the Track Record Period. As confirmed by the person(s)-in-charge, the responsibility deposit was settled by the financial resources of the person(s)-in-charge and their respective family without financing from our Group. Our Directors confirmed that except for the salary, bonus and other fringe benefits paid to the person(s)-in-charge, we had not provided financing by any means to the person(s)-in-charge to pay the responsibility deposits.

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Preliminary project evaluation and return of responsibility deposits

Under the project management responsibility system, we incentivise the person(s)-in-charge who has placed responsibility deposits to us and has assisted us in achieving outstanding performance in the project by giving rewards to the person(s)-in-charge. We maintain a logbook to evaluate the status of projects that are managed under the project management responsibility system, including whether the project can achieve the prescribed goals and to calculate how much rewards to be awarded to or penalty to be deducted from the person(s)-in-charge. Generally, we will perform preliminary evaluation at the time of completion of the construction of the project and final evaluation after the settlement audit of the project and update the logbook accordingly.

Generally, the responsibility deposits would be returned to the person(s)-in-charge of the construction project in full (subject to the adjustment in accordance with the penalty mechanism and hence the amount being deducted) after the completion of the construction of the project. To serve as a protection, the responsibility deposit paid by the person(s)-in-charge will be subject to deduction as penalty in case of a delay of project schedule caused by the person(s)-in-charge or any quality or safety issue caused by the person(s)-in-charge. During the Track Record Period, as confirmed by the Directors, no punishable incident has occurred in any completed project managed under the project management responsibility system. Thus, no penalty was deducted from the responsibility deposits returned to the persons-in-charge.

Final project evaluation for determination and payment of reward

The final project evaluation is mainly based on the profitability. We would set a targeted profit margin for each of our projects (the “**Profit Margin Floor**”). The portion of actual profit (calculated from the actual profit margin that exceeding the Profit Margin Floor of that project) will be awarded to the persons-in-charge. Where there is more than one persons-in-charge in a project, the reward will generally be shared among the persons-in-charge in the project in proportion to the amount of responsibility deposits they placed. In addition, we will evaluate the individual performance of each person-in-charge in that project based on objective parameters, including but not limited to, the level of construction quality, degree of project safety, job competence and project efficiency, to compute the final rewards to each person-in-charge. Discretionary bonus may also be granted to the persons-in-charge who have outstanding performance in the project.

The reward for each project is finalised and paid to the persons-in-charge only after the completion of the settlement audit and that the contract assets (other than the retention money) and trade receivables due from the customer for the respective project is received. Such timing of the reward payment is to ensure that the project revenue and costs up to the stage of settlement audit are taken into account (including bad debt, if any) in finalising the amount of reward to

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employees, and to ensure a fair reward mechanism for our Group and for all employees involved. Therefore, our Directors are of the view that it is reasonable (i) that no reward is granted by our Group for projects that has completed construction but the settlement audits process has yet to be completed; and (ii) for our Group to take a few years to grant the relevant rewards to the respective persons-in-charge when those projects take a long time to complete settlement audit.

Project management responsibility system as industry practices

According to F&S, it is common for construction companies in the PRC to secure responsibility deposits from the person(s)-in-charge. Payment of responsibility deposits is part of the job expectation for our employees to take up the role as the person(s)-in-charge of the respective construction projects and such arrangement was in line with the industry practice.

According to F&S, based on the interviews conducted with industry peers, including five major unlisted construction companies headquartered in Hunan Province and five listed construction companies, and review of publicly available documents issued by the industry peers, it is common for construction companies in the PRC to secure responsibility deposits from person(s)-in-charge of the construction project and the project management responsibility system adopted by the industry peers share the features below:

Amount of responsibility deposits: Varies from project to project and generally represents less than 10% of the contract sum

Basis of determination of the amount of responsibility deposits:

- (i) the amount of responsibility deposits placed varies from project to project based on different attributes, such as technicality, project scale and competence of the person-in-charge; and
- (ii) the remuneration of the respective employee may not be the key consideration in determining the amount of responsibility deposit and the rewards under the project management responsibility system.

Timing for repayment of responsibility deposits and rewards: For responsibility deposits, generally repaid after completion of the construction.

For the rewards, generally awarded after the completion of the settlement audit and some may be awarded after the contract assets (other than retention money) and trade receivables is received, which may take up to several years.

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Reward mechanism: The amount of rewards under the project management responsibility system is determined mainly with reference to, among others, the profitability of the said project.

The range of percentage of rewards to the responsibility deposits paid are generally between 0.1% and up to 150% of the responsibility deposits paid.

Based on the above comparison between our Group and the industry peers, F&S is of the opinion that the amount and duration of the responsibility deposits, the amount of rewards of our project management responsibility system and the determination of rewards to the persons-in-charge, are generally in line with the industry practice for the following reasons:

- (a) the amount of responsibility deposits paid by the employees of our Group was less than 6% with an average of 1.0% of the contract sum of the relevant project, which is within the benchmark generally adopted by the industry peers, being less than 10% of the contract sum;
- (b) the timing for return of responsibility deposits of our Group is similar to those of the industry peers which is after the completion of the construction and may take several years since the responsibility deposits were paid by the employees of our Group, and the relevant rewards of our Group will be paid after the settlement and it is completed and that the contract assets (other than retention money) and trade receivables is received;
- (c) the actual rewards granted and the anticipated rewards to be granted by our Group for each person-in-charge for each project completed as at 30 September 2022 (including those that completed settlement audit and in settlement audit process) ranged from 0.4% to 64.6% of the responsibility deposits balance contributed by the corresponding person-in-charge as at 30 September 2022, and was within the range of industry peers that from 0.1% to up to 150%; and
- (d) the determination of reward to person(s)-in-charge depends on the commercial judgment and decision of each company and may vary among the industry peers. Our determination of reward to the person(s)-in-charge under the project management responsibility system mainly based on the profitability of the projects is comparable with some industry peers.

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Commercial rationale for our Group to adopt the project management responsibility system

We believe the project management responsibility system can align the interests of person(s)-in-charge of the construction project and the project management teams with that of our Group and provide our key personnel with the incentive for a better performance in our construction projects while we can be benefited from the overall higher performance achieved.

The project management responsibility system is commercially justifiable from our perspective because:

- (a) according to F&S and Hunan Engineering Management Society, the arrangement is in line with the industry practice for the person(s)-in-charge of the construction project to provide financial security in the event of any default in the construction process and outcomes;
- (b) it can provide quality assurance to us. If we fail to adhere to the standards and requirements stipulated in the construction contracts, additional capital, manpower, time and other resources may be incurred to rectify the defects. The arrangement can align the interest of our employees to that of ours. When our employees are motivated to achieve the prescribed goals, we will benefit from better project performance in terms of quality of works and accumulate reputation in the construction industry;
- (c) it can provide performance security to us. In case of any project delay caused by us or our employee, we may be required to make compensation to the customers for their losses. Further, any delay in achieving key milestones of a construction project or completing a construction project could result in a delay or a reduction of payment of the contract value by the customers and hence adversely affect our cash flow. The arrangement can align the interest of the employees to that of ours. When the employees are motivated to achieve the prescribed goals, we will benefit from better assurance in terms of project progress and accumulate reputation in the construction industry;
- (d) it can increase the awareness of occupational health and safety in the construction site. Construction sites are potentially dangerous workplaces and any equipment failure or, industrial accidents would cause personal injuries and fatalities. If any such accident is caused by the negligence or fault of our employees, it may result in disciplinary action by the local government and work safety related claims or legal proceedings against us. The arrangement can align the interest of the employees to that of ours. The project management responsibility system can help reduce the number of workplace injuries and fatalities by emphasising occupational safety during the construction process; and

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- (e) further to paragraphs (b) to (d) above, coupled with the fact that we would generally have to manage more than 100 on-going projects across multiple provinces by different persons-in-charge at the same time with contract sum of the largest projects up to RMB600-700 million, it is desirable for us to manage the risk of certain projects by the project management responsibility system, in addition to our general quality control procedures. For further details, please refer to the paragraph headed “Business — Quality control and management” in this document.

Commercial rationale for the persons-in-charge to participate in the project management responsibility system

To the best knowledge of our Directors, many of our employees are ambitious and willing to contribute and pay full effort in the companies they worked for in exchange for opportunities to be in-charge of sizable and notable projects and seize career advancement opportunity. Therefore, we believe that the relevant employees who would like to develop their career in the construction industry and gain the opportunity and experience to be in-charge of sizable and notable projects are willing to participate in our project management responsibility system and place responsibility deposits. In addition, according to F&S, it is common for construction companies in the PRC to secure responsibility deposits from the person(s)-in-charge. Payment of responsibility deposits is part of the job expectation for an employee to take up the role as the person(s)-in-charge of the respective construction projects in many construction companies in the PRC and such arrangement was in line with the industry practice. F&S is of the view that the participation in the project management responsibility system as requested by the relevant construction companies is common and important for employees who seek to lead or manage major construction projects.

The responsibility deposits would be returned to the persons-in-charge in full when the project is completed if no punishable incident occurred such as delay occurred in the projects that is caused by the person(s)-in-charge. During the Track Record Period, there is no deduction of responsibility deposits as no incident that caused delay in the completion of the relevant projects or prejudiced any quality and safety issue related to the person-in-charge has occurred. For some of the projects with responsibility deposits in place during the Track Record Period, the rewards or anticipated rewards are substantial as compared to the responsibility deposits they placed to us. Please refer to the paragraph headed “Operation process — Project implementation phase — Project management responsibility system — Financial analysis of the project management responsibility system — Rewards to the persons-in-charge” in this document. In comparison, investment in the financial market does not necessarily yield a high return at an acceptable risk. For example, the MSCI China Total Return Index, which measures the performance of global Chinese companies including large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs) in a net total return form (i.e. reinvestment of net dividend payout into the index portfolio), has experienced significant

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fluctuation and yet recorded very low or negative investment return from a negative 29.4% to 1.3% from 2017 to 2021. The three-year RMB benchmark deposit interest rates published by the People's Bank of China was only 2.75% per annum during the period from 2017 to 2021. It is reasonable for the persons-in-charge to devote their financial resources in the project management responsibility system, which they have certain degree of influence in the rewards, rather than in other saving or investment options which might have a low or even negative return, or with significant fluctuation.

Nonetheless, it is the person-in-charge's personal informed decision to participate in the project management responsibility system after considering his/her personal capability, affordability, risk to be involved and anticipated return from the relevant project.

Financial analysis of the project management responsibility system

Responsibility deposits received

As at 31 December 2019, a total of 70 persons-in-charge placed responsibility deposits for 71 projects. The responsibility deposits paid for each project ranged from RMB2,000 to RMB2.4 million, with an average of approximately RMB454,000, whereas the responsibility deposits placed by each person-in-charge ranged from RMB5,000 to RMB1.9 million, with an average of approximately RMB461,000.

As at 31 December 2020, a total of 75 persons-in-charge placed responsibility deposits for 50 projects. The responsibility deposits paid for each project ranged from RMB18,000 to RMB2.6 million, with an average of approximately RMB728,000, whereas the responsibility deposits placed by each person-in-charge ranged from RMB4,000 to RMB2.5 million, with an average of approximately RMB485,000.

As at 31 December 2021, a total of 76 persons-in-charge placed responsibility deposits for 44 projects. The responsibility deposits paid for each project ranged from RMB18,000 to RMB3.9 million, with an average of approximately RMB791,000, whereas the responsibility deposits placed by each person-in-charge ranged from RMB10,000 to RMB3.3 million, with an average of approximately RMB458,000.

As at 30 September 2022, a total of 59 persons-in-charge placed responsibility deposits for 33 projects. The responsibility deposits paid for each project ranged from RMB31,000 to RMB3.9 million, with an average of approximately RMB766,000, whereas the responsibility deposits placed by each person-in-charge ranged from RMB10,000 to RMB1.9 million, with an average of approximately RMB428,000.

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The following table sets forth the breakdown of ranges of responsibility deposits per project and per person-in-charge by bands as at the dates indicated:

Range	Per project				Per person-in-charge			
	As at 31 December			As at 30 September	As at 31 December			As at 30 September
	2019	2020	2021	2022	2019	2020	2021	2022
Less than RMB400,000	43	20	19	12	41	45	49	37
RMB400,000 to RMB799,999	14	11	8	8	15	14	11	10
RMB800,000 or above	14	19	14	13	14	16	15	12
Total	<u>71</u>	<u>50</u>	<u>44</u>	<u>33</u>	<u>70</u>	<u>75</u>	<u>76</u>	<u>59</u>

Note: Responsibility deposits of a project may be contributed by more than one persons-in-charge, one person-in-charge may also contribute responsibility deposits in multiple projects, therefore the amount of responsibility deposits per project is not equivalent to the amount of responsibility deposits per person-in-charge.

The range of annual remunerations of the relevant persons-in-charge was approximately RMB96,000 to RMB240,000. Despite the responsibility deposits paid by the person(s)-in-charge was higher than their annual salary level, our Directors considered that it is reasonable because (i) the deposit placed by the employee is based on commercial negotiation after taking into account their own capability to afford the deposit amounts; and (ii) affordability is not solely dependent on the employee’s annual salary level, but also on the overall net worth from other sources including investment returns, family wealth and accumulated savings.

As at 31 December 2019, 2020 and 2021 and 30 September 2022, the ageing analysis of responsibility deposits based on receipt date is as follows:

	As at 31 December			As at 30 September
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current year	9,309	25,249	11,905	4,280
1–2 years	8,466	5,233	17,391	8,927
2–3 years	13,748	3,075	3,151	8,799
3–4 years	730	2,116	973	2,523
Over 4 years	—	730	1,400	741
Responsibility deposits received	<u>32,253</u>	<u>36,402</u>	<u>34,820</u>	<u>25,270</u>

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Most of the responsibility deposits received as at 31 December 2019 aged within three years, with only approximately RMB0.7 million aged more than three years. While for the responsibility deposits received as at 31 December 2020, 31 December 2021 and 30 September 2022, approximately RMB2.8 million, RMB2.4 million and RMB3.3 million respectively aged more than three years remains relatively stable. The increment in the balance from 31 December 2019 was mainly due to fact that some large-scale projects lasted for more than two years.

The table below shows the movement of the balance of responsibility deposits for each of the years/period comprising the Track Record Period:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance as at 1 January	26,800	32,253	36,402	34,820
Add:	11,438	17,053	9,312	—
Less:	(5,985)	(12,904)	(10,894)	(9,550)
Closing balance as at 31 December/ 30 September.	32,253	36,402	34,820	25,270
Net responsibility deposits inflow/ (outflow) during the year/period . . .	5,453	4,149	(1,582)	(9,550)

Our Directors considered that the amount of responsibility deposits was not significant to our working capital sufficiency and our Group will not face any liquidity problem without such responsibility deposits for the following reasons:

- (i) the responsibility deposits paid was on a rolling basis. We receive responsibility deposits from our persons-in-charges from time to time and return to them after completion of the construction of the project. The balance of responsibility deposits of approximately RMB25.3 million as at 30 September 2022 was the cumulative result of the receipt and payment of responsibility deposits over several years rather than the receipt in one single year. On the other hand, the gross operating cash outflow of our Group amounted to over approximately RMB1.6 billion for 3Q2022 and the balance of responsibility deposits as at 30 September 2022 only accounts for less than 2% of such cash outflow. Thus, the amount of responsibility deposit does not have any material effect on our cashflow even if it is considered as our “source of financing”;
- (ii) the average cash and cash equivalents balances as at each quarter-end date were RMB59.2 million, RMB75.4 million, RMB60.8 million and RMB76.8 million, respectively, for FY2019, FY2020, FY2021 and 3Q2022. It is respectfully submitted that the net responsibility deposits inflow/(outflow) only represented approximately 9.2%, 5.5%, (2.6)% and (12.4)% of the average quarter-end cash and cash equivalents during

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the respectively years. Our Directors considered that the retaining of responsibility deposits does not have any material impact on the working capital sufficiency of our Group during the Track Record Period; and

- (iii) the capability of our Group to secure bank borrowings was substantiated by the fact that our Group had bank and other borrowing of approximately RMB142.8 million as at 30 September 2022.

Rewards to the persons-in-charge

During the Track Record Period, a total of 85 projects under the project management responsibility system have completed construction as at 30 September 2022. Among them, 60 projects have completed settlement audit, out of which 47 projects have achieved the profitability goal.

There are in total 52 persons-in-charge placed responsibility deposits for these 47 projects that have achieved the profitability goal, and the total amount of responsibility deposits paid for the 47 projects that have achieved the profitability goal of approximately RMB28.3 million. The relevant amount paid by each of these 52 persons-in-charge ranged from approximately RMB2,000 to RMB1.9 million with an average of approximately RMB429,000. The total rewards awarded to these 52 persons-in-charge amounted to approximately RMB1.6 million during the Track Record Period and the range of rewards was from RMB430 to RMB103,320. The per annum return for each of these 52 persons-in-charge as a percentage of the responsibility deposits placed for each of them ranged from approximately 0.1% to 16.1%.

The table below sets forth the distribution of rewards awarded to and the per annum return accrued of the relevant 52 persons-in-charge by bands in terms of the corresponding responsibility deposits placed by them:

Amount of responsibility deposit	Amount of rewards				Per annum return				
	RMB20,000			Total number of persons- in-charge	RMB2,000			RMB6,000 to RMB10,000 or above	Total number of persons- in-charge
	Less than RMB20,000	to RMB59,999	RMB60,000 or above		Less than RMB2,000	to RMB5,999	to RMB9,999		
Less than RMB400,000	14	12	3	29	7	9	4	9	29
RMB400,000 to RMB799,999	3	3	2	8	1	3	2	2	8
RMB800,000 or above	4	9	2	15	2	3	6	4	15
Total number of persons-in-charge.	<u>21</u>	<u>24</u>	<u>7</u>	<u>52</u>	<u>10</u>	<u>15</u>	<u>12</u>	<u>15</u>	<u>52</u>

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While the final project evaluation is mainly based on the profitability, project scale is one of the factors affecting the absolute amount of actual profit, hence the potential rewards awarded by our Group. The average reward awarded to the 52 persons-in-charge during the Track Record Period was approximately RMB31,000. Such amount of reward is not significant mainly because the scale of those projects with reward awarded is generally smaller than the other on-going projects under the responsibility deposits arrangement in terms of the project original contract sum. The original contract sums of those projects with reward awarded during the Track Record Period ranged from RMB2.3 million to RMB196.8 million, with an average of RMB59.7 million, while the original contract sum of other on-going projects with responsibility deposits arrangements in place as at 30 September 2022 ranged from RMB11.3 million to RMB708.7 million, with an average of RMB768.1 million. The average contract sum of the other on-going projects with responsibility deposits arrangements in place are approximately 2.8 times of the projects with rewards under the responsibility deposits arrangement during the Track Record Period. Meanwhile, the net profits of most of these projects only barely achieved the profit target and hence the total amount of actual rewards of approximately RMB1.6 million for the relevant 52 employees during the Track Record Period were relatively minimal. In recent years, our Group is capable of undertaking construction projects with higher profit margin and better monitoring the construction projects in terms of progress, profitability and quality, and as a result, the number of projects that can achieve prescribed goals is expected to increase and is expected to exceed the profit target by a higher margin, and is expected to lead to the higher amounts of total monetary rewards that may be awarded to the relevant person(s)-in-charge as preliminary evaluated in September 2022.

In respect of the 22 projects that were completed but still in the process of settlement audit, based on the preliminary evaluation, it is expected that 17 of them will achieve the profitability goal and the anticipated rewards that may be awarded to the 27 person(s)-in-charge involved was estimated to be approximately RMB1.6 million. The total amount of the relevant responsibility deposits placed for these 17 projects as at 30 September 2022 amounted to approximately RMB2.6 million. The relevant persons-in-charge for these projects are expected to receive the rewards by FY2023 or FY2024, and the expected per annum returns in respect of each of such projects ranged from less than RMB1,000 to approximately RMB70,700.

These anticipated rewards, together with the projects that completed the settlement audit and achieved the profitability goal, in aggregate amounted to approximately RMB3.1 million, represented approximately 0.4% to 64.6% of the respective responsibility deposits paid by the person(s)-in-charge. We will perform further final evaluation for these projects and estimation of the amounts to be accrued after completion of the settlement audit. During the Track Record Period and up to the Latest Practicable Date, our Group has settled approximately RMB2.0

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million of rewards in respect of construction projects with responsibility deposits arrangements. The responsibility deposits placed by the relevant person-in-charge in respect of these projects which we have settled the rewards have been returned upon the completion of construction of the project.

The on-going projects with responsibility deposits in place as at 30 September 2022 has either been completed or are expected to be completed from September 2022 to June 2024. As at the Latest Practicable Date, the estimated duration to be taken for the relevant persons-in-charge to receive the rewards for the on-going projects with responsibility deposits arrangement in place as at 30 September 2022 ranged from two years to seven years, with an average of approximately 3.8 years calculated based on the year of placing the responsibility deposits and the expected year to receive the anticipated rewards assuming that the settlement audit will be completed in 1.5 year after the expected project completion date (i.e. the average settlement period for the Track Record Period). While the estimated duration for the relevant persons-in-charge to receive the rewards may take over five years and up to seven years, it is mainly attributable to the long project durations for large scale projects.

Legality of the project management responsibility system

Regarding the legality of the project management responsibility system, our PRC Legal Advisers conducted an interview with Zhuzhou Municipal Human Resources and Social Security Bureau (株洲市人力資源和社會保障局, the “**Zhuzhou HRSS Bureau**”) on 26 August 2021 and understood that the Zhuzhou HRSS Bureau is of the view that, given that as confirmed by Zhongtian Construction and the responsibility deposits were agreed and arranged independent of and separate from the employment contract with each person-in-charge, the implementation of the project management responsibility system will not affect the employment relationship between the persons-in-charge and Zhongtian Construction. Hence, the rights and obligations thereunder are outside the scope of Labor Law, Labor Contract Law and other relevant labor laws and regulations and there will be no violation of any labor laws and regulations arising from the project management responsibility system. As advised by our PRC Legal Advisers, Zhuzhou HRSS Bureau is the competent authority to confirm the above matter.

As advised by our PRC Legal Advisers, given the payees of the responsibility deposits are the persons-in-charge of our Group for the purpose of incentivising for better performance in the construction projects, the project management responsibility system does not violate any relevant laws, regulations and regulatory documents, and will not constitute illegal fundraising/borrowing, and are legally binding on us and the person(s)-in-charge.

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Pursuant to an interview conducted with ZHURD on 14 May 2020, ZHURD confirmed that the aforesaid business model does not involve any qualification affiliation and as advised by our PRC Legal Advisers, ZHURD is the competent regulatory authority responsible for the administration of any construction misconduct in Zhuzhou.

As advised by our PRC Legal Advisers, the arrangement with the person(s)-in-charge of the construction project does not involve qualification affiliation given that pursuant to such arrangement, the person(s)-in-charge of the construction project, as the employee(s) of our Group, operate(s) and manage(s) the staffing and financial aspects of the relevant projects on behalf of our Group, and therefore, the control and interests of the relevant projects still vested in our Group. As such, this arrangement does not involve any external entity or individual undertaking the operation or management of projects under the name of our Group.

To mitigate the risk of being identified as being involved in qualification affiliation arrangement, we have implemented the following internal control policies:

1. we would only designate our employees as responsible persons or project managers for construction projects undertaken by us;
2. we have set up a compliance team which is led by the safety, procurement and subcontracting department and the legal department, and the compliance team would conduct monthly compliance check to ensure no qualification affiliation;
3. we have adopted contract review procedures, including but not limited to the followings, to ensure no unauthorised subcontracting by responsible persons or project managers for construction projects:
 - (a) the contracts shall be reviewed by both our cost and contract department and our legal department or by external experts when necessary before execution; and
 - (b) after such review, the construction contracts can only be signed by deputy general manager or other senior manager depends on the contract sum of the contracts; while the project contracts can be signed by the designated financial officer of such project;
4. we would conduct on-site inspection of every on-going construction project and the project manager would be responsible for overall management and supervision to ensure no unauthorised personnel takes part in any of our projects;

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5. we would provide training to our management and staff on compliance with the applicable laws and regulations in the PRC;
6. suppliers (including subcontractors) should generally be selected from our list of qualified suppliers, and we would only select suppliers (including subcontractors) that are not on our list of qualified suppliers in exceptional cases where there are no available suppliers (including subcontractors) on our list of qualified suppliers which are located in the vicinity of the relevant construction site(s) or where the prices or fees offered by the suppliers (including subcontractors) on our list of qualified suppliers exceed our budget or where the schedule of receiving payments from our customers do not match with the payment schedule required by the suppliers (including subcontractors) on our list of qualified suppliers; and
7. our project managers shall be responsible for monitoring the strict compliance of all subcontracting arrangements in accordance with the terms of the construction contracts.

The Sole Sponsor is also of the view that our project management responsibility system, including the amount and duration of the responsibility deposits, the amounts of rewards granted by us and the determination of reward under the project management responsibility system is reasonable on the following basis:

- (a) according to F&S, our Group's project management responsibility system, including the amount and duration of the responsibility deposits, the amount of rewards and the determination of reward to the person(s)-in-charge, are generally in line with the industry practice;
- (b) according to Hunan Engineering Management Society, it is common for construction company to retain deposits of not more than 15 to 20% of the contract sum from the responsible project-in-charge or other project member for project management to safeguard the performance of the project;
- (c) based on the interviews conducted with our Directors and the person(s)-in-charge, there is commercial rationale for us to adopt and the employees to participate in the project management responsibility system and such arrangement is mutually beneficial to both parties. For details, please refer to the paragraphs headed "Commercial rationale for our Group to adopt the project management responsibility system" and "Commercial rationale for the person-in-charge to participate in the project management responsibility system" above; and

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- (d) as advised by our PRC Legal Advisers, the project management responsibility system does not violate any relevant laws, regulations and regulatory documents, and will not constitute illegal fundraising/borrowing and are legally binding on our Group and the person(s)-in-charge.

Completion and Acceptance

After completion of the construction project and satisfaction of internal inspection, our customers, inspectors, the survey, construction and design professionals and the relevant government authorities then conduct project inspections together with us with prior notice given to us. We may be required to perform modifications from time to time during the inspection.

Upon satisfaction of the inspection, we will receive an acceptance of project completion inspection report issued by the relevant government authorities, which is approved by all parties involved in the inspection process. Such satisfaction of inspection and acceptance represents completion of the project. Thereafter, we will confirm the final settlement amount with our customers by conducting an internal review of the accounts and according to the construction audit report agreed between us and our customers. Our customers will pay the final settlement amount, save for the retention money.

Post-execution Stage

Customer Service and Collection of Retention Money

We generally provide warranty in relation to the construction to our customers for a period between one and two years after the completion of the customer inspection and acceptance process, depending on the type of construction services provided. During the warranty period, we are responsible for any construction defects pursuant to the terms of our construction contract. Under our typical construction contract, our customers retain a retention money for 3% to 5% of the contract value. The retention money is usually paid in instalments during the warranty period or paid in full after the warranty period. As at the Latest Practicable Date, over 3% of the retention money fell due as at 30 September 2022 has been collected by us, and no specific provision was made for the retention money.

Seasonality

As most of our construction projects were located in provinces and regions with relatively mild seasonal weather changes during the Track Record Period, our construction contracting business was not subject to major seasonality fluctuations.

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We typically record higher revenue in the second half of the year than in the first half of the year. We attribute this seasonality to the effect of the long Chinese New Year holiday and Labor Day holiday which most of our projects are suspended.

Licences, Qualifications and Permits

Licences, qualifications and permits are required for us to carry out our operations and undertake a variety of construction projects in China. As advised by our PRC Legal Advisers, construction enterprises in the PRC are required to obtain the requisite licences, qualifications and permits from the relevant regulatory authorities of the location of its establishment or the MOHURD instead of the locations of construction projects where the construction services are provided. Our PRC Legal Advisers further advised that during the Track Record Period and up to the Latest Practicable Date, we have obtained the requisite licences, qualifications and permits from the relevant PRC regulatory authorities for our operations in all material respects.

The following table sets forth our material operating licences, qualifications and permits as at the Latest Practicable Date:

Name of the operating licences, qualifications or permits	Issuing Authority	Holder	Effective period
First-grade qualification in building construction general contracting (建築工程施工總承包壹級)	MOHURD	Zhongtian Construction	9 July 2019 — 31 December 2023
First-grade qualification in municipal and public construction general contracting (市政公用工程施工總承包壹級)	MOHURD	Zhongtian Construction	9 July 2019 — 31 December 2023
First-grade qualification in building renovation and decoration construction specialised contracting (建築裝修裝飾工程專業承包壹級)	HHURD	Zhongtian Construction	3 July 2019 — 31 December 2023
First-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級)	MOHURD	Zhongtian Construction	9 July 2019 — 31 December 2023
First-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包壹級)	HHURD	Zhongtian Construction	3 July 2019 — 31 December 2023

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Name of the operating licences, qualifications or permits	Issuing Authority	Holder	Effective period
First-grade in lifting equipment installation construction specialised contracting (起重設備安裝工程專業承包壹級)	HHURD	Kaida Apparatus	13 September 2022 — 13 September 2027
Second-grade qualification in electrical and mechanical construction general contracting (機電工程施工總承包貳級)	HHURD	Zhongtian Construction	3 July 2019 — 31 December 2023
Second-grade qualification in curtain wall construction specialised contracting (建築幕牆工程專業承包貳級)	HHURD	Zhongtian Construction	3 July 2019 — 31 December 2023
Third-grade qualification in highway construction general contracting (公路工程施工總承包三級)	ZHURD	Zhongtian Construction	21 October 2020 — 31 December 2023
Third-grade qualification in water resources and electric power construction general contracting (水利水電工程施工總承包三級)	ZHURD	Zhongtian Construction	21 October 2020 — 31 December 2023
Third-grade qualification in building electrical and mechanical installation construction specialised contracting (建築機電安裝工程專業承包三級)	ZHURD	Zhongtian Construction	21 October 2020 — 31 December 2023
Third-grade qualification in environmental protection construction specialised contracting (環保工程專業承包三級)	ZHURD	Zhongtian Construction	21 October 2020 — 31 December 2023
Qualification in formwork and scaffold specialised contracting (with no grading system) (模板腳手架專業承包(不分等級))	ZHURD	Zhongtian Building	11 June 2019 — 31 December 2023

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Name of the operating licences, qualifications or permits	Issuing Authority	Holder	Effective period
Work safety permit (安全生產許可證)	HHURD	Zhongtian	2 December 2019 —
		Construction	1 December 2022
			2 December 2022 —
			1 December 2025
	HHURD	Zhongtian	30 September 2017 —
		Building	6 August 2023
High and New Technology Enterprise Certificate (高新技術企業證書)	Hunans Provincial Science and Technology Department (湖南省科學技術廳), Department of Finance of Hunan Province (湖南省財政廳) and Hunan Provincial Tax Service of the State Taxation Administration (國家稅務局湖南省稅務局)	Zhongtian	18 September 2021 —
		Construction	17 September 2024

Note: As advised by our PRC Legal Advisers, pursuant to the Provisions on the Administration of Qualifications of Enterprises in the Construction Industry (建築業企業資質管理規定), (i) Zhongtian Construction’s first-grade qualification in building construction general contracting (建築工程施工總承包壹級), first-grade qualification in municipal and public construction general contracting (市政公用工程施工總承包壹級) and first-grade qualification in steel structure construction specialised contracting (鋼結構工程專業承包壹級) shall be issued by MOHURD; (ii) Zhongtian Construction’s first-grade qualification in building renovation and decoration construction specialised contracting (建築裝修裝飾工程專業承包壹級), first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包壹級), second-grade qualification in electrical and mechanical construction general contracting (機電工程施工總承包貳級), second-grade qualification in curtain wall construction specialised contracting (建築幕牆工程專業承包貳級) and Kaida Apparatus’ first-grade qualification in lifting equipment installation construction specialised contracting (起重設備安裝工程專業承包壹級) shall be issued by HHURD, the provincial level authority overseeing housing and urban rural development in the location of incorporation of the relevant subsidiaries (i.e. Hunan Province); and (iii) Zhongtian Construction’s third-grade qualification in highway construction general contracting (公路工程施工總承包三級), third-grade qualification in water resources and electric power construction general contracting (水利水电工程施工總承包三級), third-grade qualification in environmental protection construction specialised contracting (環保工程專業承包三級) and Zhongtian Building’s qualification in formwork and scaffold specialised contracting (with no grading system) (模板腳手架專業承包(不分等級)) shall be issued by ZHURD, the city level authority overseeing housing and urban development in the location of incorporation of the relevant subsidiaries (i.e. Zhuzhou).

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With respect to the above licences and qualifications that will expire within 2022, we will renew such licences and qualifications with the relevant government authorities prior to their expiration. As advised by our PRC Legal Advisers, there is no foreseeable difficulties in their renewals so long as we meet the applicable requirements and conditions and adhere to the procedures set forth in the relevant laws and regulations as required by the relevant government authorities.

Market and Competition

The construction industry in the PRC has developed significantly in recent years as a result of high economic growth and a strong real estate market. In particular, the construction industry in Hunan Province has seen rapid growth in recent years as a result of significant demand from urban-rural development and overseas expansion simulated by the Belt and Road Initiatives. The construction industry in the PRC is fragmented. According to the F&S Report, we were fifth-ranked non-state owned construction enterprise with first grade general contractor qualification in Hunan Province, in terms of construction revenue in 2021. The main entry barriers to the China construction industry in which our Group operates include the regulatory qualification requirements for contractors, reputation and track record, requirements for professional technical staff and capital requirement. Please refer to the sections headed “Industry Overview” and “Regulatory Overview” in this document for more information on the PRC construction market and the relevant laws and regulations, respectively.

We believe our competitive advantages allow us to compete with our competitors. We have obtained a broad range of qualification, allowing us to undertake wide scope of construction works and capture business opportunities which our competitors may not be qualified for. Our development and implementation of innovative and high-quality construction know-how with our R&D capabilities allows us to adapt to the market trend of upgrading construction management technology. Moreover, our ability to embrace the latest development trend of green building, prefabricated construction methods and EPC model in the PRC also enables us to capture business opportunities. Furthermore, our reputation in the PRC construction industry as demonstrated by the numerous awards accredited to us, as well as our experienced and dedicated senior management team and highly skilled personnel in construction industry are key advantages we possess. For details of our competitive strengths, please refer to the paragraph headed “Competitive Strengths” in this section.

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Awards and Recognitions

The following table sets forth the major awards and recognitions received by us from the relevant government authorities and professional institutions:

Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
Chunteng Village Third Phase* (春藤小鎮三期) (8333)	Residential building, piling, renovation and decoration and installation works of a civil building construction project	Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2020
		Standardised Construction Project Safety Construction Sites for National Exchange Study* (全國範圍組織學習交流的建設工程項目施工安全生產標準化工地)	Construction Safety Branch of the China Association of Construction Industry* (中國建築業協會建築安全分會)	2018
Chunteng Village Block 10-13 and Basement* (春藤小鎮10-13棟及地下室) (8238, 8239)	Residential building, renovation and decoration and installation works of a civil building construction project	Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2019
		Hunan Province Outstanding Construction Project* (湖南省優質工程) (Note 2)	Hunan Province Association of Construction Industry* (湖南省建築業協會)	2019
		Standardised Construction Project Safety Construction Sites for National Exchange Study* (全國範圍組織學習交流的建設工程項目施工安全生產標準化工地)	Construction Safety Branch of the China Association of Construction Industry* (中國建築業協會建築安全分會)	2017

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Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
Material Preparation Plant Renovation* (備料車間廠房改造) (8693)	Residential building and installation works of a civil building construction project	Hunan Province Outstanding Construction Project* (湖南省優質工程) (Note 2)	Hunan Province Association of Construction Industry* (湖南省建築業協會)	2019
		Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2018
Kaifenglong City* (凱風龍城) (8598)	Residential building, renovation and decoration and installation works of a civil building construction project	Hunan Province Outstanding Construction Project* (湖南省優質工程) (Note 2)	Hunan Province Association of Construction Industry* (湖南省建築業協會)	2019
		Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2018
Yongle Village Minglun Village Industrial Development* (永樂村明倫村工業地塊) (8262)	Commercial and residential building, renovation and decoration and installation works of a civil building construction project	Hunan Province Outstanding Construction Project (湖南省優質工程) (Note 2)	Hunan Province Association of Construction Industry (湖南省建築業協會)	2019
Qianjin Xiangjiang Pharmaceutical* (千金湘江藥業) (8603)	Factory premises, piling, renovation and decoration and installation works of a civil building construction project	Furong Prize (芙蓉獎) (Note 3)	Hunan Province Association of Construction Industry (湖南省建築業協會)	2017
Zhong'ou Kun Lun Shoufu Phase I Construction* (中歐·昆侖首府一期工程) (8350)	Residential building, piling, renovation and decoration and installation works of a civil building construction project	Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2017

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Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
		Hunan Province New Construction Technology Application Demonstration Construction (湖南省建築業新技術應用示範工程)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省住房和城乡建设廳)	2016
Panlong Yulan Valley* (磐龍玉蘭谷)	Civil building construction project	National Construction Engineering Project Standardised Safety Construction Site* (全國建設工程項目施工安全生產標準化工地)	Construction Safety and Machinery Branch, China Construction Industry Association* (中國建築業協會建築安全與機械分會)	2020
Jindong Taozi Lake* (金東陶子湖) (8308)	Civil building construction project	Shennong Prize (神農獎) <i>(Note 1)</i>	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2021
		Hunan Province Outstanding Construction Project* (湖南省優質工程) <i>(Note 2)</i>	Hunan Province Association of Construction Industry* (湖南省建築業協會)	2021
Chuteng Mansion* (春藤公館) (8741)	Civil building construction project	Shennong Prize (神農獎) <i>(Note 1)</i>	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2021
Zishan Lake Lining Supporting Area* (梓山湖生活配套區)	Prefabricated steel structure project	Hunan Province Steel Structure Gold Award (湖南省鋼結構金獎)	Hunan Steel Structure Green Building Industry Association (湖南省鋼結構綠色建築行業協會)	2021
Zhongtian Hangxiao Steel Structure Prefabricated Building Base Phase I R&D Building* (中天杭蕭鋼構裝配式建築基地(一期)科研樓) (8285)	Prefabricated steel structure project	Shennong Prize (神農獎) <i>(Note 1)</i>	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2022
		Hunan Province Outstanding Construction Project (湖南省優質工程) <i>(Note 2)</i>	Hunan Province Association of Construction Industry (湖南省建築業協會)	2022

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Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
Changjun Yunlong Experimental School (Third Phase)* (長郡雲龍 實驗學校新建三標)	Municipal construction project	Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2022
		Hunan Province Outstanding Construction Project (湖南 省優質工程) (Note 2)	Hunan Province Association of Construction Industry (湖南省建築業協會)	2022
First Bidding Section of Xuebao Xincai Science and Technology Park Construction* (雪寶新材科技園建設 項目一標段)	Prefabricated steel structure project	Shennong Prize (神農獎) (Note 1)	Zhuzhou Construction Industry Association* (株洲市建築業協會)	2022
First Bidding Section of Zhongtian Lutai (Block 6-10 and Basement)* (中天麓台一標段(6-10棟、 地下室))	Civil building construction project	Hunan Province Construction Safety Production Standardization "Excellent Construction Site in Annual Project Evaluation" in 2021* (湖南省2021年度 建築施工安全生產標準化 「年度項目考評優良 工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省 住房和城鄉建設廳)	2022
Shui Zhu Jiayuan* (水竹佳苑)	Civil building construction project	Hunan Province Construction Safety Production Standardization "Excellent Construction Site in Annual Project Evaluation" in 2021* (湖南省2021年度 建築施工安全生產標準化 「年度項目考評優良 工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省 住房和城鄉建設廳)	2022

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Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
Amusement and Intelligent Equipment R&D and Production Base Construction* (遊樂和智能裝備研發生產基地建設)	Civil building construction project	Hunan Province Construction Safety Production Standardization “Excellent Construction Site in Annual Project Evaluation” in 2021* (湖南省2021年度建築施工安全生產標準化「年度項目考評優良工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省住房和城鄉建設廳)	2022
Integration and upgrading of Bogie Urban Rail Frame* (轉向架城軌構架整合升級)	Civil building construction project	Hunan Province Construction Safety Production Standardization “Excellent Construction Site in Annual Project Evaluation” in 2021* (湖南省2021年度建築施工安全生產標準化「年度項目考評優良工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省住房和城鄉建設廳)	2022
Changjun Zhuzhou Yunlong Experimental School Third Phase Feng Yu Playground, the Guard of Junior High School and Duty Room* (長郡株洲雲龍實驗學校新建專案施工三標段風雨操場、初中部門衛、值班室)	Civil building construction project	Hunan Province Construction Safety Production Standardization “Excellent Construction Site in Annual Project Evaluation” in 2021* (湖南省2021年度建築施工安全生產標準化「年度項目考評優良工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省住房和城鄉建設廳)	2022

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Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
Yidu Qingtianli Phase II* (億都晴天裡二期)	Civil building construction project	Hunan Province Construction Safety Production Standardization “Excellent Construction Site in Annual Project Evaluation” in 2021* (湖南省2021年度建築施工安全生產標準化「年度項目考評優良工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省住房和城鄉建設廳)	2022
Panlong Ecological Community Yulan Valley 18#, 20# and Basement (磐龍生態社區玉蘭穀18#、20#及地下室)	Civil building construction project	Hunan Province Construction Safety Production Standardization “Excellent Construction Site in Annual Project Evaluation” in 2021* (湖南省2021年度建築施工安全生產標準化「年度項目考評優良工地」)	Housing and Urban-Rural Construction Department of Hunan Province (湖南省住房和城鄉建設廳)	2022
N/A	Civil building construction project	National Quality Project Silver Award (國家優質工程銀質獎)	National Engineering Construction Award Approval Committee (國家工程建設獎審定委員會)	2005
N/A	N/A	2021 Hunan Province Credibility Enterprise (2021年度湖南省守合同重信用企業)	Hunan Provincial Credibility Enterprise Association (湖南省守合同重信用企業協會)	2022
N/A	N/A	2019 Hunan Province Credibility Enterprise (2019年度湖南省守合同重信用企業)	Hunan Provincial Credibility Enterprise Association (湖南省守合同重信用企業協會)	2020

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Project name and project code	Description of project	Award and Recognitions	Awarding authority	Year of grant
N/A	N/A	2019 Advanced Unit in Promoting Regional Economic Development (2019年度促進區域經濟發展先進單位)	Zhuzhou Hetang District Committee of the Chinese Communist Party (中共株洲市荷塘區委員會)	2020
N/A	N/A	2018 Hunan Province Publicised Major Credible Enterprise (2018年度湖南省守合同重信用公示企業)	Hunan Provincial Credibility Enterprise Association (湖南省守合同重信用企業協會)	2019
N/A	N/A	Zhuzhou City-level Construction Industry Enterprise with AAA Credit Rating (株洲市建築業市級誠信等級AAA企業)	Zhuzhou Construction Industry Association (株洲市建築業協會)	2019, 2020
N/A	N/A	Grade A Tax Credit Unit (納稅信用A級單位)	Hunan Province State Administration of Taxation of the PRC (湖南省國家稅務總局) and Hunan Province Local Administration of Taxation* (湖南省地方稅務局)	2017–2019
N/A	N/A	2017 City Outstanding Enterprise in Production Safety (2017年度全市安全生產工作優秀企業)	Chinese Communist Party Zhuzhou City Committee office	2018

Notes:

- 1: During the Track Record Period and up to the Latest Practicable Date, including those disclosed above, we have received a total of 33 Shennong Prize (神農獎) for our construction projects.
- 2: Including those disclosed above, we have received a total of 46 Hunan Province Outstanding Construction Project Award* (湖南省優質工程), among which 12 of them were received during the Track Record Period.

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3: We have received a total of nine Furong Prize* (芙蓉獎), all of which were received before the Track Record Period.

R&D and know-how

We are committed to developing know-how for the goal of increasing construction efficiency and quality, which in turn enhance our competitiveness with the industry. We believe that innovative technology in construction will also help achieve labour costs control, energy conservation and emission reduction. As at the Latest Practicable Date, our R&D department has 6 employees. Members of our R&D department have obtained qualifications in key areas that are related to our operations such as senior engineers, registered engineers, constructors, as well as master degrees in relation to chemical analysis, civil engineering and structural engineering, etc. The department is supervised by Mr. Chen Peirun* (陳培潤), our deputy general manager responsible for the R&D and quality management of our Group, who has over 29 years of experience in the construction industry. For details, please refer to the section headed “Directors and Senior Management — Senior management” in this document.

For FY2019, FY2020, FY2021 and 3Q2022, our total R&D expenses amounted to approximately RMB60.8 million, RMB54.1 million, RMB56.7 million and RMB42.1 million, respectively, for the purpose of improving our construction methods and know-how, thereby boosting the efficiency and cost-effectiveness of our construction process. As our Group believes that the R&D activities will bring the long-term benefits to our Group, our Group devoted substantial resources in R&D activities, developed 24 patents, and undertook 114 R&D topics during the Track Record Period and up to the Latest Practicable Date. Since the know-how and construction methods improved by our R&D activities do not only apply to a particular project but can be applied in similar projects, our Directors believe that (i) the engagement in R&D activities would bring long-term benefit to our Group; and (ii) in our Group’s continuing quest to expand our business and markets, our Group shall continue to draw on the accumulated knowledge resided in its R&D activities and any economies of scale that can be extracted to improve productivity efficiency in the long run. As advised by F&S, the level of R&D expenses incurred by our Group was in line with those of its industry peers.

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Highlights of our know-how

Listed below are the patents which we obtained as at the Latest Practicable Date:

	Patent registered	Type	Patent number
a)	Self-tapping foundation piling method capable of establishing machine tool foundation on soft soil* (一種可於軟土地上建立機床地基的自攻地基樁及方法)	Invention	ZL201610155221.5
b)	Wall wiper for civil construction* (一種土建施工用抹牆機)	Utility model	ZL201820417392.5
c)	Construction fence applicable to building construction* (一種應用於房建工程中便於搭設的施工防護欄)	Utility model	ZL201820433116.8
d)	Roof painting device for civil construction* (一種土建施工用屋面粉刷裝置)	Utility model	ZL201922229182.0
e)	External construction curtain wall convenient for safeguarding purposes* (一種便於維護的外構建的建築幕牆)	Utility model	ZL201922366666.X
f)	Perforated concrete pump pipe fixing device* (穿孔型混凝土泵管固定裝置)	Utility model	ZL201922258695.4
g)	Concrete pump horizontal fixed damping device* (混凝土泵管水平固定減震裝置)	Utility model	ZL201922260495.2
h)	The construction structure of the external wall pouring formwork against the pull bolt* (外牆澆築模板對拉螺栓施工結構)	Utility model	ZL202021356889.4
i)	Waterproof plugging structure for pulling bolt holes of external wall* (外牆對拉螺栓孔防水封堵結構)	Utility model	ZL202021356887.5
j)	New flip-type discharge channel for construction elevator* (施工電梯新型翻轉型出料通道)	Utility model	ZL202021356615.5
k)	Mobile elevator shaft construction platform* (移動式電梯井施工平台)	Utility model	ZL202021356529.4

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	Patent registered	Type	Patent number
l)	Prefabricated truss floor bearing plate and its concrete floor structure* (裝配式桁架樓承板及其混凝土樓面結構)	Utility model	ZL202021356330.1
m)	Steel component hoisting device* (一種鋼構件吊裝裝置)	Utility model	ZL202021484745.7
n)	Concrete mixer for uniform mixing for building construction* (建築施工用攪拌均勻的混凝土攪拌機)	Utility model	ZL202021484742.3
o)	Detachable pipeline fixing device for building construction* (建築施工用可拆卸管綫固定裝置)	Utility model	ZL202021484741.9
p)	Double-layer steel structure workshop with photovoltaic modules* (一種帶光伏組件的雙層鋼結構廠房)	Utility model	ZL202021483231.X
q)	Positioning device for installing steel pipe bundle* (一種鋼管束安裝用定位裝置)	Utility model	ZL202021483192.3
r)	A kind of municipal road construction method* (一種市政道路施工方法)	Invention	ZL202010753610.4
s)	Detachable support building constructions* (一種建築工程施工用可拆式支護)	Invention	ZL202122008143.5
t)	Concrete point compaction device* (混凝土分點密實裝置)	Invention	202110916416.8
u)	ALC connection point between wall panel and door frame* (ALC牆板與門框的連接節點)	Utility model	ZL202123230788.X
v)	ALC slatted window opening structure and its connection with window frame* (ALC條板窗洞結構及其與窗框的連接構造)	Utility model	ZL202123231122.6
w)	Protection device along the stair and its installation structure* (樓梯臨邊防護裝置及其安裝結構)	Utility model	ZL202123315252.8
x)	Concave non-adhesive plain brick curtain wall structure* (凹造型無粘結清水磚幕牆結構)	Utility model	ZL202220063618.2

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(a) *Self-tapping foundation piling method capable of establishing machine tool foundation on soft soil (一種可於軟土地上建立機床地基的自攻地基樁及方法)**

Our self-tapping foundation pile method allows us to dispense with construction step required for fixing the machine tool on soft soil, thereby streamlining our workflow in foundation works and reduce our construction costs incurred.

The use of our patented method will reduce the cost of foundation processing by up to 20% and shorten the construction period by up to 10 days.

(b) *Wall wiper for civil construction (一種土建施工用抹牆機)**

Our patented wall wiper is able to ascend and descend to different height levels at ease for plastering the wall surface of the construction works, especially the corners. Therefore, by using our patented wall wiper the plastering process will be more efficient and effective comparing to the traditional wall wipers, which could in turn improve our construction quality for our civil construction project and reduce the construction costs.

The use of our patented wall wiper will reduce the cost of plastering by up to 10%, shorten the construction period by up to 30 days and reduce quality defects.

(c) *Construction fence applicable to building construction (一種應用於房建工程中便於搭設的施工防護欄)**

Our patented know-how enables us to utilise dismantlable components which could be easily dismantled and reused to build and install construction fences in our construction sites. This can reduce the manpower, material and time required to build the construction fences and hence lower our construction costs.

The use of our patented know-how in construction fence applicable to building construction will reduce the construction costs by up to 3% and maintain a high level of work safety.

(d) *Roof painting device for civil construction ** (一種土建施工用屋面粉刷裝置)

Our patented roof painting device is able to solve the problems of the ordinary painting method that paint falls during the painting process and the painting shaft is difficult to replace, causing wastage of paints and low efficiency of painting works.

By adopting this patented device, the cost of roof painting can be saved up to 8%, and the construction period can be shortened by up to 10 days.

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(e) *External construction curtain wall convenient for safeguarding purposes (一種便於維護的外構建的建築幕牆)**

Our patented external curtain walls convenient for safeguarding purpose with sliding saddle on the curtain walls can be fixed on the base of the construction cradles to stabilise the construction cradle and enhance the construction safety.

Moreover, the curtain wall tiles of our patented curtain wall can be quickly replaced individually according to the situational needs or for maintenance purpose. Without the need of maintaining or replacing the curtain wall as a whole, maintenance costs of the curtain wall can be reduced.

The use of our patented curtain wall will reduce the cost of curtain wall construction by up to 30%.

(f) *Perforated concrete pump pipe fixing device (穿孔型混凝土泵管固定裝置) and (g) *Concrete pump horizontal fixed damping device** (混凝土泵管水平固定減震裝置)**

Our patented perforated concrete pump pipe fixing device has good stability, which can reduce vibration and noise and ensure the safety of concrete transportation during the construction. Our concrete pump horizontal fixed damping device is a vibration reduction device for concrete pump pipes with good stability, safety and reliability.

By adopting these patented devices, the construction period can be shortened by up to 30 days. Further, safety accidents caused by unstable pump pipes can be prevented and noise pollution can be reduced.

(h) *The construction structure of the external wall pouring formwork against the pull bolt (外牆澆築模板對拉螺栓施工結構) and (i) *Waterproof plugging structure for pulling bolt holes of external wall** (外牆對拉螺栓孔防水封堵結構)**

Our patented construction structure is composed of cast-in-place concrete, and it is highly adaptable, convenient to use and can be easily dismantled. Our waterproof plugging structure is able to solve the problems of the conventional polyvinyl chloride tubes that always spill during secondary grouting.

By adopting these patented structures, the construction costs can be saved by up to 2%. Wood materials used to support the structures can also be saved.

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(j) *New flip-type discharge channel for construction elevator (施工電梯新型翻轉型出料通道)**

Our patented discharge channel is able to automatically flip itself to discharge substances from construction elevators. There is no longer a need to install a protective door which was used for workers to manually flip the channel, thereby minimising workplace hazards.

The use of our patented discharge channel will shorten the construction period by up to 25 days, increase the efficiency of batch processing and maintain a high level of work safety.

(k) *Mobile elevator shaft construction platform (移動式電梯井施工平台)**

Our patented mobile elevator shaft construction platform is able to solve the problems of conventional construction elevators that are unstable at a raised height and difficult to set up. This construction platform is safe, reusable and easy to lift.

By adopting our patented construction platform, the construction period can be shortened by up to 15 days.

(l) *Prefabricated truss floor bearing plate and its concrete floor structure (装配式桁架樓承板及其混凝土樓面結構)**

Our patented floor structure is composed of steel truss and floor deck, and is able to reduce the pressure of steel lashing, speed up construction progress and save partial formwork and costs. Further, this patented floor structure is easy to use, cost-effective and has a highly accurate positioning control.

The adoption of our patented floor structure will save construction costs by up to 4%, thereby saving maintenance costs by up to 3%. Additionally, the construction period can be shortened by up to 35 days.

(m) *Steel component hoisting device (一種鋼構件吊裝裝置)**

Our patented steel component hoisting device is able to solve the problem of the ordinary bulky hoisting device that could not carry small construction components. This hoisting device is convenient, easy to operate and suitable for small scale prefabricated steel structure construction.

By adopting this patented device, the cost of installation can be saved up to 10% and the construction period can be shortened by up to 15 days.

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(n) Concrete mixer for uniform mixing for building construction* (建築施工用攪拌均勻的混凝土攪拌機)

Our patented concrete mixer has the capability to create a balanced concrete mix. It is efficient, reliable, environmentally friendly and has good noise control. Compared to traditional concrete mixers, this patented concrete mixer is easier to install, and it generates less noise and dusts while it is in operation.

The adoption of our patented concrete mixer will save construction costs by approximately 5% and shorten the construction period by up to 15 days. Noise pollution can also be reduced.

(o) Detachable pipeline fixing device for building construction* (建築施工用可拆卸管線固定裝置)

Our patented detachable pipeline fixing device is able to affix pipelines speedily, which prevents the breakage of pipelines due to misplacement and eradicates safety hazards. This device is sturdy, easily removable and serves the purpose of modernising construction techniques and processes.

By adopting this patented device, the construction costs can be saved up to 2% and the maintenance costs can be reduced by up to 2%.

(p) Double-layer steel structure workshop with photovoltaic modules* (一種帶光伏組件的雙層鋼結構廠房)

Our patented steel structure workshop consists of a transparent glass roof that captures good natural lighting and an adjustable photovoltaic panel. This double-layer structure workshop has good durability, shock resistance and sound insulation. In particular, the incorporation of photovoltaic modules into the workshop can generate solar energy, thereby saving energy and costs.

The use of this patented steel structure workshop will reduce construction and maintenance costs by up to 3% and 2%, respectively. Construction period can also generally be shortened.

(q) Positioning device for installing steel pipe bundle* (一種鋼管束安裝用定位裝置)

Our patented positioning device is composed of steel pipe composite structure shear walls, H-shaped steel beams, reinforced truss floor decks and lightweight partition walls. This positioning device is used to place and install pipelines precisely and automatically, which in turn enhances construction efficiency. It is safe, reliable, convenient to install.

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The use of our patented positioning device will reduce the cost of construction by up to 4% and shorten the construction period by up to 40 days.

(r) *A kind of municipal road construction method (一種市政道路施工方法)**

Our patented municipal road construction method consists of systematic technologies including earth excavation, backfilling and consolidation on the base and surface layers of roads, all of which optimise existing municipal road construction procedures and enhance the quality of road constructions. This method can effectively process dust generated by asphalt, thereby advancing occupational health and environmental safety.

By adopting our patented method, the construction and maintenance costs can be reduced by up to 3% and 2%, respectively. The construction period can also be shortened by up to 30 days.

s) *Detachable support device for building constructions (一種建築工程施工用可拆式支護)**

Our patented detachable support device has a collapsible bottom case and a telescopic rod arranged on the support plate which together play a stable role. The disassembly and assembly method is simple and convenient. There is also a support block on the side, which can prevent the support device from tilting forward. Our patented detachable support device is also less bulky compared to traditional support device, hence it is more convenient in moving the support device around.

t) *Concrete point compaction device (混凝土分點密實裝置)**

Our patented concrete point compaction device is composed of a base with a wavy guide groove and a vibration machine. The vibration machine can produce wavy vibration via the wavy guide groove. Hence, the coverage of the vibration machine is enlarged and our patented concrete point compaction device is able to vibrate concrete more evenly.

The use of our patented concrete point compaction device will reduce the cost of construction by up to 6% and the construction period can be shortened by up to 10 days.

u) *ALC connection point between wall panel and door frame (ALC牆板與門框的連接節點)**

Our patented connection point is composed of prefabricated ALC wall panel and door frame, together with a specially designed connecting component. Our patented connection point is able to solve the problem of cracking at the connection point between ALC wall panel and door frame and hence ensure the strength of connection between ALC wall panel and door frame.

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Our patented connection point can reduce the cost of construction by 4%, reduce the future cost of maintenance by 2% and shorten the construction period by up to 20 days.

v) ***ALC slatted window opening structure and its connection with window frame**** (ALC條板窗洞結構及其與窗框的連接構造)

Our patented ALC slatted window opening structure and its connection with window frame is able to solve the problem of insufficient bearing capacity of the ALC slatted window opening structure and to provide stable and sufficient strength of connection with window frame.

The use of our patented ALC slatted window opening structure and its connection with window frame satisfies with the requirements of green construction and can reduce the cost of construction by 2%.

w) ***Protection device along the stair and its installation structure**** (樓梯臨邊防護裝置及其安裝結構)

Our patented protection device along the stair and its installation structure can be prefabricated in batches and be reused, hence lower the construction cost, material cost and labor cost. Moreover, our patented protection device is able to prevent construction workers being hit by fallen objects along the stair edge and therefore ensure the safety of construction worker.

By adopting our patented protection device, the cost of construction can be reduced by 2% and the construction safety of employees is enhanced.

x) ***Concave non-adhesive plain brick curtain wall structure**** (凹造型無粘結清水磚幕牆結構)

Our patented concave non-adhesive plain brick curtain wall structure is composed of a stress-bearing frame and a concave stand with several connecting components. Plain bricks were staggered onto the stress-bearing frame and steel pipes were passed through the reserved hole on the concave non-adhesive plain bricks. Hence, our patented concave non-adhesive plain brick curtain wall structure enables the reuse of the plain bricks and steel pipes and minimises the deterioration of the materials.

Our patented concave non-adhesive plain brick curtain wall structure helps reduce the cost of construction by 8% and reduce the construction period by up to 5 days.

Furthermore, as at the Latest Practicable Date, we were in the process of applying for four patents.

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During the Track Record Period and up to the Latest Practicable Date, we have also been engaged in R&D continuously and conducted research on 114 R&D topics in relation to different aspects including civil building construction, municipal works construction, prefabricated steel structure construction, foundation works and other specialised contracting works which includes building renovation and decoration construction, all of which have been implemented in our construction process.

Our efforts in R&D enable us to (i) improve our construction methods and know-how for different types of construction projects including civil building construction, municipal works construction and prefabricated steel structure construction which in turn enhance the quality of our construction works and enable us to undertake some notable projects, and improve occupational safety and well-being of the construction workers of our Group by making use of specialised equipment; and (ii) boost the cost-effectiveness of our construction works through the adoption of enhanced building equipment and green building construction method, which are further elaborated below:

(i) Improving our construction methods and know-how which in turn enhance the quality of our construction works

Through our R&D activities, we have improved our various construction methods and know-hows. For example, we adopted steel and aluminium frames to replace the traditional models made of bamboo and wood in our civil building construction works, as steel and aluminium frames are of lighter weight and stronger in structure, such that they could provide concrete moulding with better quality for our construction process. We also develop know-how to increase the quality of our prefabricated steel structure construction works, such as the application of a combination of concrete and structural steel in our construction works for high-rise prefabricated steel structural buildings to increase their load-bearing capacity, earthquake-resistant and fire-resistant capability. In the field of municipal works construction, we improved various construction methods and know-hows to enhance the quality of our urban road construction works, including improving the quality of cement and the flatness of the roadbeds, improving the anti-rutting performance of the road surfaces and reducing the risk of road structure subsidence. For example, the application of the control of the longitudinal slope, cross slope and flatness of the road base surface will enhance the quality of urban road construction works, shorten the construction period by up to 30 days and reduce the amount of construction costs by up to 5%. In view of the improved quality of our construction works, during the Track Record Period, we did not experience any quality issues, or subject to any penalty from government authorities in relation to the quality of our construction projects in material respect. With our enhanced construction quality benefiting from the improvement in construction methods and know-how, we were able to undertake some notable

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projects, including Langting Lanjiang Main Structure* (朗廷 • 覽江) project, which was recognised by the Zhuzhou Association of Construction Industry (株洲市建築業協會) as the tallest construction-in-progress building in Zhuzhou.

The application of our R&D topics also encourages the use of specialised equipment which aims at improving the occupational safety and well-being of our construction workers. For example, we developed specialised safety installations on curtain walls to increase the stability of construction cradle when carrying out construction works at height. Our Group also developed a specialised lifting scaffolding technique to boost the level of the occupational safety of its construction workers when carrying out construction works at height which will reduce the costs of raw materials in the relevant construction project by up to 3%. As a result, the level of occupational safety of the relevant construction projects was enhanced which was proven by our low fatality rate during the Track Record Period.

(ii) Boosting the cost-effectiveness of our construction works

The application of our enhanced construction methods and know-how from our R&D activities could boost the cost-effectiveness of our construction works through the adoption of enhanced building equipment. For example, we developed an improved scaffolding know-how with automatic height adjustment function which could save the time and costs involved in the repeated installation of scaffolds in traditional scaffolding methodologies to enhance our construction efficiency and achieve cost-saving.

Through our R&D activities, we also developed green building construction method to facilitate energy preservation and hence reduce our construction cost to enhance our cost-effectiveness. For example, we developed a know-how that replaces traditional concrete structures with steel tube bundle composite to reduce the amount of water wastage and achieve cost saving. The application of (i) the intelligentised monitoring and control of dust emission in construction works will reduce the amount of dust emission from construction works, maintain an environmentally friendly working environment and reduce the construction period by up to 30 days; and (ii) the prefabricated temporary roads, which can be used repeatedly in different construction projects, will reduce the amount of wastes and lower the construction costs by up to 5%.

We have achieved a more cost-effective construction workflow with our dedication in R&D activities, which partly contributed the gradual increment of our Group’s overall gross profit margins from construction contracts which from approximately 10.0% in FY2019 to 10.7% in FY2020 and FY2021 and further increase to approximately 10.9% in 3Q2022.

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We have engaged Hunan Academy of Building Research Co. Ltd (湖南省建築科學研究院有限公司) (“**Hunan Academy of Building Research**”) an independent R&D institute, to conduct a review of topics covering 52 of our R&D topics including our top five major R&D projects in terms of R&D expenses incurred in each of FY2019, FY2020, FY2021 and 3Q2022 as well as 24 patents registered by our Group as at the Latest Practicable Date. Hunan Academy of Building Research is a state-owned provincial scientific research institute principally engages in scientific research and the provision of consulting services and was accredited as a High and New Technology Enterprise and its wholly-owned subsidiary, Hunan Construction Engineering Quality Inspection Centre Co. Ltd* (湖南省建設工程質量檢測中心有限公司) was accredited as a national advanced unit in construction quality inspection industry* (全國建設工程質量檢測行業先進單位). Hunan Academy of Building Research considered that certain enhanced construction methods and know-how developed from our Group’s R&D activities are unique in the industry and are innovative as compared to those adopted by our industry peers. For example, the wall wiper developed by our R&D activities enables us to ascend and descend to different height levels at ease for plastering the wall surface of the construction works, especially the corners and hence this device can achieve more efficient and effective plastering process comparing to the traditional wall wipers or manual plastering of wall surface and we have obtained utility model patent for this know-how. Our Group also developed specialised external curtain walls convenient for safeguarding purpose with sliding saddle on the curtain walls that can be fixed on the base of the construction cradles. Comparing with traditional curtain wall maintenance work using ordinary construction cradle which the construction cradle may sway and have the risk of hitting the curtain walls, the construction cradle of our patented curtain walls would be more stable and hence can enhance the construction safety when carrying out the maintenance works of the curtain walls. Our Group has also obtained patent for such know-how.

As a result of our R&D capabilities, achievement and initiatives, we have been certified as “High and New Technology Enterprise (高新技術企業)” since 2018.

Raw Materials, Machinery and Equipment and Suppliers

Raw Materials

Our principal raw materials include steel, cement, masonry and concrete, most of which are procured from suppliers in China. For each of FY2019, FY2020, FY2021 and 3Q2022, our cost of raw materials amounted to approximately RMB796.4 million, RMB687.7 million, RMB642.7 million and RMB531.6 million, respectively, representing 48.6%, 43.5%, 39.5% and 43.7% of our total cost of sales, respectively. Price adjustment terms may be included in the construction contracts. We do not keep a significant inventory of raw materials to minimise inventory costs and the risks associated with price fluctuations in raw materials. During the Track Record Period, we did not experience any major price fluctuations, delays or shortages in our supply of raw materials,

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and we do not anticipate significant difficulties in obtaining alternative sources of supply if necessary. For details about the effects that changes in the price and availability of raw materials to our operating results, please refer to sections headed "Financial Information — Description of certain key items for our results of operation — Cost of sales — Sensitivity analysis" and "Risk Factors — Risks Relating to Our Business — Our operating results may be significantly affected by changes in the prices and availability of raw materials" in this document.

Machinery and Equipment

We rely on a range of machinery and equipment to perform our construction contracting business which we may purchase or lease such machinery and equipment from other parties, or use those we own. We determine the specifications and the quantity of such machinery and equipment to be purchased or leased based on the needs of our projects.

The machinery and equipment required for performing our construction contracting business mainly include construction cranes, construction lifts, bulldozers, digging rigs, excavators, construction piling machines, climb stands, bulk trucks and rebar processing sheds.

During the Track Record Period, we owned some of the major construction machinery and equipment required in our business operations, such as construction cranes and construction lifts. Construction cranes are generally used to lift and lower materials and/or equipment while construction lifts are normally used to raise and lower people, materials or equipment.

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The following table sets forth the information of each major type of construction machinery and equipment we owned as at the dates indicated:

	As at 31 December 2019/FY2019				As at 31 December 2020/FY2020				As at 31 December 2021/FY2021				As at 30 September 2022/3Q2022						
	Approximate average years of service	Approximate average remaining useful lives	Approximate average utilisation rate (Note 1)	Approximate average years of service	Approximate average remaining useful lives	Approximate average utilisation rate (Note 1)	Approximate average years of service	Approximate average remaining useful lives	Approximate average utilisation rate (Note 1)	Approximate average years of service	Approximate average remaining useful lives	Approximate average utilisation rate (Note 1)	Approximate average years of service	Approximate average remaining useful lives	Approximate average utilisation rate (Note 1)				
	No.		Net book value																
			RMB'000												RMB'000				
Construction cranes	42	2.1	8,803.8	88%	44	7.9	2.1	8,006.8	82% (Note 2)	51	7.4	2.6	10,579.0	85%	51	8.1	1.9	9,818	82%
Construction lifts	43	2.7	7,118.8	85%	51	2.6	7.4	8,543.2	81% (Note 2)	52	3.5	6.5	7,665.0	87%	52	4.3	5.7	6,150	86%
Total	85		15,922.6		95			16,550.0		103			18,244.0		103			15,968.0	

Notes:

- (1) Average utilisation rate is calculated as the average of total number of days for which each piece of specific type of machinery and equipment owned by Kaida Apparatus (excluding the 21 and three construction lifts pending for disposal and not included in our fleet as at 31 December 2019, which our Directors consider to be no longer suitable for leasing or for use in our construction projects and all of these construction lifts have been disposed), our non-wholly owned subsidiary principally engaged in equipment leasing, were rented to Zhongtian Construction or our customers, divided by the number of days that Kaida Apparatus possessed the machinery and equipment during the respective year/period less Chinese New Year holiday of 14 days. The calculation of the utilisation rate is for illustration purpose only and does not take into account (i) certain repair and maintenance of the machinery and equipment and (ii) certain inspection and registration with relevant government authority of newly purchased machinery and equipment.
- (2) After taking into account the impact of COVID-19 by excluding the period which the use of certain construction cranes and construction lifts was suspended, the average utilisation rates of construction cranes and construction lifts for FY2020 would be approximately 85% and 86%, respectively. The slight decrease in the average utilisation rate for construction cranes from approximately 88% in FY2019 to approximately 85% for FY2020 was mainly due to the adjustment of construction schedule of certain projects so that there was a mismatch in the availability of our construction cranes and the revised construction schedule and as a result we were unable to deploy certain construction cranes in other projects.

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We also lease construction cranes and lifts and other machinery and equipment including excavators, bulldozers, digging rigs, climb stands, bulk trucks and construction piling machines from third parties to meet the needs of our construction projects. These machinery and equipment are commonly used in the construction industry and are generally available in the market. Our expenses to lease such machinery and equipment amounted to RMB35.5 million, RMB117.0 million, RMB199.4 million and RMB91.6 million for FY2019, FY2020, FY2021 and 3Q2022, respectively. Generally, we pay a percentage of the contract value upon signing of the machinery and equipment procurement or lease agreements and the remainder within a specific period.

We select our machinery and equipment suppliers based on numerous factors, including price, and performance of the machinery and equipment offered.

Our machinery and equipment are primarily managed by our production operation department. We formulate procurement plan and conduct periodic audits of our machinery and equipment. Regular maintenance and repairs are carried out for our machinery and equipment including oiling and cleaning, to ensure their condition, and hence safe for our use. For machinery and equipment that we lease, the leasing companies are responsible for transporting the machinery and equipment to the designated construction sites.

Suppliers

For large scale procurements, suppliers are usually selected through a bidding process, procurement inquiry purchase or in other manner adopted by our work safety, procurement and subcontracting department and cost and contract department as appropriate. Whereas for procurements in smaller scale, we usually procure directly from suppliers selected from our list of qualified suppliers. Suppliers are selected based on various criteria, including the price offered, quality and delivery schedule of the raw materials or equipment, after-sale and customer services to be provided, and the supply capacity, credit standing and client base of the suppliers. We conduct evaluation on the qualified suppliers regularly, and update our list of qualified suppliers half-yearly. For each procurement, we will enter into a supply contract with our suppliers, of which the terms are negotiated based on our procurement contract template. During the procurement process, we closely monitor the delivery schedule to ensure raw materials and equipment are delivered on time. Raw materials and equipment procured are delivered, inspected, safe-kept in accordance with the relevant environmental protection and occupational health and safety requirements.

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The following sets forth a summary of the principal terms of our typical supply contracts for principal raw materials:

- Delivery, inspection and performance** : Our suppliers are responsible for delivery of raw materials to our destined places such as our construction sites. Upon delivery, our staff will inspect the quality and quantity of raw materials according to our specifications and standard. If there is any defect in quality or deficiency in quantity, our suppliers have to deliver replacement or supplementary raw materials (as the case may be) to our destined places in accordance with the supply contract and to bear the additional costs incurred. The delivery cost and risks are borne by our suppliers;
- Pricing and price adjustment** : The total price of raw materials are determined by a unit price and the quantity delivered and the unit price is determined by negotiation with our suppliers with reference to the prevailing market price. The unit price may be adjusted by way of price adjustment letter(s) confirmed by the suppliers and us or supplemental contract(s), taking into account the fluctuations of the market price, if any;
- Payment schedule** : Invoice for raw materials procurement is generally issued upon delivery of a specific quantity as set out in the contracts. Order for raw materials is usually made on a monthly basis. The price payable is usually determined by the unit price as agreed in the contract times and the quantity of raw materials actually delivered times a specific percentage and the remaining price shall be settled at the end of each construction project. Prepayments for raw materials procurement may be required on a case by case basis and by negotiation; and
- Liquidated damages** : In the event of (i) delay in delivery of the raw materials; or (ii) failure to meet the quality standards for raw materials, our suppliers are liable for the liquidated damages and are required to compensate us for the losses that we sustained, if any.

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Inventory

Our inventory mainly consists of raw materials, mainly being steel, cement, masonry, concrete and consumables. As the raw materials we procured are directly transported to our work sites, we keep low inventory levels for our operations. As at 31 December 2019, 2020 and 2021 and 30 September 2022, our inventories amounted to RMB0.7 million, RMB3.3 million, RMB3.0 million and RMB0.9 million, respectively.

Subcontracting

During the Track Record Period, we engaged subcontractors to provide labour subcontracting services and certain specialised construction services such as curtain wall construction, installation of lifts, waterproofing and fireproofing works. For each of FY2019, FY2020, FY2021 and 3Q2022, the total labour and construction subcontracting fees paid by us to the subcontractors engaged by us amounted to approximately RMB569.0 million, RMB569.6 million, RMB644.4 million and RMB502.1 million, respectively, accounting for approximately 34.7%, 36.0%, 39.6% and 41.2% of our total cost of sales, respectively.

Given the professional expertise and comparative advantage our subcontractors have, we believe our engagement of them can speed up the construction progress, lower the costs and thereby improving cost efficiency. Moreover, subcontracting enables us to leverage on certain qualifications held by the subcontractors which our Group does not possess. We follow strict criteria in selecting subcontractors and maintain a list of qualified subcontractors which we would usually choose from. We generally select subcontractors through a tendering process. Subcontractors to participate in the tendering should pass our internal evaluation and be one of our qualified subcontractors. A majority of such tenderings have been conducted through tender by invitation. We select subcontractors primarily based on their qualifications, technological capabilities, track record in quality and safety, financial strengths and offer prices.

Our management procedures include: (i) adopting a series of progress monitoring measures, which include requiring subcontractors to formulate work schedules and furnish progress reports, monitoring the implementation of work schedules and adjusting the same when necessary, as well as implementing assessment, inspection and appraisal systems in this regard; (ii) adopting a series of strict cost auditing measures, which are reviewed regularly; and (iii) designating personnels to communicate with and supervise the construction and preparation of our subcontractors.

We also require our subcontractors to comply with our work safety standards and policies, and to take measures to avoid any safety or other incidents during the course of their services. In the event of any material failure by our subcontractors to meet our safety or quality standards, we may cease to work with and/or claim damages from them. We incorporate subcontractors' work

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quality, progress, health, safety and environmental protection record into our management system, as we remain responsible to our customers for our subcontractors' contractual performance pursuant to the contracts or applicable laws.

Specialised Construction Services Subcontracting

We engage subcontractors from time to time to provide certain ancillary construction services which require a certain level of expertise (such as curtain wall construction, installation of lifts, fireproofing and waterproofing works) pursuant to the requirement of our customers, or if in the interest of the construction project. We believe it is more beneficial to subcontract certain specialised construction services where the construction subcontractors will be responsible for the completion of the contracted matters. We engage our construction subcontractors on a project-by-project basis. For each of FY2019, FY2020, FY2021 and 3Q2022, the total subcontracting fees we paid to our specialised construction services subcontractors amounted to approximately RMB131.1 million, RMB191.3 million, RMB124.3 million and RMB180.7 million, respectively, accounting for approximately 8.0%, 12.1%, 7.6% and 14.8% of our total cost of sales, respectively.

The terms of our subcontracting arrangements with construction subcontractors may vary depending on our construction contracting contracts with our customers. The following table sets out a summary of the principal terms of our typical specialised construction subcontracting contracts:

Responsibilities : Our construction subcontractors are responsible for completing the contracted ancillary construction services based on our construction plan by allocating the necessary personnel, construction materials and equipment. They must comply with our various policies and follow our instructions on the construction site. They are responsible for meeting our project schedule and our quality, safety and accident prevention standards. They are also required to provide monthly progress reports to us.

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Quality and safety : Our construction subcontractors are responsible for reworks and the associated costs if the quality of the subcontracted work fails to meet the quality standards as required by us, relevant regulations or local governmental authorities. In general, most of our construction subcontracting contracts provide that our construction subcontractors are responsible for the financial and legal liability arising from safety accidents occurred during their construction work.

According to the relevant PRC laws and regulations, we, as the general contractor, hold general liability to such accidents. We and our construction service subcontractor hold joint and several liability to any safety accidents on the construction project. Our construction service subcontractor shall hold the principal liability if the safety accident was a result of its non-compliance with the general contractor's health and safety management procedures.

Raw material procurement : In most cases, our construction subcontractors are responsible for purchasing raw materials that they need for their subcontracted work and the related raw material costs is borne by our construction subcontractors.

Subcontracting fees : We may prepare our construction subcontracting contracts based on a fixed-unit-price or fixed-total-price basis, depending on the duration and scale of the construction project. We prefer to enter into fixed-total-price contracts with our construction subcontractors as this can prevent our subcontracting costs from being affected by market price fluctuations. For fixed-total-price construction subcontracting contracts, the contract value includes labour costs, raw material costs, machinery and equipment costs, tax and other fees incurred in association with the subcontracted work. For fixed-unit-price construction subcontracting contracts, the contract value is determined by a unit price and the total volume of actual work performed by the subcontractors.

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- Payment schedule** : In most cases, we make progress payments to our construction subcontractors calculated based on the subcontracted work actually completed, with generally 10% to 30% withheld by us until final inspection and acceptance of the construction project. After completion of the project, we settle accounts with the construction subcontractors where the remaining amounts from each progress payments (save for the retention money).
- Warranty** : Most of our construction subcontracting contracts provide for a warranty period by our construction subcontractors for a period of one to two years.
- Liquidated damages** : In most cases, our construction subcontractors are subject to liquidated damages for each day they delay the schedule of our construction projects, for any safety accidents occurred in connection with the construction and for other breaches of the construction subcontracting contracts. Our Directors advise that, during the Track Record Period and up to the Latest Practicable Date, we did not receive any liquidated damages from our construction subcontractors.
- Termination** : In most cases, we are entitled to terminate the construction subcontracting contracts in the event that our construction subcontractors assign or subcontract the work, materially delay our project schedule, or cause material quality issues or safety accidents during their construction work.

Labour Subcontracting

During the Track Record Period, we entered into labour subcontracting service contracts on a project-by-project basis to supply the labour force in our construction projects. For each of FY2019, FY2020, FY2021 and 3Q2022, the total labour subcontracting fees paid by us to the labour subcontractors engaged by us amounted to approximately RMB437.8 million, RMB378.3 million, RMB520.1 million and RMB321.4 million, respectively, accounting for approximately 26.7%, 23.9%, 32.0% and 26.4% of our total cost of sales, respectively.

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The following table sets out a summary of the principal terms of our typical labour services contract:

- Responsibilities** : Our labour subcontractors are responsible for providing labour force which works under our instruction for our project as stipulated in our labour services contracts. In most cases, the labour subcontractors are responsible for some of the tools, small-sized machinery and safety equipment needed on each construction project.
- Quality and safety** : Our labour subcontractors are responsible for reworks and the associated costs if the quality of the subcontracted work fails to meet our quality standards. Generally, we are responsible for the overall management of the on-site personnel on our construction projects, setting the safety measures and monitoring the construction progress to ensure the quality standard of our construction projects. Our labour subcontractors are primarily responsible for ensuring that the quality of the subcontracted work meets our quality standards, conducting training of the subcontracted workers and monitoring their adherence to the safety measures and procedures. According to the relevant PRC laws and regulations, we, as the general contractor, hold general liability to such accidents. We and our labour subcontractors hold joint and several liability to any safety accidents on the construction project. Our labour subcontractors shall hold the principal liability if the safety accident was a result of its non-compliance with the general contractor's health and safety management procedures.
- Liquidated damages** : Our labour subcontractors are subject to liquidated damages for each day they delay the schedule of our construction projects. Our Directors advise that, during the Track Record Period and up to the Latest Practicable Date, we did not receive any liquidated damages from our labour subcontractors.

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- Subcontracting fees** : Most of our labour services contracts are prepared on a fixed price on total costs or per unit price. The contract price is calculated by the unit price per square metre of construction and the gross floor area of construction. The unit price is determined based on a number of factors, which generally includes labour costs and management fees, plus a reasonable profit margin for our labour subcontractors. We adopt the fixed-unit-price to prevent our labour subcontracting costs from being affected by wage fluctuations in the market and limiting our exposure to the increase of labour cost. We believe that such pricing arrangement is the norm in our industry.
- Retention money** : In some cases, our labour subcontracting contracts may provide for a retention money for 3% to 5% of the contract value to be retained by us. The retention money is usually paid in full after the warranty period.
- Payment schedule** : We generally make progress payments to our labour subcontractors upon our checking and acceptance of their work, which is calculated as the percentage of completion applied to the total contract value, less approximately 5% to 10% which is withheld by us until final inspection and acceptance of the construction project.
- Warranty** : In some cases, our labour subcontracting contracts may provide for a warranty period by our labour subcontractors for a period of one to three years for the quality of the subcontracted work.
- Termination** : We are entitled to terminate the labour services contracts in the event that our labour subcontractors subcontract the work illegally or without our consent, fail to complete the project in accordance with our project schedule or the quality of the subcontracted work fails to meet our quality standards. Our labour subcontractors may be required to pay us a penalty or bear all economic losses arising from such termination.

For details, please refer to the section headed “Risk Factors — Risks relating to our business — We have limited control over the quality, availability and costs of our subcontractors and subcontracted workers” in this document for more information on the risks associated with specialised construction services subcontracting and labour subcontracting.

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Sales and Marketing

As at the Latest Practicable Date, our market operation department comprised five sales personnel. Our market operation department is responsible for preparing tender submission proposal, maintaining customer relationships, handling public relations, managing operation risks, conducting evaluation on our customers, conducting market research, and is responsible for our Group’s overall sales and marketing policy. We also maintain our own database for bidding and tendering, and pay efforts to identify and explore new tendering opportunities based on public and available information from the government and on the internet. Through our sales and marketing efforts, we keep abreast of information of new and potential projects of existing and potential customers.

Our customers include government entities, state-owned enterprises and state-invested enterprises (collectively, Government-related Entities) and private enterprises. A vast majority of our construction projects were obtained by way of tenders. In FY2019, FY2020, FY2021 and 3Q2022, we submitted 114, 172, 102, and 179 tender documents, respectively, and our tender success rates were 28.1%, 19.2%, 25.5% and 10.6%, respectively. On a few occasions, we were engaged in several related projects and/or entered into multiple contracts with the same customer by way of one single tender.

CUSTOMERS AND SUPPLIERS

Customers

Our customers include government entities, state-owned enterprises, state-invested enterprises (collectively, Government-related Entities) and private enterprises. For FY2019, FY2020, FY2021 and 3Q2022, approximately RMB662.9 million, RMB453.3 million, RMB447.7 million and RMB676.5 million of our revenue was generated from Government-related Entities, representing 36.4%, 25.6%, 24.6% and 49.5% of our total revenue during the same years, respectively. For each of FY2019, FY2020, FY2021 and 3Q2022, revenue from our top five customers amounted to approximately RMB841.7 million, RMB796.6 million, RMB846.0 million and RMB579.7 million, respectively, accounting for 46.2%, 45.0%, 46.4% and 42.4% of our total revenue, respectively. Revenue from our largest customer for each of FY2019, FY2020, FY2021 and 3Q2022 amounted to approximately RMB328.5 million, RMB312.1 million, RMB367.7 million and RMB223.2 million, respectively, accounting for 18.0%, 17.6%, 20.2% and 16.3% of our total revenue, respectively. During the Track Record Period we did not have any long-term strategic cooperation agreement with our customers. For details, please refer to the paragraph headed “Customers and Suppliers — Overlapping of customers and suppliers” in this section.

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The following table sets forth our top five customers for the periods indicated:

Ranking	Customer (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Revenue <small>RMB'000</small>	% of total revenue
<i>For FY2019</i>							
1	Zhongtian Holdings Group (Note 3)	Real estate development, provision of ancillary building services and manufacture of steel structure based in Hunan Province	2016	10 to 30 days	Bank transfer	328,490	18.0
2	Zhuzhou Economic Development Group (Note 5)	Real estate development based in Hunan Province	2012	30 days	Bank transfer	183,203	10.1
3	Oriental Shouchuang Xingda Investment Co., Ltd.* (東方 首創興達投資有限公司) (Note 2)	Real estate development based in Hainan Province	2016	10 days	Bank transfer	133,852	7.3
4	Hunan Liling Underglaze Wucui City Development and Construction Co., Ltd.* (湖 南醴陵釉下五彩城開發建設 有限公司) (Note 6)	Real estate development based in Hunan Province	2018	30 days	Bank transfer	115,848	6.4
5	Zhuzhou Hetang District Housing and Urban Rural Development Bureau* (株洲 市荷塘區住房和城鄉建設局)	Government bureau in Hunan Province	2018	30 days	Bank transfer	80,284	4.4

Ranking	Customer (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Revenue <small>RMB'000</small>	% of total revenue
<i>For FY2020</i>							
1.	Zhongtian Holdings Group (Note 3)	Real estate development, provision of ancillary building services and manufacture of steel structure based in Hunan Province	2016	10 to 30 days	Bank transfer	312,131	17.6
2.	Customer P (Note 7)	New energy technology research and development based in Hainan Province	2020	10 days	Bank transfer	220,518	12.5
3.	Zhuzhou Economic Development Group (Note 5)	Real estate development based in Hunan Province	2012	30 days	Bank transfer	130,531	7.4
4.	Langting Real Estate (Note 4)	Real estate development based in Hunan Province	2017	90 days	Bank transfer	74,866	4.2
5.	Customer Group O (Note 8)	Urban infrastructure construction management and project development based in Hunan Province	2012	10 to 30 days	Bank transfer	58,589	3.3

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Ranking	Customer (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Revenue	% of total revenue
<i>RMB'000</i>							
<i>For FY2021</i>							
1.	Zhongtian Holdings Group (Note 3)	Real estate development, provision of ancillary building services and manufacture of steel structure based in Hunan Province	2016	10 to 30 days	Bank transfer	367,739	20.2
2.	Customer P (Note 7)	New energy technology research and development based in Hainan Province	2020	10 days	Bank transfer	133,130	7.3
3.	Customer M (Note 9)	Real estate development based in Hainan Province	2020	30 days	Bank transfer	128,904	7.1
4.	Chaling County People's Hospital* (茶陵縣人民醫院)	A public hospital in Hunan Province	2020	30 days	Bank transfer	120,461	6.6
5.	Customer Group C (Note 10)	Trading and manufacturing of railway equipment based in Beijing	2017	30 days	Bank transfer	95,776	5.3

Ranking	Customer (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Revenue	% of total revenue
<i>RMB'000</i>							
<i>For 3Q2022</i>							
1.	Zhongtian Holdings Group (Note 3)	Real estate development, provision of ancillary building services and manufacture of steel structure based in Hunan Province	2016	10 to 30 days	Bank transfer	223,237	16.3
2.	Customer M (Note 9)	Real estate development based in Hainan Province	2020	30 days	Bank transfer	136,128	10.0
3.	Hunan Kairuisi New Material Technology Co., Ltd.* (湖南凱睿思新材料科技有限公司) (Note 11)	Trading and manufacturing of electronic materials based in Hunan Province	2022	30 days	Bank transfer	82,781	6.1
4.	Zhuzhou Jincheng Investment Holding Group Co., Ltd.* (株洲金城投資控股集團有限公司) (Note 12)	Industrial investment based in Hunan Province	2016	30 days	Bank transfer	69,603	5.1
5.	Xupu County Urban Construction Investment Co., Ltd.* (溱浦縣城市建設投資有限公司) (Note 13)	Engineering management based in Hunan Province	2017	30 days	Bank transfer	67,832	5.0

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Notes:

1. Some of our customers are associated with each other. Customers that are under the control of the same ultimate holding company, despite being separate legal entities, are grouped together and regarded as one single customer. Except for Wuguang Investment which is wholly-owned by Hengji Real Estate and our deemed connected person, we acquainted with these customers primarily through tendering. According to F&S, it is an industry norm that the construction companies usually have relatively short business relationship with their customers as most of the construction project(s) are obtained through tendering and the contractors are engaged on a project-by-project basis.
2. Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) is a private company established in the PRC with limited liability and RMB60 million of registered capital, which is based in Hainan Province and is principally engaged in the business of real estate development. To the best knowledge of our Directors, Oriental Shouchuang Xingda Investment Co., Ltd.* (東方首創興達投資有限公司) is wholly-owned by a corporate shareholder which is owned by the two individuals who are Independent Third Parties.
3. Zhongtian Holdings Group represented four companies which Zhongtian Holdings had interests, namely Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence. For details of such companies, please refer to the sections headed “Relationship with our Controlling Shareholder — Other businesses held by Zhongtian Holdings” and “History, Development and Reorganisations — Disposal of Interests in Hangxiao Technology” in this document.
4. Langting Real Estate is a private company established in the PRC with limited liability and RMB10 million of registered capital, which is based in Hunan Province and is principally engaged in the business of real estate development. To the best knowledge of our Directors, it is jointly owned by five individuals who are Independent Third Parties.
5. A group of companies based in the PRC and the holding company of which is a state-owned enterprise. The aforementioned holding company is principally engaged in the business of real estate development and has a registered capital of RMB50 million. To the best knowledge of our Directors, the aforementioned holding company is an Independent Third Party.
6. Hunan Liling Underglaze Wucui City Development and Construction Co., Ltd.* (湖南醴陵釉下五彩城開發建設有限公司) is a private company established in the PRC with limited liability and RMB60 million of registered capital, which is based in Hunan Province and is principally engaged in the business of real estate development. To the best knowledge of our Directors, Hunan Liling Underglaze Wucui City Development and Construction Co., Ltd.* (湖南醴陵釉下五彩城開發建設有限公司) is ultimately owned by two individuals who are Independent Third Parties.
7. A private company established in the PRC with limited liability and RMB50 million of registered capital. Customer P is based in Hainan province and is principally engaged in the business of new energy technology research and development. To the best knowledge of our Directors, Customer P is wholly-owned by three individuals who are Independent Third Parties.
8. A group of companies based in the PRC and the holding company of which is a state-owned enterprise. The aforementioned holding company is principally engaged in the business of urban infrastructure construction management and project development and has a registered capital of RMB4 billion. To the best knowledge of our Directors, Customer Group O together with the aforementioned holding company are Independent Third Parties.
9. A private company established in the PRC with limited liability and RMB10 million of registered capital. Customer M is based in Hainan Province and is principally engaged in the business of real estate development. To the best knowledge of our Directors, it is ultimately wholly owned by five individuals which are Independent Third Parties.

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10. A group of companies based in the PRC which are indirect non-wholly owned subsidiaries of a state-owned enterprise with RMB23 billion of registered capital (the “**Common Shareholder**”). Two of the companies are the subsidiaries of a company dual listed on the Main Board and the Shanghai Stock Exchange which is held as to 50.73% by the Common Shareholder. The said listed company is principally engaged in the business of trading and manufacturing of railway equipment and, for the year ended 31 December 2021, recorded a total revenue and net profit of approximately RMB226 billion and RMB15 billion, respectively. To the best knowledge of our Directors, Customer Group C together with the Common Shareholder are Independent Third Parties.
11. Hunan Kairuisi New Material Technology Co., Ltd.* (湖南凱睿思新材料科技有限公司) is a private company established in the PRC with limited liability and RMB300 million of registered capital, which is based in Hunan Province and is principally engaged in the business of trading and manufacturing of electronic materials. To the best knowledge of our Directors, it is jointly owned by fourteen individuals who are Independent Third Parties.
12. Zhuzhou Jincheng Investment Holding Group Co., Ltd.* (株洲金城投資控股集團有限公司) is a state-owned company established in PRC with limited liability and RMB1 billion of registered capital, which is based in Hunan Province and is principally engaged in the business of industrial investment.
13. Xupu County Urban Construction Investment Co., Ltd.* (溱浦縣城市建設投資有限公司) is a state-owned company established in the PRC with limited liability and RMB137.8 million of registered capital, which is based in Hunan Province and is principally engaged in the business of engineering management.

Hengji Real Estate, Hangxiao Technology and Fangge Intelligence are owned by Zhongtian Holdings as to 85.82%, 68.29% and 70.00%, respectively, and Wuguang Investment is wholly-owned by Hengji Real Estate. ZT (A) is owned by the same group of shareholders of Zhongtian Holdings proportional to their respective shareholdings (subject to rounding) in Zhongtian Holdings immediately before the Reorganisation. Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence are deemed connected persons of our Company. Our Directors confirm that as at the Latest Practicable Date, except for Zhongtian Holdings Group, all of our top five customers were Independent Third Parties. As at the Latest Practicable Date, except for Zhongtian Holdings Group, all of our top five customers have no past or present relationships (including, but not limited to, employment, trust, financing, or family relationship) with our Group, our directors, shareholders, senior management or any of their respective associates. For details of our relationship and transactions with Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence upon the [REDACTED], please refer to the section headed “Connected Transactions” in this document. Save for the indirect interest of the shareholders of ZT (A) in Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence, none of our Directors and their respective close associates or any of the Shareholders (owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period.

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Credit Policy

We generally grant credit terms of up to three months to our customers. In determining the applicable credit terms, we perform credit evaluation on each customer with reference to various factors including our past business relationship with them, payment history, reputation, financial strength and our evaluation on their future operation risk. We implement internal control measure and review the overdue receivables regularly to control our outstanding trade and bills receivables. Our customers usually settle our bills by bank transfers.

As at 31 December 2019, 2020 and 2021 and 30 September 2022, our trade and bills receivables (net) were approximately RMB482.8 million, RMB509.9 million, RMB445.4 million and RMB386.7 million, respectively. For each of FY2019, FY2020, FY2021 and 3Q2022, our average trade and bills receivables turnover days were 76.9, 103.9, 97.3 days and 85.1 days, respectively. For details on our trade and bills receivables, average trade and bills receivables turnover days and credit risks, please refer to the section headed “Financial Information” in this document.

Suppliers

Our suppliers mainly include raw materials suppliers, subcontractors for labour services and subcontractors for specialised construction works. For each of FY2019, FY2020, FY2021 and 3Q2022, purchase from our top five suppliers amounted to approximately RMB357.9 million, RMB322.3 million, RMB474.5 million and RMB298.3 million, respectively, accounting for 21.8%, 20.3%, 29.2% and 24.5% of our total cost of sales, respectively. Purchase from our largest supplier for each of FY2019, FY2020, FY2021 and 3Q2022 amounted to approximately RMB138.0 million, RMB97.1 million, RMB158.5 million and RMB74.9 million, respectively, accounting for 8.4%, 6.1%, 9.7% and 6.2% of our total cost of sales, respectively.

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The following table sets forth our top five suppliers for the periods indicated:

Ranking	Supplier (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Transaction amount	% of total cost of sales
<i>RMB'000</i>							
<i>For FY2019</i>							
1	Hunan Buer Labor Subcontracting Co., Ltd.* (湖南不二勞務分包有限公司) (Note 6)	Labour subcontractor based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	137,963	8.4
2	Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) (Note 4)	Labour subcontractor and equipment lessor based in Hunan Province	2017	1 to 3 month(s)	Bank transfer	81,822	5.0
3	Supplier A (Note 2)	Labour subcontractor based in Hainan Province	2017	1 to 3 month(s)	Bank transfer	62,495	3.8
4	Zhuzhou Dahan Steel Trading Co., Ltd.* (株洲大漢鋼鐵貿易有限公司) and Zhuzhou Dahan Iron and Steel Supply Chain Co., Ltd.* (株洲大漢鋼鐵供應鏈有限公司) (“ Zhuzhou Dahan Group ”) (Note 3)	Construction raw material provider and real estate developer based in Hunan Province	2017	5 to 45 days	Bank transfer or banks’ acceptance bill	41,697 (Note 10)	2.5
5	Hunan Zhuzhou South New Material Technology Co., Ltd.* (湖南株洲南方新材料科技有限公司), Hunan Changde Nanfang New Material Technology Co., Ltd.* (湖南常德南方新材料科技有限公司), (“ Hunan Zhuzhou South New Material Group ”) (Note 5)	Construction raw material provider based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	33,888 (Note 11)	2.1

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Ranking	Supplier (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Transaction amount	% of total cost of sales
<i>RMB'000</i>							
<i>For FY2020</i>							
1.	Hunan Buer Labor Subcontracting Co., Ltd.* (湖南不二勞務分包有限公司) (Note 6)	Labour subcontractor based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	97,136	6.1
2.	Supplier A (Note 2)	Labour subcontractor based in Hainan Province	2017	1 to 3 month(s)	Bank transfer	84,301	5.3
3.	Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) (Note 4)	Labour subcontractor and equipment lessor based in Hunan Province	2017	1 to 3 month(s)	Bank transfer	67,998	4.3
4.	Hunan Zhuzhou South New Material Group (Note 5)	Construction raw material provider based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	40,060 (Note 12)	2.5
5.	Supplier I (Note 7)	Construction raw material Provider based in Hainan Province	2020	1 to 3 month(s)	Bank transfer	32,771	2.1

Ranking	Supplier (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Transaction amount	% of total cost of sales
<i>RMB'000</i>							
<i>For FY2021</i>							
1.	Supplier A (Note 2)	Labour subcontractor based in Hainan Province	2017	1 to 3 month(s)	Bank transfer	158,464	9.7
2.	Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) (Note 4)	Labour subcontractor and equipment lessor based in Hunan Province	2017	1 to 3 month(s)	Bank transfer	99,401	6.1
3.	Zhongtian Holdings Group (Note 8)	Design and manufacture of steel structure and provision of ancillary building services based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	92,912 (Note 13)	5.7
4.	Hunan Buer Labor Subcontracting Co., Ltd.* (湖南不二勞務分包有限公司) (Note 6)	Labour subcontractor based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	82,746	5.1
5.	Supplier H (Note 9)	Construction material provider based in Hainan Province	2020	nil	Bank transfer	41,654 (Note 14)	2.6

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Ranking	Supplier (Note 1)	Principal business	Commencement of business relationship since	Credit terms	Payment methods	Transaction amount	% of total cost of sales
<i>RMB'000</i>							
<i>For 3Q2022</i>							
1.	Supplier A (Note 2)	Labour subcontractor based in Hainan Province	2017	1 to 3 month(s)	Bank transfer	74,939	6.2
2.	Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) (Note 4)	Labour subcontractor and equipment lessor based in Hunan Province	2017	1 to 3 month(s)	Bank transfer	74,408	6.1
3.	Zhongtian Holdings Group (Note 8)	Design and manufacture of steel structure based in Hunan Province and provision of ancillary building services based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	62,291 (Note 15)	5.1
4.	Hunan Buer Labor Subcontracting Co., Ltd.* (湖南不二勞務分包有限公司) (Note 6)	Labour subcontractor based in Hunan Province	2018	1 to 3 month(s)	Bank transfer	46,787	3.8
5.	Supplier H (Note 9)	Construction material provider based in Hainan Province	2020	nil	Bank transfer	39,904 (Note 16)	3.3

Notes:

- Some of our suppliers are associated with each other. Suppliers that are under the control of the same ultimate holding company, despite being separate legal entities, are grouped together and regarded as one single supplier. We commenced our business relationship with these suppliers primarily through a bidding process and/or the selection from our list of qualified suppliers. Our Group procured a significant amount of labour subcontracting services from these newly established companies as we regularly evaluate and update our list of qualified suppliers with new suppliers to meet our business needs, and that we considered the quotations from these newly established companies are more competitive than other labour subcontractors. According to F&S, newly established companies usually provide more competitive offers than well-established labour subcontractors in order to expand their business and increase their market share at their early stage of development, also, construction labour supply in Hunan and Hainan Province is sufficient and it is not difficult for labour subcontracting company to hire sufficient labour to perform for their engaged projects. Therefore, these newly established companies managed to procure the substantial amount of labour required by our Group shortly after their establishment.
- Supplier A is a private limited liability company established in the PRC with RMB2 million of registered capital, which is based in Hainan Province and is principally engaged in the business of the provision of labour subcontracting services. To the best knowledge of our Directors, Supplier A is wholly-owned by an individual who is an Independent Third Party.

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3. Zhuzhou Dahan Group is a group of companies based in the PRC which are indirect non-wholly owned subsidiaries of a private limited company based in Hunan Province with RMB800 million of registered capital. The said holding company is principally engaged in the business of real estate development and supply of construction raw materials and, to the best knowledge of our Directors, is wholly-owned by three individuals who are Independent Third Parties.
4. Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) is a private limited liability company established in the PRC with RMB2 million of registered capital, which is based in Hunan Province and is principally engaged in the business of the provision of labour subcontracting services and the leasing of equipment. To the best knowledge of our Directors, Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) is wholly-owned by two individuals who are Independent Third Parties.
5. Hunan Zhuzhou South New Material Group is a group of companies based in the PRC, and the holding company is a state-owned enterprise with RMB300 million of registered capital, which is based in Hunan Province and is principally engaged in the business of the provision of construction materials. To the best knowledge of our Directors, Hunan Zhuzhou South New Material Group together with the aforementioned holding company are Independent Third Parties.
6. Hunan Buer Labor Subcontracting Co., Ltd.* (湖南不二勞務分包有限公司) is a private limited liability company established in the PRC with RMB2 million of registered capital, which is based in Hunan Province and is principally engaged in the business of the provision of labour subcontracting services. To the best knowledge of our Directors, Hunan Buer Labor Subcontracting Co., Ltd.* (湖南不二勞務分包有限公司) is wholly-owned by two individuals who are Independent Third Parties.
7. Supplier I is a private limited liability company established in the PRC with RMB30 million of registered capital, which is based in Hainan Province and is principally engaged in the business of provision of construction materials. To the best knowledge of our Directors, Supplier I is wholly-owned by three individuals who are Independent Third Parties.
8. Zhongtian Holdings Group represented four companies which Zhongtian Holdings had interests, namely Hengji Real Estate, Wuguang Investment, Hangxiao Technology and Fangge Intelligence. For details, please refer to the sections headed “Relationship with our Controlling Shareholder — Other businesses held by Zhongtian Holdings” and “History, Development and Reorganisations — Disposal of Interests in Hangxiao Technology” in this document.
9. Supplier H is a private limited liability company established in the PRC with RMB10 million of registered capital, which is based in Hainan Province and is principally engaged in the business of provision of construction materials. To the best knowledge of our Directors, Supplier H is wholly owned by two individuals who are Independent Third Parties.
10. This transaction amount includes the purchase of raw materials (i) for our construction projects of approximately RMB34.0 million and (ii) for our R&D activities of approximately RMB7.7 million.
11. This transaction amount includes the purchase of raw materials (i) for our construction projects of approximately RMB31.8 million and (ii) for our R&D activities of approximately RMB2.1 million.
12. This transaction amount includes the purchase of raw materials (i) for our construction projects of approximately RMB37.8 million and (ii) for our R&D activities of approximately RMB2.2 million.
13. This transaction amount includes the purchase of raw materials (i) for our construction projects of approximately RMB86.8 million and (ii) for our R&D activities of approximately RMB5.5 million.

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14. This transaction amount includes the rental of equipment (i) for our construction projects of approximately RMB39.0 million and (ii) for our R&D activities of approximately RMB2.7 million.
15. This transaction amount includes the purchase of raw materials (i) for our construction projects of approximately RMB60.6 million and (ii) for our R&D activities of approximately RMB1.7 million.
16. This transaction amount includes the purchase of raw materials (i) for our construction projects of approximately RMB37.0 million and (ii) for our R&D activities of approximately RMB2.9 million.

Our Directors confirm that as at the Latest Practicable Date, save for one of the ex-shareholders of Hunan Jujiang Construction Labor Co., Ltd.* (湖南聚匠建設勞務有限公司) being our employee, all of our top five suppliers for each of the year/period during the Track Record Period were Independent Third Parties and they have no past or present relationships (including, but not limited to, employment, trust, financing, or family relationship) with our Group, our Directors, shareholders, senior management or any of their respective associates. None of our Directors and their respective close associates or any of the Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest suppliers during the Track Record Period.

Overlapping of Customers and Suppliers

Hangxiao Technology had been both a customer and a supplier of our Group during the Track Record Period. Hangxiao Technology was established in the PRC on 19 December 2017 and it engages in the design and manufacture of steel structure. It had been held by Zhongtian Construction as to 63.0% from 19 September 2017 to 1 March 2019. On 1 March 2019, our Group disposed of our entire 63.0% shareholding interests in Hangxiao Technology and ceased to hold any share in Hangxiao Technology. For details of Hangxiao Technology, please refer to the section headed “History, Development and Reorganisation — Disposal of interests in Hangxiao Technology” in this document. Hangxiao Technology is our deemed connected person. For details, please refer to the section headed “Connected Transactions” in this document.

Hangxiao Technology is principally engaged in the design and manufacture of steel structure. In view of the growing market of prefabricated steel structure building construction in the PRC and the on-going government supportive policies in this regard, Zhongtian Construction entered into the EPC Tripartite Framework Agreement in November 2017 with Hangxiao Technology and Hunan Design Institute, a state-owned company established in the PRC, to jointly develop prefabricated steel structure building system for residential properties under the EPC model.

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During the Track Record Period, our Group provided building construction services to Hangxiao Technology and also purchased steel construction products or processing services from Hangxiao Technology, which is in accordance with the terms of the relevant contracts with Hangxiao Technology.

The following table sets out our Group’s revenue, purchase and gross profit amount from Hangxiao Technology during the Track Record Period:

	FY2019		FY2020		FY2021		3Q2022											
	RMB’000	% of total	RMB’000	% of total	RMB’000	% of total	RMB’000	% of total										
Revenue generated from our provision of construction services to Hangxiao Technology																		
	62,650	3.5	25,323	1.4	10,746	0.6	1,482	0.1										
Gross profit for our provision of construction services to Hangxiao Technology																		
	7,177	3.9	2,958	1.6	1,226	0.6	169	0.1										
Our purchases from Hangxiao Technology																		
	16,261	1.0	22,172	1.4	92,270	5.8	55,720	4.6										
<div style="text-align: center;"> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="border-top: 1px solid black;">FY2019</th> <th style="border-top: 1px solid black;">FY2020</th> <th style="border-top: 1px solid black;">FY2021</th> <th style="border-top: 1px solid black;">3Q2022</th> </tr> </thead> <tbody> <tr> <td>Weighted average gross profit margins for our provision of construction services to Hangxiao Technology . . .</td> <td style="text-align: center;">11.5%</td> <td style="text-align: center;">11.7%</td> <td style="text-align: center;">11.4%</td> <td style="text-align: center;">11.4%</td> </tr> </tbody> </table> </div>										FY2019	FY2020	FY2021	3Q2022	Weighted average gross profit margins for our provision of construction services to Hangxiao Technology . . .	11.5%	11.7%	11.4%	11.4%
	FY2019	FY2020	FY2021	3Q2022														
Weighted average gross profit margins for our provision of construction services to Hangxiao Technology . . .	11.5%	11.7%	11.4%	11.4%														

During the Track Record Period, we were engaged by Hangxiao Technology for two construction projects, namely Zhongtian Hangxiao Steel Structure Prefabricated Building Base Phase I Construction* (中天杭蕭鋼構裝配式建築基地(一期)工程) and R&D Building* (科研樓).

Each of the average gross profit margin of the above two projects engaged by Hangxiao Technology was approximately 12.9% and 10.8%, which were (i) within the range and close to the weighted average gross profit margin of our Group’s other prefabricated steel structure construction work projects not engaged by Zhongtian Holdings Group of approximately 13.0% throughout the Track Record Period; and (ii) close to the average gross profit margin for prefabricated steel structure construction work of approximately 14.3% among industry peers that engage in prefabricated steel structure construction work in FY2021 according to the F&S Report. We granted a credit period of approximately 30 days to Hangxiao Technology, which was within the range of the credit period that was granted to other customers of our Group. For further details on discussion on our Group’s gross profit margins, please refer to section headed “Financial Information — Description of certain key items of our results of operation — gross profit and gross profit margin” in this document.

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During the Track Record Period, our purchases of steel construction products from Hangxiao Technology for FY2019, FY2020, FY2021 and 3Q2022 were mainly for four, 10, 11 and four projects, respectively. The increase in our purchase from Hangxiao Technology in FY2021 was in line with the growth in our Group’s prefabricated steel structure construction works segment, as indicated by the significant increase in revenue generated from prefabricated steel structure construction works from RMB106.3 million in FY2020 to RMB369.8 million in FY2021. In particular, our Group made more purchases in FY2021 for Zhongtian Lutai* (中天•麓台) project with a total contract sum (exclude VAT) of approximately RMB611.1 million and generated revenue of approximately RMB286.6 million in FY2021. In 3Q2022, the decrease in our purchase from Hangxiao Technology was in line with the decrement in the revenue generated from prefabricated steel structure construction works segment.

In respect of the projects which we purchased steel construction products from Hangxiao Technology, the respective weighted average gross profit margins for such four projects in FY2019 was approximately 11.2%, 10 projects in FY2020 was approximately 8.4%, 11 projects in FY2021 was approximately 12.3% and four projects in 3Q2022 was approximately 8.0%, which were within the range and comparable to the weighted average gross profit margins of our Group’s top 10 revenue generating projects for each of FY2019, FY2020, FY2021 and 3Q2022 not involving Hangxiao Technology as the supplier of approximately 9.9% and ranged from 5.5% to 13.0%, 10.9% and ranged from 7.7% to 15.4%, 10.8% and ranged from 6.5% to 14.4% and 11.6% and ranged from 6.4% to 14.4%, respectively. The average gross profit margin for projects involving Hangxiao Technology as supplier increased significantly from approximately 8.4% for FY2020 to 12.3% for FY2021 was due to (i) different projects involved with different gross profit margins; (ii) 80.2% of purchases from Hangxiao Technology in FY2021 were mainly for the Zhongtian Lutai* (中天•麓台) project, which was a prefabricated steel construction project that exhibit a higher gross profit margin than the other construction projects; and (iii) the purchases from Hangxiao Technology in FY2020 were dominated by a few industrial construction projects that in general will have a lower gross profit margin due to the relatively lower construction complexity. In particular, the weighted average gross profit margins of projects involved purchase from Hangxiao Technology in FY2019 and FY2021 of approximately 11.2% and 12.3%, respectively, was higher than the weighted average gross profit margins of our Group’s top 10 revenue generating projects not involving Hangxiao Technology as the supplier due to the purchases in FY2019 and FY2021 were mainly for two different building construction projects, namely Zhongtian Hangxiao Steel Structure Prefabricated Building Base Phase I R&D Building* (中天杭蕭鋼構裝配式建築基地(一期)科研樓) and Zhongtian Lutai* (中天•麓台), which involved the prefabricated steel structure construction service that was relatively more complicated than other types of construction services. For 3Q2022 the average gross profit margin for projects involving Hangxiao Technology as the supplier was approximately 12.2%, which was relatively stable compare with FY2021 despite the number of projects reduced, the dominant project was Zhongtian Lutai* (中天•麓台) project for both periods.

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Our Directors also confirmed that the terms of our sales to and purchases from Hangxiao Technology were determined on a project-by-project basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. The salient terms of the transactions our Group entered into with Hangxiao Technology are similar to those with our other customers and suppliers, which our Directors consider are on normal commercial terms.

Save for Hangxiao Technology, there were no other customers also being suppliers of our Group during the Track Record Period and up to the Latest Practicable Date. Furthermore, having considered that (i) the weighted average gross profit margins for our provision of construction services to Hangxiao Technology was approximately 11.5%, 11.7%, 11.4% and 11.4% respectively throughout the Track Record Period and the relevant credit term granted by Hangxiao Technology was approximately 30 days, which was within the range and close to the weighted average gross profit margin of prefabricated steel structure construction projects with Independent Third Party customers and with similar credit terms; and (ii) the range of prices payable by our Group to Hangxiao Technology for the purchase of raw materials were within the range of quotations obtained from the Independent Third Party suppliers and the credit term offered by Hangxiao Technology is generally one to three months, which were also similar to those Independent Third Party suppliers, we believe that the price and credit terms offered to/by Hangxiao Technology are in line with the market and our transactions with Hangxiao Technology are conducted on normal commercial terms.

QUALITY CONTROL AND MANAGEMENT

We endeavour to achieve high standard quality control and management to maintain our track record of quality, safe and effective performance. During the Track Record Period, we maintained the GB/T19001-2016 idt ISO9001:2015 and GB/T 50430-2017 quality management system certification. Our Directors believe that provision of timely and quality construction works are crucial to build up trust with customers and our reputation and success. We have adopted quality control procedures to implement stringent measures during construction process, from procurement of raw materials and equipment to completion and inspection of construction works. Our technical quality department is responsible for quality management and inspection of the construction projects.

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The following sets forth a summary of our key quality control measures:

- Internal reports and records** : Our project management team is required to keep the relevant reports and records during construction process to document construction progress, inspection results, quality and issues. It is required to issue a project quality report to our technical quality department every ten days.
- Inspection of raw materials** : Before our acceptance of raw materials procured, inspections are conducted by samplers, quality controllers and supervising engineers in accordance with the relevant regulations. We only use raw materials after obtaining their approval and passing our inspection.
- Testing and quality control of construction works** : Our quality controllers are responsible for setting up key points of control throughout the process of our construction. Such points of control allow for close supervision towards the construction work and hence a better prevention of the occurrence of quality issue. Testing of our construction works may be carried out by independent inspection institutions or our project testing laboratory established for such purpose.
- Quality control review** : Our technical quality department conducts quarterly review on our project quality management and control system. We also collect feedbacks from our customers periodically of their satisfactory level on the quality of our construction works and subsequent warranty services.
- Subcontractors** : Our construction subcontractors are required to abide by our quality control measures and meet our quality standards during the course of their performance in our construction projects. Please refer to the paragraph headed "Subcontracting" in this section for further details.

During the Track Record Period, we did not experience any material quality issues or receive any material complaints from our customers about the quality of our construction projects or products.

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ENVIRONMENTAL PROTECTION AND OCCUPATIONAL HEALTH AND SAFETY

Environmental Protection

During our construction process, there are abortive work, building wastage and certain wastage generated including solid waste, noise and polluted air. We have established and implemented an environmental compliance system to specify various environmental protection procedures and measures and ensure our compliance with GB/T24001-2016/ISO14001:2015 standards and the relevant PRC laws and regulations. We have adopted corresponding environmental protection measures to ensure compliance with relevant laws and regulations, including noise control, air pollution control, as well as solid waste and wastewater treatment. In particular, our Group’s governance and management of environmental-related risks are as follows:

(a) Our Group’s governance around environmental-related risks

Our Group acknowledges its responsibility on environmental protection responsibilities and is committed to comply with the Stock Exchange’s reporting requirements on environmental, social and governance (“**ESG**”) upon [REDACTED]. We have established an ESG policy which outlined, among others, (i) the appropriate risk governance on ESG matters; (ii) ESG strategy formation procedures; (iii) ESG risk management and monitoring; and (iv) the identification of key performance indicators (“**KPIs**”) and the relevant measurements. Our Group’s ESG policy was established in accordance with the standards of Appendix 27 to the Listing Rules.

The ESG policy sets out the responsibility, authority and the process for handling and investigating non-conformance, and rectification action to be taken in order to mitigate any negative environmental-related risk impacts, and for initiating and completing corrective and preventive action.

The Board has the overall responsibility for evaluating and determining our Group’s ESG-related risks, and establishing, adopting and reviewing the ESG vision, policy and target of our Group. The Board has established an ESG team (the “**ESG Team**”) to support it in implementing the ESG policy and collecting ESG data from different parties while preparing for the ESG report. It serves as a supportive role and has to report to the Board regularly and to oversee and monitor in implementing measures to address our Group’s ESG-related risks and responsibilities. The ESG Team comprises five staff from middle to senior management, which include the department heads of the technological and work safety departments, the financial controller, the HR manager and the production safety and procurement manager. The ESG Team supports the Board in implementing the ESG policies and to ensure that the ESG targets, strategies and policies agreed by the Board are effectively implemented.

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(b) The actual and potential impact of environmental-related risks on our Group’s business, strategy and financial performance

Our operations at construction sites are subject to certain environmental requirements pursuant to the laws of the PRC, including primarily those in relation to air pollution control, noise control and waste disposal. For details of the regulatory requirements, please refer to the section headed “Regulatory Overview” in this document.

Our Group is committed to environmental protection by conducting our business in an environmentally responsible manner. We usually establish an environmental management system throughout the duration of the projects. The system serves to provide a framework for action and for the setting of the environmental objectives and targets. The system includes, among other things, air pollution and emission, noise control, water pollution discharges, and waste disposal to ensure our Group complies with the statutory obligations at all times.

Our PRC Legal Advisers have advised us that: (i) we did not violate any national or local environmental laws and regulations during the Track Record Period that would materially and adversely affect our business operations; and (ii) we were not subject to any material penalties, claims, lawsuits in respect of environmental laws and regulations during the Track Record Period. The relevant laws and regulations which our Group should abide by are detailed below:

<u>Environmental risks/requirements</u>	<u>Impact and consequence on our Group</u>
(i) Air pollution and emissions	Non-compliance with the Law on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法), promulgated on 5 September 1987 and last amended on 26 October 2018 by the SCNPC, by a company shall be liable to a fine of RMB100,000 to RMB1,000,000 upon conviction (Chapter 99).
(ii) Noise control	Non-compliance with the Law on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) promulgated by the SCNPC on 29 October 1996 and amended on 29 December 2018 by a company shall be liable to a fine for both the company and the person-in-charge (Chapter 48).

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<u>Environmental risks/requirements</u>	<u>Impact and consequence on our Group</u>
(iii) Water pollution and discharges	<p>Non-compliance with the Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) promulgated on 11 May 1984 and last amended on 27 June 2017 by the SCNPC by a company shall be liable to a fine of RMB20,000 to RMB200,000 upon conviction (Chapter 82).</p>
(iv) Waste disposal	<p>Non-compliance with the Law on the Prevention and Control of Solid Waste Pollution (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 by a company shall be liable to a fine of RMB50,000 to RMB1,000,000 upon conviction (Chapter 102).</p> <p>Pursuant to the Environmental Protection Tax Law of the People’s Republic of China (中華人民共和國環境保護稅法) issued by the SCNPC on 26 October 2018 and became effective on the same date, enterprises, units and other production operators that discharge taxable pollutants directly to the environment within the territorial areas of the PRC and other sea areas under the jurisdiction of the PRC are the taxpayers of the environmental protection tax and should pay environmental protection tax based on the requirements of the law. Pursuant to Article 62 of the Law of Administration of Tax Collection of the PRC, where, within the prescribed time limit, a taxpayer fails to go through the formalities for tax declaration and submit information on tax payment or a withholding agent fails to submit to the tax authorities statements on taxes withheld and remitted or collected and remitted and other relevant information, he or she shall be ordered by the tax authorities to rectify within a time limit and may be liable for a fine not more than RMB2,000; and if the circumstances are deemed serious, he or she may be liable for a fine not less than RMB2,000 but not more than RMB10,000.</p>

For details of relevant environmental regulations, please refer to the section headed “Regulatory Overview — Regulations relating to environmental protection” in this document.

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If our Group breaches any environmental law and regulations, or faces any accusation of negligence in environmental protection, it will adversely affect the reputation of our Group and hence our creditability. It may affect our business performances and reduce the competitiveness of our Group to new investors. Our business opportunities may also be negatively impacted, for instance, when tendering for a contract, our Group may be disadvantaged by the reputational damage and loss of creditability, as the tenderee may be less willing to grant the construction project to our Group. To uphold sustainability values, our Group has integrated all environmental considerations into our businesses.

Save for foregoing and up to the Latest Practicable Date, our Directors were not aware of any actual environmental risks that could negatively and materially impact our Group's businesses, strategies and financial performance.

(c) Identification, assessment and management of environmental related risks by our Group

Save for monitoring and reporting on our Group's ESG aspects by the ESG Team on the operational level, our Group will conduct enterprise risk assessment at least once a year to cover the current and potential risks faced by us in our business, including, but not limited to the risks arising from the ESG aspects. The Board will assess or engage independent third party(ies) to evaluate the risks and review our Group's existing strategy, target and internal controls, necessary improvement will be implemented to mitigate the risks.

We proactively identify any major environmental risks related to our business. We have set up metrics and targets for environmental management, to review major environmental risk performance on a regular basis. We will continue to emphasise on environmental protection by allocating sufficient resources such as skilled personnel, technology and capital to ensure our environmental compliance going forward.

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Emissions and consumption

The table below sets forth a breakdown of our gas emission:

	FY2021
	<i>(approximate tonnes)</i>
Gas emissions	
Nitrogen Oxides (“NO _x ”) ^(note 1)	2,226,887
Sulphur Oxides (“SO _x ”) ^(note 1)	11,079
PM ^(note 1)	0.006
Total emissions	2,237,966
Emission density ^(note 2)	12,336

Notes:

1. Refers to the gas emissions resulting from the consumption of fuel in our Group’s operations, including our vehicles and equipment, taking into account the relevant emission rates and driving distances, which exclude external service providers.
2. Refers to the emission of gas in tonne per RMB10 million of revenue.

Our Group emits gas in our daily operations from the consumption of gaseous fuels, such waste gas mainly include pollutants including NO_x and SO_x and respiratory suspended particles such as PM. Our Group emitted a total of approximately 2,211,035 tonnes and 2,237,966 tonnes of waste gas for FY2020 and FY2021. For FY2020 and FY2021, our emission density was approximately 12,554 tonnes and 12,336 tonnes per RMB10 million of revenue.

The table below sets forth a breakdown of our greenhouse gas (“GHG”) emission:

	FY2021
	<i>(approximate tonnes of CO₂e)</i>
GHG emission	
Direct emission ^(note 1)	1,518
Indirect emission ^(note 2)	2,534
Total emission	4,052
Emission density ^(note 3)	22

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Notes:

1. Refers to the carbon dioxide equivalent (“CO₂e”) which include carbon dioxide, methane and nitrous oxide emission attributed to the consumption of fuel in our Group’s daily operations, including vehicles and equipment that are controlled our Group and/or located within the physical boundary of our operations, taking into account the relevant emission rates and driving distances, which exclude external service providers.
2. Refers to CO₂e which include carbon dioxide, methane and nitrous oxide emission attributed to the electricity purchased, taking into account the relevant emission rates, which exclude external service providers.
3. Refers to the emission of GHG in tonne per RMB10 million of revenue.

Our Group generates direct and indirect emissions of GHG due to consumption of fuel and electricity. The total GHG emission of our Group was approximately 4,052 tonnes of CO₂e, respectively for FY2021.

Since January 2020, we requested our subcontractors to purchase gaseous fuel by themselves and bear the relevant costs incurred in construction projects. According to “the Reporting Guidance on Environmental KPIs” issued by the Stock Exchange, emissions generated from the gaseous fuel used by our subcontractors are emissions from outsourced activities or other contractual arrangements, which are classified as emissions other than direct emission. In such case, the abovementioned gas and GHG emissions from sources that are owned or controlled by our Group decreased in FY2021.

We target to maintain the emission density level of gas emissions to the level of FY2021 for FY2022. We have set a target to reduce GHG emission to less than approximately 25.0 tonnes of carbon dioxide emission per RMB10 million of revenue for FY2022.

The table below sets forth a breakdown of our electricity consumption:

	FY2021
Electricity consumption ^(note 1)	<i>approximate kWh</i> 2,810,882
Consumption density ^(note 2)	<i>approximate kWh per RMB10 million</i> 15,494

Notes:

1. Refers to electricity consumed during our construction process and office use.
2. Refers to the electricity consumption per RMB10 million of revenue.

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Our Group consumed approximately 2,810,882 kWh of electricity for FY2021. We regularly review our electricity consumption level and consider methods to reduce energy consumption. We have set a target to reduce our annual electricity consumption to less than approximately 10,000 kWh (kilowatt-hour) per RMB10 million of revenue for FY2022. We are committed to enhancing the overall efficiency to reduce our utility consumption.

In order to manage the environmental-related risks and social sustainability risks, the Board has adopted the measures which are specified in our ESG policy to tackle the risks identified during the enterprise risk assessment and has ensured that any potential risks inherent in our business operations are minimised.

(d) the metrics and targets used to assess and manage such risks (including, without limitation, information relating to pollutants emission and resources consumption).

Apart from the revised disclosure in the Document, our Group has adopted/will adopt the following polices in order to mitigate the emissions/greenhouse gas produced:

- wash vehicle to remove any dusty materials before entering/leaving a site;
- major roads of construction sites are hardened to minimise dust;
- machineries and materials are properly covered during storage;
- vehicles with materials/wastes are properly covered in accordance with relevant regulations;
- combustion of wastes are prohibited;
- switch off all electronic equipment/mobile machinery when it is not in operation; and
- turn off lighting facilities during lunch time, and the last employee who leaves the office/site must ensure that all lights are switched off.

On the other hand, measures to reduce the water usage has been/will be adopted:

- prohibit any wastage of water;
- inspect and identify any water leakage, breakage or other potential damage of water pipes regularly;

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- check metre reading constantly to prevent any hidden leakage;
- post promotional posters and cards in prominent areas of the workplace to remind employees of saving water; and
- promote water-saving education and ideas continuously among our employees.

To reduce the wastage, our Group has adopted/will adopt the following measures:

- reuse and recycle materials whenever applicable; and
- wastes are categorised to identify reuse and recycle materials.

During the Track Record Period, we maintained the GB/T24001-2016/ISO14001:2015 environment management system certification.

Occupational Health and Safety

Our Safety Management System

We have in place stringent internal safety policies to ensure our safe operations and ensure our compliance with relevant PRC laws and regulations. Our work safety, procurement and subcontracting department is responsible for overseeing our compliance with relevant PRC laws and regulations. Our internal safety measures and policies include implementing prevention measures, keeping records for safety incidents, identifying and assessing occupational hazards, conducting regular reviews and inspections of our safety performance, conducting on-site assessments in accordance with the JGJ59-2011 Standard of Construction Safety Inspection (建築施工安全檢查標準) and conducting review of any material accidents. During the Track Record Period, we maintained the ISO45001:2018 occupational health and safety management system certification. Our work safety, procurement and subcontracting department also organises work safety education and training sessions for our employees each year in accordance with national regulations and on an as-needed basis when new technologies, new equipment, new machineries or new resources are involved. To enhance our safety management system, we also evaluate the suitability and effectiveness of our safety management system each year, and identify areas for improvement.

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Our internal safety rules and procedures

We adopt comprehensive safety measures in our construction works projects. Set forth below is a summary of our key safety measures:

Potential safety issues	Safety measures
Injury caused by falling objects or falling from height	All personnel are required to wear safety helmets within construction sites. Workers working at height are required to wear safety belts in addition to safety helmets.
Injury caused by electric shock	Workers carrying out electrical work are required to wear protective footwear and gloves.
Injury caused by fire outbreak	Workers carrying out welding work must be equipped with fire extinguishing equipment. There must be on-site designated person(s) responsible for watching the fire.

We are also required to fulfil, and as at the Latest Practicable Date we have adopted, the requirements under the Administration Regulation on Work Safety License of Construction Enterprise. For details, please refer to the section headed “Regulatory Overview — Construction safety” in this document.

Our Accident Reporting System

Our occupational health and safety management system includes a reporting and record system for safety accidents on our construction sites. The project manager must report the safety accidents to our work safety, procurement and subcontracting department immediately. We will report the accident to the relevant government authority as required by PRC laws and regulations and cooperate with local government authorities to investigate such safety accident.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not have any material workplace accidents and fatalities, and we have not been subject to any material fines, public criticism or warnings in relation to any safety incidents.

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INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as policies based on our assessment of our operational needs and industry practice. We are subject to the social insurance system of the PRC and is required to make contributions for our employees towards five categories of insurance, including make contributions for basic pension, basic medical, unemployment, work injury and maternity insurances for our employees. Consistent with customary practice in China, we did not carry any business interruption or litigation insurance policies, which are not mandatory according to the laws and regulations of the PRC. Our Directors consider that our existing insurance coverage is in line with industry norm and is sufficient for our present operations. Please refer to “Risk Factors — Risks relating to our business — We may have inadequate insurance coverage, and the occurrence of uninsured damages could have adverse effects on our business, financial conditions and results of operations” for more details. During the Track Record Period, we did not experience any material insurance disputes.

INTELLECTUAL PROPERTY

The details of the intellectual property rights owned by our Group are set out in “Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix V to this document. In particular, as at the Latest Practicable Date, we were the registered owner of six trademarks containing “Zhongtian” or “中天” in Hong Kong. As at the Latest Practicable Date, we had not registered any trademark containing “Zhongtian” or “中天” in the PRC.

The Chinese name of our Company and our subsidiaries contain “中天” (Zhongtian). In particular, Zhongtian Construction, our major operating subsidiary, has been using “中天” (Zhongtian) in its name since 2004. Meanwhile, there are many companies whose names contain “中天” (Zhongtian) in the PRC and Hong Kong, including companies in the construction industry.

As advised by Ms. Queenie W.S. Ng (the “**Hong Kong Legal Counsel**”), the legal adviser to our Company as to Hong Kong laws, given that (i) it is common for PRC companies to contain “中天” (Zhongtian) in their names and it would be difficult for a PRC company to prove it owns any goodwill or is well known in Hong Kong if it has not carried on any business or registered any trademark in Hong Kong; (ii) Zhongtian Construction, our major operating subsidiary, has been using “中天” (Zhongtian) in its name since 2004 and had used a stock short name including the words “中天” (Zhongtian) when its shares were quoted on the NEEQ, and there had been no dispute on goodwill and suggestion of confusion; (iii) we have successfully registered trademarks containing “中天” or “Zhongtian” in Hong Kong, and no other companies had registered trademarks containing “中天” or “Zhongtian” in class 37 in Hong Kong as at the Latest Practicable Date; and (iv) the names of our Company and Zhongtian Construction also contain “Construction”

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and “Hunan”, so that the public can distinguish our Company and Zhongtian Construction from other companies whose names contain “中天” (Zhongtian) which (a) engage in the other industries and (b) are headquartered in places other than Hunan Province, the chance of our Group to be successfully claimed for infringement of intellectual property rights and/or passing off in Hong Kong by other companies established in the PRC whose names contain “中天” (Zhongtian), bearing same or similar names and trademarks and conducting similar businesses as our Group is remote.

As advised by our PRC Legal Advisers, taking into account that (i) we do not carry out our business directly under the name of our Company in the PRC and would mainly continue to carry out its business under the name of Zhongtian Construction, whose name was approved by Zhuzhou AMR; (ii) our Group refers our Company as its holding company during business negotiations, which is true and accurate; (iii) our Directors confirmed that our Group has been using the name of Zhongtian Construction in compliance with the laws and without any intention to confuse with other companies or to attach to the reputation of other companies or any objective acts of unauthorised use of other influential company names; (iv) our PRC Legal Advisers interviewed Zhuzhou AMR, the department responsible for matters under the Anti-Unfair Competition Law of the PRC, and Zhuzhou AMR clearly confirmed to our PRC Legal Advisers that, since the authority would conduct name check using its internal system and obtain internal approval which confirmed that such name satisfy the registration requirements before it would approve the name of a company, if Zhongtian Construction refer to our Company as its holding company during business negotiations and carry out business under its own name, it would not be regarded as engaging in acts of confusion and/or unfair competition under the Anti-Unfair Competition Law of the PRC; and (v) based on searches conducted by our PRC Legal Advisers and independent search agent, there was no record of any administrative penalty or prosecution against Zhongtian Construction, for infringement of intellectual property rights and passing off or unfair competition, our PRC Legal Advisers are of the view that, in the absence of evidence that the other PRC companies whose name contain “中天” (Zhongtian) and engage in the construction industry were influential or that the use of the name of our Company and Zhongtian Construction may cause any confusion and misunderstanding to others that they have any relationship with such other companies, the risk that the use of our registered company names would be regarded as engaging in acts of unfair competition through acts of confusion under the Anti-Unfair Competition Law of the PRC is low.

Further, Zhongtian Construction is the registered owner of six trademarks containing “Zhongtian” or “中天” in Hong Kong. After successful registration of such trademarks in Hong Kong, both our trademarks and company names can be protected in Hong Kong. Such trademarks are registered in class 37 which encompasses construction services; installation and repair services; mining extraction, oil and gas drilling. In case there is any other entity engaging in the construction industry in Hong Kong uses names and/or marks which are identical or similar to the name and registered trademarks of our Group which infringed our intellectual property rights, we

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may take legal action against them for infringement of the trademarks and/or passing off, and seek appropriate redresses from the court including damages and/or injunction. The Hong Kong Legal Counsel is of the view that registration of the trademarks is the best available measure for our Group to protect our trademarks and goodwill, and to prevent other entities from tarnishing our reputation in Hong Kong.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement of the others’ intellectual property rights by us.

EMPLOYEES

As at the Latest Practicable Date, our Group has 336 employees in total, most of whom are located in the PRC. The following table sets forth the number of our Group’s employees by job functions:

Functions	Number of employees
Project management	228
Market operation	5
R&D	6
Internal auditing and finance	27
Human resources and legal	4
General management and administration	22
Machinery and equipment management	25
Others	19
Total	336

Recruitment

Our Group has a recruitment policy which we would recruit new employees based on departments’ request. Our recruitment process normally contains interviews and written tests. The candidates will be examined based on their relevant experiences, skills, knowledge, and integrity. According to our recruitment policy, we encourage our employees to refer us candidates.

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Training

It has been our Group's policy to provide training to its employees. It usually includes induction training which is held by our human resources department; on-the-board training; and sometimes education opportunities depending on the job function of the employees. Our Group will hold seminars and events occasionally for our employees, in order for them to catch up with market trend. Education allowance would be given to employees if such application is approved by their department managers and further approved by the human resource department.

Confidentiality

We may require our senior management and certain employees to undertake confidentiality obligation by contract. Under such contract, employees concerned are bound to keep our technologies and commercial secrets confidential and we are entitled to claim our employees for our losses incurred by reason of our employees' breach of confidentiality agreement.

Remuneration

Our Group's employees may be remunerated by way of fixed salary, hourly wage or on project-by-project basis, depending on their job nature. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. Our employees also entitled to a number of fringe benefits and welfare, including transportation allowance, health care allowance and paid leave.

Social insurance scheme and Housing provident funds

We maintain social insurance scheme, including contributions to the pension, medical, unemployment, maternity and occupational injury insurance, and housing provident funds for all of our employees.

Relationship with employees

We have a labour union which represents the interests of our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material labour-related disputes.

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PROPERTIES

Owned Properties

As at the Latest Practicable Date, our Group does not own any properties.

Leased Properties

As at the Latest Practicable Date, our Group leased the following properties in the PRC from Puhui Commercial, a deemed connected person of our Company, and an Independent Third Party, details of which are set out as follows:

Properties leased from Puhui Commercial

Location	Gross floor area under the current tenancy agreement	Monthly rental	Term under the current tenancy agreement	Use of property
	(sq.m.)	(RMB)		
1st Floor Office Area, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	78.54	3,770	12 months (from 1 January 2022 to 31 December 2022)	Office premises
Portion of the 2nd Floor and 3rd Floor, Office Area, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	1,372.78	24,710	12 months (from 1 January 2022 to 31 December 2022)	Office premises
Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	37.29	671	12 months (from 1 January 2022 to 31 December 2022)	Office premises
Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	72.64	1,308	12 months (from 1 January 2022 to 31 December 2022)	Office premises
Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	197.69	3,558	12 months (from 1 January 2022 to 31 December 2022)	Office premises
Portion of the 2nd Floor, Block 10, Dongfang Mingyuan, No. 1197, East Xinhua Road, Hetang District, Zhuzhou City, Hunan Province, PRC	200	3,600	12 months (from 1 January 2022 to 31 December 2022)	Office premises

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Property leased from an Independent Third Party

Location	Gross floor area under the current tenancy agreement <i>(sq.m.)</i>	Monthly rental/ obligations <i>(RMB)</i>	Term under the current tenancy agreement	Use of property
No. 208, 2/F, Jincheng Huayi Health Industrial Park R&D Building, 7 Jinlong East Road, He Tang District, Zhuzhou, Hunan Province, PRC	188	4,700	5 years (from 1 March 2020 to 28 February 2025)	Office premises

As at the Latest Practicable Date, the lease agreement for the property located at No. 208, 2/F, Jincheng Huayi Health Industrial Park R&D Building, 7 Jinlong East Road, Hetang District, Zhuzhou, Hunan Province, PRC (the “**Zhuzhou Property**”) had yet to be registered with the relevant government authorities as the lessor has not yet obtained the real property ownership certificate for the Zhuzhou Property. Such non-registration constituted non-compliance of the Administration Measures for Commodity House Leasing (《商品房屋租賃管理辦法》). For further information, please refer to the paragraph headed “Legal and regulatory — Non-compliance incidents” in this section.

Property valuation report

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this document any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Document from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

INFORMATION TECHNOLOGY

Our information technology systems, which include project management information system, financial management system, remote monitoring system and OA office system, are critical to our operations, including contract management, safety and quality control, documentation management, production management, human resources and accounting and finance. Our information technology systems also support our key operation processes, including project management, procurement, aftermarket customer service, sales and marketing, and bidding. We utilise our information

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technology systems to improve the efficiency and quality of our services and strengthen our risk and financial management capabilities. From time to time, we procure new or upgrade existing information systems based on our business needs. During the Track Record Period, we did not suffer any major information technology system failures or related losses. However, we may face information technology risks arising from the improper performance or malfunction of our information technology systems on which our operations significantly rely. For details, please refer to the section headed “Risk Factors — Risks relating to our business — We may experience failures in our information technology systems” in this document.

RISK MANAGEMENT AND INTERNAL CONTROL

Our future operating performance may be affected by risks relating to our business. Some of these risks are specific to us while others relate to economic conditions and the general industry and markets in which we operate. For details, please refer to the section headed “Risk Factors” in this document.

The Board of Directors and the senior management are responsible for establishing and maintaining adequate risk management and internal control systems. Risk management is the process designed to identify potential events that may affect our Company and to manage risks to be within its risk appetite. Internal control is the process designed to provide reasonable assurance regarding achievement of objectives related to effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

Highlights of risk management and internal control system include the following:

- (i) our Directors attended a training session in May 2020 in relation to the relevant requirements of the Listing Rules and duties of directors of companies [REDACTED] in Hong Kong;
- (ii) we have adopted various policies to ensure compliance with the Listing Rules, including those in relation to risk management, connected transactions and information disclosure;
- (iii) we have implemented internal control policies in relation to financial management;
- (iv) to enhance our internal control on cashflow and liquidity management, our designated staff makes cashflow projection on a monthly basis and closely monitors the cashflow position. If it is anticipated that there is operating cash outflow in the following month, our senior management will assess the impact and consider measures to strengthen the cashflow position; and

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- (v) we have implemented a series of internal rules and regulations in relation to our business operations, including those in relation to the management of our business operation, the human resources, payroll, cash management and information on technology systems.

To ensure the above compliance culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation, we will regularly conduct internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training.

Without prejudice to the responsibilities of the Board of Directors as a whole, the audit committee of our Board oversees financial and business risk management and discusses the process by which management assesses and manages the company’s exposure to those risks and the steps taken to monitor and control such exposure. For details, please refer to the section headed “Directors and Senior Management — Board committees” in this document.

In preparation for the [REDACTED], we engaged BT Corporate Governance Limited, an independent internal control consultant (the “**Internal Control Consultant**”) to perform a review of our internal control systems and procedures on a fact-finding basis and to provide recommendations for addressing the findings during the review. The initial review was conducted during 2 January 2020 to 15 January 2020 and the testing period was from 1 December 2018 to 30 November 2019. The Internal Control Consultant provided recommendations in relation to strengthening our Group’s internal controls, and our Group has taken measures to implement the relevant internal control measures.

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The following table sets out the major findings of the internal control review, the recommendations provided by the Internal Control Consultant and the corresponding rectification measures taken by our Group:

Major findings	Recommendations	Corresponding rectification measures taken by our Group
Our employees do not have sufficient occupational safety knowledge and we do not exercise enough supervision on the operation of construction machinery by our employees.	We should enhance our policies on occupational safety such as formulating an enhanced occupational safety responsibility system, organising at least one occupational safety training session every year to enhance employees’ knowledge of occupational safety and distributing safety appliances to employees to ensure that they are equipped with sufficient safety equipment.	For the rectification measures taken by our Group, please refer to the section headed “Business — Environmental protection and occupational health and safety — Occupational health and safety — A fatal incident in connection with occupational safety at a construction site during the Track Record Period”.
We have not set up Board committees including audit committee, nomination committee and remuneration committee.	We should set up an audit committee, a nomination committee and a remuneration committee and should formulate a set of guidelines for our Directors covering the duties of Directors and each of the Board committee and the corporate governance policies of our Group.	We have formulated a set of guidelines and have arranged training for our Directors. Moreover, we have [established] an audit committee, a nomination committee and a remuneration committee pursuant to a resolution of our Directors passed on [date].

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Major findings	Recommendations	Corresponding rectification measures taken by our Group
<p>During the Track Record Period, Zhongtian Construction commenced or proceeded with construction work for five projects before the developers obtained the construction works commencement permits. For details, please refer to the paragraph headed “Legal and Regulatory — Non-compliance incidents” in this section.</p>	<p>We should enhance our policies in connection with obtaining construction works commencement permits to ensure the relevant permits would be obtained before commencement of construction works.</p>	<p>We have implemented internal control policies in connection with obtaining construction works commencement permits, including: (i) our technology and quality control department would maintain a register of the construction works commencement permits and record the information on the construction works commencement permits, including the date of obtaining the construction works commencement permit, the commencement date and the expected completion date; (ii) we would provide training to all our project managers regarding the legal requirements in relation to construction works commencement permits; and (iii) we would consult with an external legal counsel for matters relating to construction works commencement permit when necessary.</p>

In light of the above findings, the Internal Control Consultant has performed a follow-up review on 7 May 2020, 22 January 2021 and 25 February 2022 by focusing on the remedial actions undertaken by the management of our Group on the control deficiencies identified in the first round review and did not identify any material weakness or raise any further recommendation in the review. Our Directors are of the view that our Group has adequate and effective internal control procedures in place for our Group’s operation.

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LEGAL AND REGULATORY Legal Proceedings

From time to time, we are involved in legal proceedings arising in the ordinary course of business. The following table sets forth details of the material on-going legal proceedings of our Group as at the Latest Practicable Date:

Nature of dispute	Summary of dispute	Amount in dispute (approximate RMB)	Status
1. Contractual dispute regarding construction service fees	<p>Zhongtian Construction was engaged by Customer Shicuiying for provision of construction services for the construction of the development located at Ningbo Gaoqiao Town Changle Village* (宁波高桥镇长梁村居住地块). Customer Shicuiying did not pay the full amount of the construction service fees. Customer Shicuiying is a company established in the PRC on 24 December 2010 with limited liability and registered capital of RMB10 million, based in Ningbo, Zhejiang Province and principally engages in real estate development. Our Group became acquainted with Customer Shicuiying through public tendering of the above-mentioned project. Customer Shicuiying is ultimately owned by Mr. Shi Jie (史傑) and Ms. Shi Cuiying (史翠英) who are Independent Third Parties. According to the best knowledge of our Directors, Mr. Shi Jie and Ms. Shi Cuiying principally engage in the food manufacturing and property development businesses in Ningbo. Save as business relationship with our Group, our Directors confirm that Customer Shicuiying did not have past or present relationships (including employment, family, trust and financing relationships) with our Group, Shareholders, Directors and senior management or their respective associates.</p>	52.4 million	Zhongtian Construction and Customer Shicuiying have agreed under a court-led mediation in November 2016 that Customer Shicuiying would pay the amount of RMB52.4 million (net of tax) (the “Settlement Sum”) to Zhongtian Construction as settlement of the legal proceedings, out of which approximately RMB17.7 million was settled by Customer Shicuiying transferring the Ningbo Properties to Zhongtian Construction. For details of the Ningbo Properties, please refer to the section headed “Financial Information — Discussion on selected items of consolidated statements of financial position — Investment properties” in this document. Pursuant to the agreement after the court-led mediation (the “Mediation Agreement”), it was agreed that Zhongtian Construction is entitled to priority of compensation in respect of the properties constructed by Zhongtian Construction for Customer Shicuiying. As at the Latest Practicable Date, Zhongtian Construction was still awaiting Customer Shicuiying to settle the balance of RMB16.8 million (net of tax, gross trade receivable amount being RMB17.9 million) of the Settlement Sum. The Bureau of Housing and Urban-Rural Development of Ningbo City* (宁波市住房和城乡建设局) has sealed up the property rights over 151 car parking spaces and 27 properties (the “Sealed Properties”) held by Customer Shicuiying for the purpose of settling the balance of the Settlement Sum. As at 30 September 2022, we recorded loss allowances of approximately RMB1.0 million for expected credit loss. For details of the above-mentioned priority of compensation and the basis of loss allowances, please refer to the section headed “Financial Information — Discussion on selected items of consolidated statements of financial position — Trade, bills and other receivables” in this document.
2. Contractual dispute regarding procurement of raw materials	<p>Our Group purchased concrete from the plaintiff and our Group failed to pay the construction materials costs of approximately RMB3.8 million in time. The plaintiff alleged that we are liable to pay damages of approximately RMB1.6 million and interests.</p>	5.6 million	To facilitate enforcement of the Mediation Agreement, Zhongtian Construction commenced another legal proceedings seeking an order from the court ordering the performance of the Mediation Agreement and payment of damages of RMB5.0 million for the delay in the performance of the Mediation Agreement. As advised by our PRC Construction Legal Advisers, (i) this legal proceedings would not affect the priority of compensation of Zhongtian Construction in respect of the properties constructed by Zhongtian Construction for Customer Shicuiying, which had been determined by the court in the Mediation Agreement; and (ii) in case this legal proceedings was unsuccessful, it would not affect the right of Zhongtian Construction to request auction of the Sealed Properties for settlement of the outstanding sum. A court hearing was held on 17 October 2022 and the court had not handed down its decision as at the Latest Practicable Date.
			Under a court-led mediation, our Group and the plaintiff agreed that our Group shall pay RMB1.0 million, RMB0.4 million and approximately RMB2.4 million on or before 10 September 2022, 10 October 2022 and 30 November 2022, respectively, as full settlement of the legal proceedings. This legal proceedings is expected to be settled by end of November 2022.
			The settlement sum of approximately RMB3.8 million has been fully recognised as our cost of sales in prior year and RMB1.4 million out of the settlement sum of approximately RMB3.8 million has been settled as at the Latest Practicable Date.

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Nature of dispute	Summary of dispute	Amount in dispute <i>(approximate RMB)</i>	Status
3. Contractual dispute regarding construction service fees	Zhongtian Construction was engaged by an industrial investment company based in the Hunan province for provision of construction services for part of an industrial area located in Zhuzhou. The defendant failed to pay construction fees according to the milestones stipulated in the relevant contract. Based on public searches conducted by Zhongtian Construction, Zhongtian Construction considered that the defendant is unable to continue with the performance of the relevant contracts.	10.4 million plus interest	Zhongtian Construction commenced legal proceedings against the defendant seeking an order for termination of the relevant contracts, payment of outstanding construction fees of approximately RMB10.4 million plus interest and determination that Zhongtian Construction is entitled to priority of compensation in respect of properties constructed by Zhongtian Construction for the defendant. A court hearing was held on 5 September 2022 and the court has not handed down its decision as at the Latest Practicable Date. As at 30 September 2022, our Group recorded trade receivable and contract asset of approximately RMB5.5 million and RMB5.4 million due from this customer. Total provision for impairment loss on trade receivables and contract asset of approximately RMB0.3 million has been provided.
4. Contractual dispute regarding construction service fees	Zhongtian Construction was engaged by Customer X, a real estate developer based in the Hainan province, for provision of construction services for a residential properties project in Hainan. The defendant failed to pay construction fees according to the milestones stipulated in the relevant contract.	27.2 million	<p>Our PRC Construction Legal Advisers advised that (i) we are the sole main contractor of the relevant project; (ii) no other creditor has made any claim on the property of the relevant project as at the Latest Practicable Date; (iii) we solely have the priority of compensation with respect to the relevant project; (iv) there is no legal impediment for our Group to transfer the interests to willing buyers notwithstanding incomplete legal title registration of the underlying properties of the relevant project.</p> <p>Our Group has engaged the Independent Valuer to perform estimation of the fair value of the underlying properties in respect of the underlying project. Based on such valuation, the property is valued at approximately RMB20.6 million, representing 1.9 times of the outstanding trade receivable and contract asset due from this customer for the project as at 30 September 2022. Based on the above, our Directors consider that our provision for impairment loss on trade receivables/contract asset due from this customer is sufficient.</p> <p>Zhongtian Construction commenced legal proceedings against the defendant seeking an order for termination of the relevant contracts, payment of outstanding construction fees plus interests and damages of approximately RMB27.2 million and determination that Zhongtian Construction is entitled to priority of compensation in respect of properties constructed by Zhongtian Construction for the defendant. A court hearing was held on 28 June 2022 and the court has not handed down its decision as at the Latest Practicable Date. As at 30 September 2022, our Group recorded contract asset of approximately RMB29.8 million due from this customer. Provision for impairment loss on contract asset of approximately RMB0.2 million has been provided.</p> <p>Our PRC Construction Legal Advisers advised that (i) we are the sole main contractor of the relevant project; (ii) no other creditor has made any claim on the property of the relevant project as at the Latest Practicable Date; (iii) we solely have the priority of compensation with respect to the relevant project; (iv) there is no legal impediment for our Group to transfer the interests to willing buyers notwithstanding incomplete legal title registration of the underlying properties of the relevant project.</p> <p>Our Group has engaged the Independent Valuer to perform estimation of the fair value of the underlying properties in respect of the underlying project. Based on such valuation, the property is valued at approximately RMB205.2 million, representing approximately 6.9 times of the outstanding contract asset due from this customer for the project as at 30 September 2022. Based on the above, our Directors consider that our provision for impairment loss on trade receivables/contract asset due from this customer is sufficient.</p>

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Nature of dispute	Summary of dispute	Amount in dispute <i>(approximate RMB)</i>	Status
5. Contractual dispute regarding fees for construction services fees	<p>Zhongtian Construction was engaged by a property developer in the PRC (the “Customer V”), for provision of construction services for the construction of the Tianjie Commercial City Plaza* (天傑商業城市廣場) located in Zhuzhou. The trial court ruled in December 2018 that Customer V is liable to pay approximately RMB29.2 million to Zhongtian Construction (the “Original V Case”) and such amount was settled in April 2021 through sale of properties sealed up through court procedures.</p> <p>Such amount ruled by the court in the Original V Case took into account that the defendant alleged that it settled construction materials cost of RMB8.0 million on behalf of Zhongtian Construction under a tripartite set off arrangement among Zhongtian Construction, the defendant and a supplier. Subsequently, it was determined in a separate litigation that Zhongtian Construction was liable to pay construction materials costs allegedly settled by Customer V for Zhongtian Construction, and Zhongtian Construction had subsequently paid such amount to the supplier. As such, Zhongtian Construction is still entitled to recover the outstanding construction services fees of RMB8.0 million from Customer V.</p>	8.0 million plus interest	<p>Zhongtian Construction commenced another legal proceedings against Customer V for the outstanding construction fees of RMB8.0 million plus interest. However, the primary court considered that the matter shall be dealt with by retrial of the Original V Case and ordered stay of proceedings.</p> <p>Zhongtian Construction applied for retrial of the Original V Case seeking an order for payment of outstanding construction fees of RMB37.2 million (equivalent to the sum of RMB29.2 million settled in the Original V Case plus RMB8.0 million) plus interests and determination that Zhongtian Construction is entitled to priority of compensation in respect of properties constructed by Zhongtian Construction for the defendant. The high court had accepted the application for retrial in September 2022 and the court has not set down the date of the retrial as at the Latest Practicable Date.</p>
6. Contractual dispute regarding construction service fees	<p>Zhongtian Construction was engaged by Customer R, a civil engineering construction company based in the Hunan province and a state-owned enterprise, to provide construction services for part of a road construction project. Zhongtian Construction completed its construction work but the defendant failed to pay construction fees under the construction contract entered into between the parties.</p>	12.5 million plus interest	<p>Zhongtian Construction commenced legal proceedings against Customer R seeking to recover the outstanding construction fees of approximately RMB12.5 million and interests. As at the Latest Practicable Date, it is still pending the first hearing of the case. As at 30 September 2022, our Group recorded trade receivable and contract asset of approximately RMB7.8 million and RMB1.1 million due from Customer R. Total provision for impairment loss on trade receivables and contract asset of approximately RMB0.3 million has been provided.</p> <p>Pursuant to Article 22 of the Government Investment Regulation, government investment projects shall be fully funded in accordance with the relevant regulations. Having considered that (i) the project is a government investment project that is protected under the Government Investment Regulation; and (ii) the customer is a Government-related Entity which generally has minimal history of default, our Directors consider that our provision for impairment loss on trade receivables/contract asset due from this customer is sufficient.</p>

For item 1 above, taking into account (i) the fact that we have sealed up properties of Customer Shicuiying for settling the balance of the Settlement Sum, and we have priority of compensation with respect to monies received from selling off or auctioning of such properties; and (ii) the amount of loss allowances recorded as at 30 September 2022 for expected credit loss, our Directors consider that such legal proceeding is unlikely to have any material adverse impact on our business operations or financial position.

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Saved as disclosed above, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration is known to our Directors to be pending or threatened against a member of our Group which would have a material adverse effect on our financial position or results of operations during the Track Record Period and up to the Latest Practicable Date.

Non-compliance Incidents

Save as the immaterial non-compliance incidents disclosed below, our Directors confirm that, based on the advice of our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC laws and regulations in all material respects.

The table below sets forth the summaries of certain non-compliance incidents during the Track Record Period. Our Directors believe that these non-compliance incidents, whether individually or collectively, are non-material in nature and will not have any material financial or operational impact on us.

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Non-compliance incidents and reasons for the incidents	Legal consequences and maximum potential penalties	Current status	Remedies and internal control measures
<p>1. During the Track Record Period, Zhongtian Construction proceeded with construction works for a project, namely Dongfang Xin'an Homelands (Phase II)* (東方市新安家園(二期)) project, a construction project for a government subsidised housing development in Hainan (“Project V”), before the developer obtained the construction works commencement permit.</p> <p>The developer has subsequently obtained the relevant construction works commencement permit.</p> <p>As advised by our PRC Legal Advisers, the developer, which engaged Zhongtian Construction for the relevant project, instead of Zhongtian Construction, was responsible for applying for the relevant construction works commencement permit. Our Directors confirmed that such non-compliance incident occurred primarily because when Zhongtian Construction acted upon the instructions of the Housing and Urban-Rural Construction Department of Hainan Province (海南省住房和城鄉建設廳) (“Hainan HURD”) to commence the construction works for Project V out of public interest, the developer had yet obtained the relevant construction works commencement permit.</p>	<p>According to Article 12 of the Administrative Measures for Construction Permits of Building Projects (建築工程施工許可管理辦法), where the construction works has commenced without the construction works commencement permit, the relevant authority can order suspension of works and rectification and impose a fine of no more than RMB30,000 on the construction company.</p> <p>As advised by our PRC Legal Advisers, we may be subject to a fine of up to RMB30,000 for each incident for commencing the construction works without the relevant construction works permit.</p>	<p>Our Directors confirmed that, as at the Latest Practicable Date, we had not received any notice relating to imposing administrative penalties with respect to such non-compliance incident.</p> <p>As advised by our PRC Legal Advisers, the Hainan HURD accepted the explanations provided by Zhongtian Construction for commencing the relevant construction works before the developer obtained the relevant construction works commencement permit, and confirmed that such incident would not constitute unauthorised construction works under Article 12 of the Administrative Measures for Construction Permits of Building Projects (建築工程施工許可管理辦法).</p> <p>As advised by our PRC Legal Advisers, the developer, which engaged Zhongtian Construction for the relevant project, instead of Zhongtian Construction, was responsible for applying for the relevant construction works commencement permits. The Hainan HURD confirmed to our PRC Legal Advisers that (i) no penalty would be imposed on Zhongtian Construction for such incident; (ii) the income derived from such project would not be regarded as illegal income; (iii) such incident would not affect Zhongtian Construction's existing construction enterprise qualification or its ability to apply for a higher level of construction enterprise qualification in the future; and (iv) such incident would not constitute material non-compliance on the part of Zhongtian Construction.</p> <p>Based on the above, our PRC Legal Advisers are of the view that the likelihood that Zhongtian Construction will be held liable for commencing the construction works before the developer obtained the construction works commencement permit is remote.</p> <p>As advised by our PRC Legal Advisers, Hainan HURD was the competent authority to give such verbal confirmation.</p> <p>Based on the above, our Directors are of the view that such non-compliance incident was immaterial in nature and would not impose any material financial or operational impact on us.</p> <p>In the event that the relevant authorities impose any fines or penalties on us, the Controlling Shareholder and Zhongtian Holdings agree to indemnify us for all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us due to such incident.</p>	<p>We have implemented internal control policies in connection with obtaining construction works commencement permits, including: (i) our technology and quality control department would maintain a register of the construction works commencement permits and record the information on the construction works commencement permits, including the date of obtaining the construction works commencement permit, the commencement date and the expected completion date; (ii) we would provide training to all our project managers regarding the legal requirements in relation to construction works commencement permits; and (iii) we would consult with an external legal counsel for matters relating to construction works commencement permit when necessary.</p>

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Non-compliance incidents and reasons for the incidents	Legal consequences and maximum potential penalties	Current status	Remedies and internal control measures
<p>2. During the Track Record Period, we have certain loans from related company amounting to approximately RMB1.9 million as at 31 December 2019. Such loans had been fully settled in 2020.</p> <p>As confirmed by our Directors, the loans from related company was made for acquisition of machinery and equipment for our operation. The non-compliance incident were primarily due to our unfamiliarity with regulatory requirements under General Rules for Loans.</p>	<p>Unauthorised loans among non-financial institutions are prohibited under the General Rules for Loans. However, according to the Provision of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending (最高人民法院關於審理民間借貸案件適用法律若干問題的規定), where the legal persons face dispute and litigation with respect to a private lending contract entered into for the purpose of production and operations, the contract shall be deemed effective by the court.</p>	<p>As advised by our PRC Legal Advisers, although the interest bearing loans from related parties do not comply with the General Rules for Loans (貸款通則) promulgated by the People's Bank of China, they were of the view that it was not a material non-compliance given that (i) our Group as the borrower would not be subject to any administrative penalties or criminal liabilities due to the non-compliance under the General Rules for Loans; and (ii) our Group had not been subject to any administrative penalties or criminal liabilities under the General Rules for Loans due to non-compliance with the General Rules for Loans.</p> <p>Based on the above, our Directors are of the view that such non-compliance incident was immaterial in nature and would not impose any material financial or operational impact on us.</p>	<p>We have implemented enhanced internal control measures relating to the borrowings arrangements with private company (including related company) including (i) we have provided training for our Directors and employees on the legal requirements the General Rules for Loans; (ii) we have implemented measures which prohibited obtaining loans from entities (including related company) which do not meet the legal requirements under the General Rules for Loans; and (iii) we have strengthened the management of our financing activities, the relevant financing institutions will be assessed before entering into financing arrangements to ensure that they are qualified under the General Rules for Loans.</p>
<p>3. As at the Latest Practicable Date, the lease agreement for the Zhuzhou Property had yet to be registered with the relevant housing authority as the lessor has not yet obtained the real property ownership certificate for the Zhuzhou Property.</p>	<p>According to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), parties to a lease agreement must register the lease agreement with the relevant authority within 30 days from the execution of the lease agreement.</p> <p>According to our PRC Legal Advisers, we may be subject to a fine of RMB1,000 to RMB10,000 for each unregistered lease, amounting to a maximum potential fine of RMB10,000 regarding the non-registration of the lease agreement of the Zhuzhou Property.</p>	<p>Our Directors confirm that no fine was imposed on us for such matter as at the Latest Practicable Date.</p> <p>As advised by our PRC Legal Advisers, (i) non-registration of the lease agreement would not invalidate such lease agreement and we are entitled to occupy and use the Zhuzhou Property according to the relevant laws and the lease agreement during the term; and (ii) we will not be liable for any administrative penalties for the reason that the lessor had not obtained the real property ownership certificate as it is the responsibility of the lessor to obtain the real property ownership certificate under the relevant PRC laws.</p> <p>Our Directors confirm that, for the purpose of remedying the matter, we would comply with the registration requirement when required by the relevant government authority, and in the event that the registration of the lease agreement cannot be completed, we would terminate the lease agreement for the Zhuzhou Property, and relocate to alternative premises in similar location and with similar scale.</p> <p>Based on the above, our Directors are of the view that such non-compliance incident was immaterial in nature and would not impose any material financial or operational impact on us.</p>	<p>We have implemented enhanced internal control measures including (1) our Group shall ensure that the lessor has obtained the real property ownership certificate (such as requesting a copy of the same) before the signing of any lease agreement in the future; and (2) our Group shall include a provision in all our future lease agreements stipulating that the lessors' failure to assist in the registration according to the Administrative Measures for Commodity House Leasing shall constitute a breach of the lease agreement whereby our Group shall be entitled to terminate the same.</p>

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The aforesaid non-compliance incidents did not involve any intentional misconduct or act of dishonesty or fraudulence on the part of our Directors. Our Directors are of the view, and the Sole Sponsor concurs, that such non-compliance incidents do not impugn the integrity and competency of our Directors under Rules 3.08 and 3.09 of the Listing Rules, or the suitability for [REDACTED] of our Company under Rule 8.04 of the Listing Rules, because: (i) there was no intentional misconduct or act of dishonesty or fraudulence on the part of our Directors in connection with such non-compliance incidents; (ii) we had undertaken around 300 construction projects during the Track Record Period, and the non-compliance incident regarding the commencement of construction works before the developer obtained the construction works commencement permit only constitute a small proportion of the total number of construction projects undertaken by us during the Track Record Period; (iii) our Directors confirmed that, as at the Latest Practicable Date, no fines, penalties or administrative sanctions have been imposed on us with respect to such non-compliance incidents; (iv) the reasons for such non-compliance incidents as disclosed above; (v) the advice provided by our PRC Legal Advisers as disclosed above; and (vi) we have adopted the internal control measures to mitigate the risk of the recurrence of any such non-compliance incidents.

Indemnity given by our Controlling Shareholder and Zhongtian Holdings

Our Controlling Shareholder and Zhongtian Holdings have entered into a Deed of Indemnity whereby our Controlling Shareholder and Zhongtian Holdings have agreed to indemnify our Group, subject to the terms of the Deed of Indemnity, in respect of all liabilities and penalties which may arise as a result of any legal proceedings instituted by or against our Group and non-compliance by our Group on or before the date on which the [REDACTED] becomes unconditional. Please refer to the paragraph headed “E. Other Information — 1. Tax and other indemnities” in Appendix V to this document for details.