# RISK FACTORS

*You should carefully read all of the information in this document including the risks and uncertainties described below before making an* [**REDACTED**] *in our H Shares. Our business, financial position or results of operations could be materially and adversely affected by any of the risks mentioned in this section. The* [**REDACTED**] *of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC, our business is primarily located in China and we are governed by a legal and regulatory environment that may differ from that prevails in other countries and jurisdictions. For more information concerning China and certain related matters discussed below, see "Regulatory Overview", "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association" for further details.*

## RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**Our business and future growth are subject to macroeconomic conditions, and changes in government policies and market demand for our services, which are beyond our control.**

Our business and future growth prospects depend on general economic conditions and levels of specialized industrial construction, specialized auxiliary construction, other construction and infrastructure development in China, particularly in the Shanxi Province where our principal business is focused in. The activities in respect of specialized industrial construction, specialized auxiliary construction and other construction and infrastructure development in China are susceptible to global economic fluctuations and market uncertainty. Our revenue may be adversely affected if the global economy, especially the economy of the principal place of business where the Company is located experiences slower growth or enters into recession, or if the spending on specialized industrial construction, specialized auxiliary construction and other construction projects is reduced, including any reduction in government infrastructure spending.

In addition, we are susceptible to changes in government policies related to the construction industry, including those that affect infrastructure, new energy, project financing and taxation, as well as local government budgets and the regulation regarding private enterprise's participation in the infrastructure industry. We cannot assure you that Chinese government's industry-related policies will not change in the future, any adjustment and change in relevant policies by the government may have a material and adverse effect on our business, financial condition, results of operations and prospects.

**Our operations are subject to inherent operational risks and occupational hazards, which could cause us to incur substantial costs, damage our reputation and loss of future business.**

Construction sites are workplaces with potential danger and our specialized industrial construction, specialized auxiliary construction and other construction projects routinely expose our employees, subcontracted workers and other personnel to heavy construction projects machinery and equipment, moving motor vehicles, highly regulated and volatile materials. We continue to be subject to risks surrounding these activities, such as equipment failure, work injury accidents, geological catastrophes, fire and explosions. These hazards may cause personal injury or fatalities, as well as damage to or destruction of property and equipment. We cannot assure you that material workplace incidents will not occur in the future. Even if such incidents were not caused by our fault or negligence, such incidents may still cause us to incur substantial costs, damage to our reputation and loss of future business, which may materially and adversely affect our business, financial condition and results of operations.

**We may not be able to meet our significant working capital requirements if we experience significant delays in our progress payments and settlement process, or significant delays or defaults in our trade receivables and bills receivable, performance guarantees or retention fees.**

Most of our specialized industrial construction, specialized auxiliary construction and other construction contracting projects take a substantial period of time to complete. Therefore, the contracts for our various construction contracting business generally require our clients to make payments on a regular basis to us in installments upon our achieving certain project milestones or with regard to the portion of work completed. See "Business – Customers – Contract Terms" for further details. Our trade receivables and bills receivable were RMB4,345.0 million, RMB5,549.6 million, RMB6,371.4 million and RMB6,188.4 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively, representing 45.4%, 42.4%, 39.6% and 37.0% of our total current assets, respectively. During the years ended December 31, 2020, 2021, 2022 and six months ended June 30, 2023, the provision for expected credit losses on trade receivables and bills receivables was RMB58.8 million, RMB76.2 million, RMB48.7 million and RMB37.5 million, respectively. For more information on our trade receivables and bills receivable, see "Financial Information – Liquidity and Capital Resources – Trade receivables and bills receivable" and note 8 to the Accountants' Report included in Appendix I to this propectus. During the Track Record Period, we had adopted a "building for debt-paying" arrangement to recover our account receivables. During the Track Record Period, the total amount of account receivables subject to "building for debt-paying" arrangement amounted to approximately RMB69.0 million. According to Frost & Sullivan, "building for debt-paying" arrangements with customers, suppliers and subcontractors are not uncommon in the industry. Our PRC Legal Advisor is also of the opinion that these building for debt-paying agreements are entered into in accordance with the General Principles of the Civil Law of the People's Republic of China (《中華人民共和國民法通則》) and the Contract Law of the People's Republic of China (《中華人民共和國合同法》) for the time being in force, and do not violate the relevant PRC laws and regulations. Please see

"Business – Properties – "Building for debt-paying" arrangement" for further details. Delays in or failure to make payment on the part of our clients or delays in our billing process may negatively influence our cash flow position and our ability to meet our working capital requirements. We have, from time to time, experienced late payments from certain customers, resulting in unexpected increases in trade receivables and cash outflows. If we are unable to collect our contract fees or amounts owed are not paid to us in full or on a timely basis, our cash flow and financial condition will be adversely affected. In addition, we incur project costs, primarily materials, equipment and labor costs, on an ongoing basis, and quite frequently at the beginning of a project or before achieving relevant project milestones. In respect of the projects on which we have already incurred significant costs and expenditures, customers' defaults in making payments or a lapse in time between our receipt of timely scheduled payments from our customers and payments due to our suppliers would materially and adversely affect our results of operations and reduce our working capital.

In line with the prevailing market practice adopted in the engineering industry in China, and according to Frost & Sullivan, approximately 3-10% of the project value is typically withheld by our clients as retention fee against any possible defects in the quality of our work and will only be released after expiration of the defects liability period, which typically lasts less than 24 months. As a result, we are often required to bear some costs and expenditures for projects prior to receiving full payment from our clients to cover such costs and expenditures. Furthermore, our clients generally require us to provide advance payment guarantees and performance guarantees to secure our contractual obligations. If our clients claim that we failed to perform our obligations and thus they delay or refuse to repay retention fees, our liquidity could be materially and adversely affected in a direct or indirect way. For more details, see "Business – Customers – Contract Terms". Any default in payments of receivables and progress payments or delays in payments of retention fees owed to us or any unilateral demands on performance and quality guarantees by our clients may lead to a decrease of working capital available for our other businesses. While we may file claims against clients for uncompensated costs we have incurred pursuant to our contracts, dispute resolutions process requires significant time, financial and other resources, and the outcome is often uncertain.

In addition, we face the risk that our clients may be unable to perform their contractual obligations due to their failure to obtain sufficient funding for project development, general financial difficulties or other reasons. Over the Track Record Period, our trading terms with our third party customers were mainly on credit. For the three years ended December 31, 2022 and the six months ended June 30, 2023, our Group had turnover days of trade receivables and bills receivable of approximately 140 days, 136 days, 169 days and 217 days, respectively. For the three years ended December 31, 2022 and the six months ended June 30, 2023 our turnover days of trade payables were approximately 181 days, 197 days, 278 days and 380 days, respectively. When our clients require bank financing for construction contracting services, the availability and terms of financing in the market will have a significant impact on clients' demand for our services. To the extent there is instability in the credit markets, the availability of credit may be limited and it may be difficult or expensive to obtain financing. This situation could negatively impact our clients' ability to fund their projects and purchase our services. Accordingly, if our clients are unable to obtain financing in a timely manner or at a reasonable cost, the relevant projects may be adversely affected, we may be required to consider alternative sources of financing and/or delay our payment obligations and our financial performance and prospects may be materially and adversely affected.

We also routinely enter into contracts with counterparties, including vendors, suppliers and subcontractors, that may be negatively impacted by the credit market. If those counterparties are unable to perform their obligations to us or our clients, we may be required to provide additional services or make alternate arrangements on less favorable terms with other parties to ensure adequate obligation performance and provision of services to our clients. Moreover, we may be subject to disputes brought by clients, subcontractors or suppliers that refuse to make payment to us of costs exceeding forecasted expenditures or who deny their obligations to perform certain duties under their contracts. These circumstances could also lead to disputes and even litigations with our clients or other contractual counterparties, which could have a material adverse impact on our reputation, business, financial condition and results of operations.

**Our borrowing levels and significant interest payment obligations could limit the amount of funding available for our business operations.**

We fund the working capital requirement for our business operations and capital expenditure mainly through cash generated from our operations and interest-bearing bank and other borrowings. For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, our interest-bearing bank and other borrowings amounted to RMB3,102.6 million, RMB4,264.2 million, RMB5,398.9 million and RMB6,199.0 million, respectively, while our gearing ratio as of each of December 31, 2020, 2021 and 2022 and June 30, 2023 were 173.9%, 211.7%, 241.8% and 271.9%, respectively. See "Financial Information – Indebtedness" for further details. We cannot assure you that we will be able to renew existing borrowings upon expiry, or secure new borrowings from banks or other financial institutions, whether on commercially acceptable or favorable terms or not. If the banks and other financial institutions providing such existing borrowings do not continue to extend similar or more favorable facilities to us and we fail to obtain alternative borrowings on comparable terms or at all, all of our business will be adversely affected.

In addition, the degree to which we are financially leveraged could have significant consequences, including:

- requiring a substantial portion of our cash flows from operations to be used for repaying our debt, thereby reducing the cash flow for working capital, capital expenditures or other general uses;

- increasing our exposure to interest rate fluctuations;

- limiting our ability to obtain, and increasing the cost of, additional financing to fund future working capital, capital expenditures or general uses;

- limiting (to the extent our loan agreements contain such covenants) our ability to pay dividends, sell assets and conduct intergroup transfers, which may limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate.

In addition, we often have to provide performance guarantees in favor of clients to secure the performance of our obligations under contracts. Availability of performance guarantees depends on various factors, including our capitalization, working capital, existing level of borrowings, track record, management expertise and external factors such as the financial institutions' evaluation of our credit, overall market conditions and the overall financial capacity of financial institutions, some of which are beyond our control. If there is any deterioration in the foregoing, we may not be able to continue providing new performance guarantees in sufficient quantities to meet our business requirements. If our financial position deteriorates, we may also be required to provide cash collateral or other security to maintain existing performance guarantees. If this occurs, our ability to perform our projects obligations may be adversely affected.

**Current or future environmental regulations or enforcement could adversely affect our business operations.**

We are required to comply with a number of national and local environmental laws and regulations in the PRC that set out standards for the discharge and treatment of pollutants generated from our operations, including the Law on Prevention and Control of Pollution From Noise of the PRC (《中華人民共和國噪聲污染防治法》) and other environmental protection laws and regulations. For example, we shall take measures to control environmental pollution from construction sites and pay for the discharge of waste. In the event of serious environmental crimes occurred, we may be subject to fines and other administrative penalties and/or face challenges from obtaining or renewing the relevant licenses and permits. Law enforcement officers also have the authority to order the closure of our construction facilities if such facilities cause damages or deconstructions to the environment that we cannot remedy. We cannot assure you that we will not be subject to any fine or administrative penalty for environmental damage in the future, if any. If the fines or penalties are significant, our results of operations, financial condition and business could be adversely affected.

In addition, the PRC government and relevant government authorities may amend the environmental protection laws, regulations, policies and standards from time to time, and therefore, we may be subject to more onerous responsibilities and obligations. We may also be required to change current practices, implement enhanced compliance and internal control manuals and systems, purchase new pollution control equipment, train our employees and subcontractors, and introduce new prevention and remedy measures, to ensure compliance with relevant laws, regulations, policies and standards, which result in additional financial, human and other resources. If we fail to comply with relevant laws, regulations, policies and standards in a timely manner or at all, we may be subject to penalties and thus, our results of operations, financial condition and business could be adversely affected.

**We recorded net current liabilities as of June 30, 2023 and we may not generate sufficient cash flow in the future to finance our operations or satisfy our current liabilities.**

We recorded net current liabilities of RMB357.2 million as of June 30, 2023. The net current liabilities were primarily attributable to our net current assets decreased by RMB426.8 million from RMB69.6 million as of December 31, 2022 to a net current liabilities of RMB357.2 million as of June 30, 2023, which was mainly due to the increase in our short-term borrowings by RMB782.7 million from RMB2,201.3 million as of December 31, 2022 to RMB2,984.0 million and increase in our trade payables and bills payable by RMB370.4 million from RMB9,170.6 million as of December 31, 2022 to RMB9,541.0 million. For details, see "Financial Information – Selected Items of Consolidated Statements of Financial Position – Net Current Assets/(Liabilities)" in this document.

We cannot assure you that we will not have net current liabilities in the future, which would expose us to liquidity risk. There could be no assurance that we will be able to obtain the necessary funding to refinance our borrowings upon maturity or to obtain new borrowings to finance our operations or capital commitments. If we incur net current liabilities in the future or if we encounter any liquidity issues in the future, our ability to make necessary capital expenditure or develop business opportunities may be restricted, and our business, operating results and financial condition could be materially and adversely affected.

**Our revenue is generally non-recurring in nature, and most projects (other than PPP projects) do not generate any recurring revenue upon completion.**

We mainly provide engineering contracting services in the form of projects, which are non-recurring in nature and most projects, other than PPP projects, do not generate any recurring revenue upon completion. During the Track Record Period, we only had recurring revenue after the completion of the following projects: the Taiyuan botanical garden outdoor comprehensive pipeline and facilities and equipment professional engineering project, Taigu Yangyi wind power project, general contracting project of Phase I and Phase II units of heat supply engineering project for a power generation company, and Gujiao Mining Area heating renovation energy management project. As a result, our financial performance may fluctuate over time.

**PPP projects typically require significant cash outflows and feature longer payback periods and we may require substantial funding for these projects.**

Based on the PPP model, private investments partner with local governments in the financing, construction, operation and maintenance of infrastructure projects and other public works.

For our PPP projects, we undertake, or jointly undertake with the government, the financing, construction, operation and maintenance of the project. As a result, if we are not able to accurately estimate the revenue to be derived from the use of the constructed facility at the bidding stage or are exposed to prolonged fluctuating economic conditions, our PPP projects may not derive profits as anticipated. In addition, PPP projects typically require us to make significant initial investment using our own cash and through external financing during the construction phase. Such investment features a longer payback period, usually up to twenty years. Due to the capital intensive and long-term nature of PPP projects, there is no assurance that we will be able to secure adequate funding on terms that are favorable and acceptable to us or at all or that these projects will achieve their initial expected returns. Our ability to source external financing and the cost of such financing are dependent on various factors, including general economic conditions, interest rates and credit availability from financial institutions. If we fail to obtain short-term or long-term project financing for such projects in the amount budgeted or at all, we may need to finance these projects from our internal resources, which may put a strain on our budget for developing or acquiring other projects and for other purposes. Additionally, we may fail to properly perform our obligations in respect of these projects as a result of a funding shortage, and this may lead to a reduction in our returns and to the loss of part of our initial capital investment, which in turn could lead to material adverse effect on our business, financial condition and results of operations.

**Failure to bill and receive our contract assets, receivables under service concession arrangements and prepayments, deposits and other receivables, including the balance and provision recognised in full may affect our liquidity and financial position.**

Contract assets are recognized when revenue is recognized before the Group is unconditionally entitled to the consideration in accordance with the payment terms set out in the contract (e.g. upon completion of settlement auditing). Contract assets are transferred to receivables when the right to receive consideration becomes unconditional. As of December 31, 2020, 2021 and 2022 and June 30, 2023, our contract assets amounted to RMB3,310.4 million, RMB4,675.8 million, RMB6,332.5 million and RMB6,674.7 million, respectively.

The Group would reclassify from contract assets to receivables under service concession arrangements when PPP Projects are under operation phase. Receivables under service concession arrangements is recognized to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction rendered and/or the consideration paid and payable by the Group for the right to manage operate the infrastructure for public service. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified requirements. As at December 31, 2020, 2021 and 2022 and June 30, 2023, our receivables under service concession arrangements amounted to RMB1,048.6 million, RMB2,413.4 million, RMB2,736.4 million and RMB2,841.2 million respectively.

Our prepayments, deposits and other receivables mainly include deposits and other receivables, repayments to suppliers and value-added tax receivables. Prepayment refers to the advance payment for, including but not limited to, procuring installation parts and materials (such as steel, cement, wind turbine, photovoltaic modules, electric cable and etc.), service fees (such as prepayment for subcontracting service arrangements and labour cost, as well as consultation fees paid to professional consultants depending on type of the project involved or as agreed in the contract); whereas deposits and other receivables mainly refer to the amount paid to our customers as security deposit for our construction projects, amount due from related parties, other receivables and loans to associates. As of December 31, 2020, 2021 and 2022 and June 30, 2023, our prepayments, deposits and other receivables amounted to RMB2,051.0 million, RMB1,983.6 million, RMB1,956.4 million and RMB1,914.7 million respectively.

There is no assurance that we will be able to bill and receive our contract assets, receivable under service concession arrangements and our prepayments, deposits and other receivables in full. Failure to bill and receive the full amount may adversely affect our results of operation, liquidity and financial position.

**We face intense competition in our industry, and failure to compete effectively may cause us to lose new customers and market share.**

The PRC specialized industrial construction industry is highly fragmented. Accordingly, we face intense competition from a significant number of our peers that provide services or products similar to or substitute for those that we provide. According to Frost & Sullivan, in 2022, there were over 10,000 specialized industrial construction companies in China, including approximately 500 specialized industrial construction contractors in the Shanxi Province. Some of our competitors may have operating histories, capital resources, customer bases, customer relationships, brand recognition, financial, technical, marketing and public relations resources or a wider range of services and products that are equal or potentially better than ours. As a result, some of our competitors may be better positioned than we are to develop quality services and products or to adapt to changing market trends. Our competitiveness depends on our track record of timely project delivery, a wide range of services and products as well as technological capabilities. Competitive pressures may require us to reduce our prices or increase our costs and may adversely affect our profit margins. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market position.

In addition, as is customary in the industry in which we operate, we are awarded construction projects by our customers on a project-by-project basis and through tendering process. Accordingly, our existing customers are not obligated to award projects to us or to place new orders, and there is no guarantee that we will be able to secure new business from our customers despite the long-term relationships we have established with certain customers. As a result, our revenue and the number of projects we are able to secure may vary from period to period and it is difficult to forecast the volume of our business in the future accurately. We cannot guarantee that we will be able to secure business from our existing customers, or that we will be able to develop relationships with new customers, in which case our business, results of operations and prospects would be materially and adversely affected.

**Projects we construct may not be completed on time.**

Several factors may lead to material construction delays or cost overruns, including but not limited to:

- failure to obtain various regulatory approvals, licenses or permits from government agencies as scheduled;
- suspension of the construction of certain outdoor projects ordered by authorities during severe air pollution;
- shortages of key equipment, materials or labor;
- quality problems with equipment;
- unexpected construction, design, environmental or geological problems;
- influence of unexpected adverse weather;
- failure to obtain sufficient bank loans or other financing on favorable terms.

We cannot assure you that our construction projects can be completed on time. Any failure or delay during the project construction progress could result in a delay or a reduction in payment by the project owners and have a material and adverse effect on our business, financial condition and results of operations.

**Our business operations are subject to epidemics, adverse weather conditions, severe air pollution, natural disasters and other operating hazards.**

Most of our construction contracting services are conducted outdoors and may be materially and adversely affected by epidemics, adverse weather conditions and severe air pollution. For example, in response to the pandemic, the government may adopt a number of measures, including implementing mandatory quarantine, requiring residents to remain at home and to avoid gathering in public, and the pandemic may also result in the temporary closure of many corporate offices, retail stores and manufacturing facilities across the country. Construction sites may be required to be closed and construction projects may be suspended for an extended period of time. At the same time, we may also incur additional costs for dealing with the pandemic, such as the costs to maintain sanitation and invest in supervisory devices. The demand from our customers may fluctuate due to the pandemic, thus our business, financial condition, results of operations and prospects may in turn be affected, and may continue to be affected in the future.

Also, we may experience significant project delays caused by inclement weather, such as protracted periods of precipitation or extreme temperatures. We may also be ordered by authorities to temporarily halt certain construction projects during times of severe air pollution. These situations could result in our inability to meet key milestones set forth in the construction contracting contracts, and cause us to incur additional costs or breach of contractual obligations. In addition, natural disasters and other operating risks, such as earthquakes, floods, typhoons, landslides or fire, may interrupt our construction projects. Substantial damage caused by any of these unpredictable events or the resulting disruptions, technical or mechanical difficulties or sourcing difficulties could be costly and time-consuming to repair and may disrupt our operations. Moreover, we could be forced to suspend or abandon our construction projects, which may cause us to incur additional costs and experience delays in the schedule of our construction projects. Any significant delay or interruption could impair our ability to meet our contractual obligations and cause us to be liable for damages or cause our customers to cancel orders, any of which could negatively affect our reputation, business, financial condition and results of operations.

**We may have difficulty in managing our future growth.**

Our profit for the year did not achieve sustained growth from 2020 to 2022 and up to the six months ended June 30, 2023. To continue our growth, we are required from time to time to take calculated risks. The success of our business operations and the continuous growth depend on our effective management of the resulting risks by, among others:

- improving our operational, financial and management systems;
- developing comprehensive capacities of our management team;
- training, motivating and managing our employees;
- maintaining adequate facilities and equipment;
- enhancing our risk monitoring to assess the financial condition and business potential of new and existing customers;
- managing our liquidity position while committing substantial resources to market expansion, business development, and service and product development efforts;
- managing the increased complexity of and costs associated with expanded operations, which may divert our resources and require substantial capital;
- managing our international business in terms of our exposure to foreign economic and political uncertainties, including but not limited to expropriation and nationalization of our assets; civil unrest, acts of terrorism, war, or other armed conflicts; natural disasters, including those related to earthquakes and flooding; governmental actions or policies that limit or disrupt markets.

You should not consider our recent growth as indicative of our future performance. We cannot assure you that our systems, procedures, management, personnel and expertise will be adequate to support our future growth. Failure to achieve any of the foregoing, or to manage the risks and uncertainties created by measures to achieve the foregoing, could materially and adversely affect our business, financial condition, results of operations and growth prospects.

**Our expansion into new geographical markets presents certain risks and uncertainties.**

In order to achieve sustainable growth, we need to continue to seek development opportunities in selected regions in China and overseas with the potential for growth. We may not be able to identify geographic locations with sufficient growth potential to expand our market reach or operate our new businesses. For the geographic locations we select, we may face intense competition from companies with established experience or presence and from other companies with similar expansion plans. As we may face unprecedented challenges, we may fail to properly assess risks or take full advantage of opportunities.

Moreover, our experience in existing markets and business model may not be readily transferable to, and replicated in, new markets in our target cities. The markets in our target cities may be different from each other in terms of the local economic and industry development, extent of policies support provided by local governments, development phases of local businesses, market demand, and types of construction. We may have limited ability to leverage our established brands and reputation in new markets in the same way we have done in our existing markets. Furthermore, the administrative, regulatory and tax environments in our target cities may be different from each other and we may incur additional expenses or face difficulties in complying with new procedures and adapting to new environments in the new markets. In addition, we may have a lower level of familiarity with local governments, business practices, regulations and customer preferences compared with other local and more experienced construction contracting service providers in such cities, which may put us in a disadvantageous position.

As we continue to expand, we will have to continue to improve our managerial, development and operational expertise and policies on resources allocation. To effectively manage our expanded operations, we will need to continue to recruit and train managerial, accounting, internal audit, construction, technical, sales and other staff to satisfy our development requirements, including staff who understand the local market. In order to fund our ongoing operations and our future growth, we need to have sufficient internal capital sources or access to additional financing from external sources. Further, we will be required to manage relationships with a greater number of customers, suppliers, subcontractors, service providers and other third parties. Accordingly, we will need to further strengthen our internal controls and compliance functions to ensure that we are able to comply with our legal and contractual obligations and to reduce our operational and compliance risks. We cannot assure you that we will not experience issues such as capital constraints, construction delays and operational difficulties at new business locations. We may also experience difficulties in expanding our existing business and operations and training an increasing number of qualified personnel to manage and operate the expanded business.

**Backlog is subject to unexpected adjustments and cancellations and, therefore, may not be indicative of our future results of operations.**

Backlog in our major businesses represents our estimate of the contract value of work that remains to be completed as of a certain date. The contract value of a project represents the amount that we expect to receive under the terms of the contract, assuming the contract is performed in accordance with its terms. Backlog may not be indicative of future results of operations. For further details, see "Business – Business Model – Backlog and New Contract Value – Backlog". As of June 30, 2023, the unreceived contract value of our aggregate backlog for our specialized industrial construction business, specialized auxiliary construction business and other construction contracting business was approximately RMB37,760.0 million from 861 projects; whereas as of the Latest Practicable Date, we had an ending backlog value of RMB38,347.8 million from 922 projects. However, this figure is based on the assumption that our relevant contracts will be performed in full in accordance with their terms. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our backlog. Also, we cannot guarantee that the amount estimated in our backlog will be realized in full, in a timely manner, or at all, or even if it is realized, such backlog will result in profits as expected. As a result, you should not rely on our backlog information as an indicator of our future earnings.

**Inaccurate estimates in applying percentage-of-completion accounting for our construction contracting projects and any material discrepancies between the estimated contract costs and the actual costs ultimately incurred may materially and adversely affect our financial condition and results of operations.**

We use the percentage-of-completion method to recognize and account for the turnover derived from our specialized industrial construction, specialized auxiliary construction and other construction contracting business. During the Track Record Period, in determining the percentage-of-completion for each relevant reporting period, we used the actual construction cost incurred during the period over the total estimated construction cost during the entire construction phase. Going forward, we need to estimate the amount of construction costs based on our assessment of the market conditions, the costs of raw materials and equipment and other operating costs. The timing of our recognition of turnover may differ materially from the timing of our actual receipt of contract payments. The timing of our recognition of turnover and the amount of turnover recognized are affected by our ability to reliably measure the percentage-of-completion, total estimated costs and actual costs incurred. Inaccuracies or flaws in our measurements for any given project or in our estimation methodology as a whole could have a material and adverse effect on the timing of our recognition of turnover and the amount of turnover recognized. Where our expectation related to turnover recognition is different from our previous estimation, the differences will be charged to our profit or loss account in the period when such estimate has been changed. In addition, because many of these contracts are completed over a period of several months, the timing of our recognition of the related turnover may adversely affect our results of operations.

Furthermore, certain of our contracts are fixed-price contracts, which we estimate based on a cost analysis before we enter into contracts with our customers. The bidding, contract negotiation and construction process of our construction projects limit our ability to accurately predict costs at the outset. Our contract terms therefore expose us to cost overruns as a result of factors beyond our control, including variations in labor and equipment productivity, price fluctuations of raw materials and unforeseen project conditions. The occurrence of any of such factors may result in inaccurate cost estimates, lower profits or even a loss despite any buffers we may have built into the contract value to safeguard against cost increases. Some of our contracts may have a price adjustment clause, allowing us to adjust the contract value for additional costs incurred due to a significant increase in our costs as a result of certain circumstances. In such cases, we are typically required to cover a portion of the increased costs. If our estimated costs are lower than our actual costs, or if the price adjustment does not cover our increased costs, our business, financial condition and results of operations may be materially and adversely affected.

**We may be subject to impairment losses relating to goodwill and other intangible assets, which may affect our financial condition and results of operations.**

For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, our intangible assets amounted to approximately RMB0.6 million, RMB1.4 million, RMB1.2 million and RMB1.0 million, respectively, while our goodwill amounted to approximately RMB15.0 million, RMB15.0 million, RMB15.0 million and RMB15.0 million as of each of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired and is measured at cost less accumulated impairment losses. Other intangible assets are tested for impairment whenever there is an indication that they may be impaired. Testing for impairment requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Intangible asset exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the greater of fair value less costs of disposal and the value in use. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and a suitable discount rate to calculate the present value of cash flows. There are inherent uncertainties related to these factors and our judgment in applying these factors to the assessment of goodwill and other intangible assets recoverability. In the event that our intangible assets are impaired, the amount of the impairment will constitute a non-cash expense to the profit or loss. A slowdown in revenue growth, our inability to maintain our business activities or a decrease in profit margins could result in an impairment to our intangible assets other than goodwill. We cannot assure that we will continue to maintain the same level of revenue growth, development and manufacturing activities and/or profit margins. Moreover, a change in the assumptions used in the impairment testing of intangible assets may lead to significant impairment losses. If our intangible assets are impaired, or there is a change in the assumptions used in the impairment testing of our intangible assets, our results of operations could be adversely affected.

**We are exposed to potential risks associated with participation in government-directed projects.**

Some of our contracts, particularly PPP project with governmental authorities or government-controlled entities, feature large infrastructure projects. Changes in government budgets for infrastructure projects of related industries or factors such as public expenditures and policy considerations, changes in governmental officials and policy makers or other political factors could result in changes or delays to these projects because most of these projects are funded by governmental authorities and public organizations.

In addition, disputes with the entities established by or managed by the government or its governmental entities could lead to contract termination if the disputes are left unresolved or may take a considerably longer period of time to resolve than disputes with our private counterparties, and payments from such entities may be delayed as a result. Such entities may from time to time require the construction methods or equipment to be changed, requiring us to reconfigure our designs or purchase additional machinery and equipment, thereby causing us to incur to additional costs. Changes to government budgets and policies relating to our projects could lead to delays in project completion or a withholding of, or delay in, payments to us. Government-controlled entities generally exercise substantial bargaining power in the performance of their contracts with us. If a local government-controlled entity terminates or fails to renew a contract, our backlog may be reduced accordingly. The occurrence of any of these risks may have a material and adverse effect on our business, financial position and results of operations. In addition, as the tendering and bidding and implementation of large-scale infrastructure projects are subject to changes in public policy considerations or public expenditure policies, if there is any adjustment to the relevant public policy approach by the government in the places where we operate, our existing or future contracts or projects with government agencies or the government-controlled entities may be affected, the revenue we recognize for such projects may be delayed or reduced, and the number and revenue of our large-scale infrastructure projects may not be maintained at the current level, which may have a material and adverse effect on our business, financial condition and results of operations.

**Our net profit margin has deteriorated from the year ended December 31, 2020 to the year ended December 31, 2021 and is subject to fluctuation.**

For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, our profit for the year was RMB282.2 million, RMB188.0 million, RMB200.4 million and RMB110.2 million respectively, and our net profit margin was 2.8%, 1.4%, 1.6% and 2.1%, respectively. Such fluctuation was generally a result of our project mix and changes in our cost of construction. We cannot assure you that our net profit margin will not be subject to fluctuations in the future, and any increase on cost of sales, finance costs and administrative and other operating expenses in a magnitude higher than the increase in revenue may adversely affect our net profit margin. If there is any decrease in our net profit margins in the future, our profitability and financial condition may be adversely affected.

**We are exposed to fair value change for financial assets measured at fair value through other comprehensive income ("FVOCI") and valuation uncertainty due to the use of unobservable inputs that require judgment and assumptions which are inherently uncertain.**

We are exposed to fair value change for financial assets measured at FVOCI. As of December 31, 2020, 2021, and 2022 and June 30, 2023, our financial assets measured at FVOCI were approximately RMB135.4 million, RMB122.7 million, RMB138.8 million and RMB139.8 million. Please see "Financial Statement – Selected Items of Consolidated Statements of Financial Position – Financial Assets Measured at FVOCI" for further details.

Since the value of our financial assets depend on the investment performance of the underlying financial instruments, our investments are subject to all of the risks associated with those underlying financial instruments, including the possibility of bankruptcy of the unlisted entities. Any potential realised or unrealised losses in our investments in the future resulting from the changes in the value of the financial instruments we invested in may adversely affect our business, our results of operations and our financial condition.

The fair value of our financial assets that are not traded in an active market is determined using valuation techniques, which require judgment and assumptions and involve the use of unobservable input, such as the discount for lack of marketability. Valuation reports of the fair values are prepared by the independent valuer. Changes in the basis and assumptions used in the estimation could materially affect the fair value of these financial assets. Factors beyond our control can significantly influence and cause adverse changes to the estimates and thereby affect the fair value. These factors include, but are not limited to, general economic conditions, changes in market interest rates and stability of the capital markets. The valuation may involve a significant degree of judgment and assumptions which are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our results of operations.

**We may not be able to fulfill our obligations in respect of contract liabilities, which may have a material and adverse impact on our business, reputation and liquidity position.**

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our contract liabilities balance was approximately RMB1,105.3 million, RMB1,407.4 million, RMB2,166.3 million and RMB1,711.0 million, respectively. If we fail to fulfill our obligations in respect of contract liabilities, it may have a material and adverse impact on our business, reputation and liquidity position. Contract liabilities are recognized when the customers pay the consideration before we recognize the corresponding revenue. Contract liabilities will also be recognized if we have an unconditional right to consideration before the related revenues are recognized. In this case, the corresponding receivables will also be recognized. For a single contract entered into with a customer, net contract assets or net contract liabilities are presented. For multiple contracts, contract assets and contract liabilities for unrelated contracts are not presented on a net basis. For further details, see "Financial Information – Selected Items of Consolidated Statements of Financial Position – Contract Liabilities."

**Changes in the relevant accounting standards applicable to service concession arrangements and changes in our judgment and assumptions in applying these accounting standards may have a material impact on our results of operation and financial positions**

We apply IFRIC 12 and other relevant accounting standards to our service concession arrangements. These standards may be changed or amended from time to time in the future. Any changes in these accounting standards may result in changes in the recognition, measurement and/or classification of our revenue, expenses, assets and liabilities that could have material impact on our results of operation and financial position. Moreover, in the application of these accounting standards, we are required to make judgments, estimates and assumptions with respect to our revenue, expenses, assets, liabilities, as well as the cash flow projections of our projects. These estimates and assumptions are not readily apparent from other sources and are based on historical experience and other factors that we consider to be relevant. For more information on the accounting treatment of our projects accounted for as service concession arrangements, in particular our PPP projects, including the nature of construction revenue, operation revenue, and financial income, please refer to the sections headed "Business – Construction Investment – Public-Private Partnership Project", "Financial Information – Critical Accounting Policies, Judgments and Estimates" and "Accounting treatment for service concession project" under note 3.2 to the Accountants' Report set out in Appendix I to this document. We cannot assure you that our estimates and assumptions can always be accurate. Should actual results be different from these estimates and assumptions, we may have to make necessary changes and adjustments to the relevant policies governing these estimates and assumptions, which could materially and adversely affect our results of operation and financial position.

**There is a mismatch between our revenue and the underlying cash flows for our PPP projects accounted for as service concession arrangements. In addition, the business model for our PPP projects we adopt can adversely affect our financial performance and liquidity position**

Our PPP Projects are mainly under BOT arrangements with the public sector entities and we recognize revenue from PPP projects during both the construction and the operational phases of the projects. However, while we recognize construction revenue for the PPP projects, we actually do not receive any cash payment for our construction services during construction phase. The actual cash inflow for our construction revenue from our PPP projects is received at a later stage during the operation phase of the relevant PPP projects over the stipulated concession periods. We had a number of PPP projects that required us to make significant initial investment using our own cash and external financing during the construction stage of the projects, which created cashflow mismatch as we can only receive payments, after completion of construction phase. If we fail to secure sufficient external financing or generate sufficient cash from our operations to finance our projects, or if our finance costs increase materially, our business, financial condition, results of operation and prospects may be materially and adversely affected.

Additionally, if the relevant project does not materialize or if the actual cash receipts in the operation stage of the project are significantly smaller than expected, we may not receive sufficient cash payments from projects for which construction revenue had been recognized. In such case, we may need to recognize impairments or write-offs in the subsequent periods for the contract assets, receivables under service concession arrangements and/or trade receivables. For more information on the accounting treatment of our projects accounted for as service concession arrangements, in particular our PPP projects, including the nature of construction revenue, operation revenue, and financial income, please refer to the sections headed "Business – Construction Investment – Public-Private Partnership Project", "Financial Information – Critical Accounting Policies, Judgments and Estimates" and "Accounting treatment for services concession projects" under note 3.2 to the Accountants' Report set out in Appendix I to this document.

We cannot assure you that impairments or write-offs will not occur in future, in which case our financial condition and results of operations may be materially and adversely affected. Therefore, when reviewing our business, financial condition and results of operations, you should read our financial statements in light of the mismatch between our revenue and the underlying cash flows as a result of the accounting treatment for service concession arrangements in assessing our historical performance and prospects.

**Our operating results may be significantly affected by changes in the prices and availability of raw materials.**

We are vulnerable to fluctuations in market prices and the availability of our raw materials. Our principal raw materials primarily include steel and concrete. Our raw materials represent a significant portion of our cost of sales. For the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, raw materials cost accounted for 41.6%, 51.1%, 52.4% and 45.3% of our total cost of sales, respectively. Raw materials prices depend on a variety of factors beyond our control, including global financial conditions, the PRC economy and related government policies. We cannot guarantee that the prices of our raw materials will not rise from current levels and that our cost of sales will not increase. If we are unable to purchase any of our raw materials on terms acceptable to us or if we are not able to pass on such price increases to our customers, our profit margins may decrease and our results of operations may be materially and adversely affected. In respect of the supply of raw materials, we procure our principal raw materials from a list of qualified suppliers, all of whom are companies in the PRC. In the event of an overall increase in market demand for such materials, we cannot guarantee that we will be able to obtain our principal raw materials from our qualified suppliers in necessary amounts and in a timely manner. If our supplies are disrupted, or if one or more of our current suppliers are unable to meet our requirements for any reason, we may incur substantial costs and delays in our operations. Although we believe that alternative suppliers for our raw materials are readily available in the market, any unanticipated supply interruptions may have an adverse effect on our business, financial position and results of operations. For details, see "Financial Information – Cost Fluctuations in Construction Projects".

**Fluctuations in the market price of engineering raw materials could affect our Group's profitability.**

During the Track Record Period, we engaged in the sales of engineering raw materials, including concrete, wind turbine towers and construction modules. For each of the year ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023, our revenue generated from trading accounted for RMB21.2 million, RMB148.0 million, RMB300.7 million and RMB79.6 million, respectively accounted for 0.2%, 1.1%, 2.3% and 1.5% of our total revenue for respective year/period.

The fluctuation in our trading income may be affected by various reasons including, inter alia, (i) change in sales volume of engineering raw materials; (ii) the benchmark price (指導價格) of the relevant engineering raw materials issued by the provincial government which will be updated from time to time; and (iii) the fluctuation in market price of the relevant engineering raw materials. Our revenue derived from trading and the profit we may derive therefrom may fluctuate depending on the market price of the relevant raw materials that we sell during the relevant period, and our profitability may thereby be affected.

**The investments accounted for using the equity method and the share of results of associates would affect the Company's performance and related liquidity risk if dividends are not declared.**

We have invested, and in the future, may invest, in a diverse array of businesses, technologies and ventures, and may enter into acquisitions and alliances from time to time. Such endeavors may involve significant risks and uncertainties, including distracting management from current operations, greater than expected liabilities and expenses and unidentified issues not discovered in our due diligence. These transactions also involve significant challenges and risks, particularly on the uncertain return of capital, see "Financial Information – Investment in Associates" for further details. The recoverability of our investments accounted for using equity method will be subject to uncertainty given that we only realise return upon dividend payments from these associates unless we dispose of these investments; unforeseen or hidden liabilities or additional operating losses, costs and expenses that may adversely affect us following our acquisitions or investments.

In addition, we may experience constraints on our liquidity because gains or losses from those investments do not give rise to any change in our cash position unless we dispose of the relevant assets or receive dividend payments. If no divided is declared by our associates for a long period, it may affect the Group's liquidity and results of operations.

**Our construction contracting business is subject to seasonality.**

Our construction contracting business is subject to seasonality. We attribute this seasonality to the effect that the winter months have on our construction operations in northern China as well as the effect of the Chinese New Year during which most of our projects and constructions are suspended, and we may need to temporarily halt certain construction projects during times of severe air pollution. Also, we may experience cost increases or delays when conducting our business operations during particular seasons. Therefore, our operating business, results and financial condition may fluctuate from period to period.

**We do not possess valid title or rights to certain properties that we occupy.**

For some of the land and buildings we occupy, we, or our landlords, have not yet obtained valid real estate certificates. See "Business – Properties" for details of our property defects.

We cannot predict how our rights as owner or lessee and our business, results of operations and financial position may be materially and adversely affected as a result of the absence of legal title or rights. We cannot assure you that ownership disputes or claims will not occur or that third parties will not assert any claims against us for compensation in respect of any illegally authorized use of their land or buildings.

**We may be subject to fines and penalties for certain leases which had failed to register.**

Pursuant to the relevant regulations in the PRC, the parties to a lease agreement are required to complete the registration procedures of the lease agreement and obtain a filing certificate for the lease. As of the Latest Practicable Date, we were unable to register certain lease agreements. For more details on lease agreements that have not been registered and filed with the relevant PRC authorities, please see "Business – Properties – Leased Properties – Building". According to the relevant PRC laws and regulations, failure to register a lease agreement does not affect the validity of the lease agreement and the legal use of the leased premises. However, the relevant government authorities may require us to file a lease agreement to complete the registration process and may impose a fine, ranging from RMB1,000 to RMB10,000 per lease agreement, for failure to register within the prescribed time limit. The maximum potential fine for such non-compliance is RMB590,000 based on the number of leased properties that have not been registered as of June 30, 2023. The implementation of the above penalties may require us to make additional efforts and/or incur additional expenses, any of which could adversely affect our business, financial condition and results of operations. The filing procedures of lease agreements we entered into requires additional steps to be taken by each of the other parties to the lease agreements, which is beyond our control. We cannot assure you that the other parties to the lease agreements will cooperate or that we will be able to complete the registration procedures for such lease agreements and any other lease agreements that we may enter into in the future.

**We need to comply with the relevant laws and regulations or maintain the relevant licenses, certificates or permits.**

Various aspects of our operations are subject to laws and regulations at the national and local level. We cannot guarantee that our internal control measures will always be sufficient and effective in preventing non-compliance. If deemed non-compliant, we could be subject to administrative or regulatory fines and penalties, including the suspension or revocation of our qualifications, and our operations may be hindered or halted, which could have a material and adverse effect on our business and results of operations. As the legal systems of the place we operate and engineering installation industry continue to evolve, relevant laws and regulations or their interpretation or enforcement may be amended or changed from time to time, and we may fail to make timely adjustments to comply with relevant laws and regulations. We may also be subject to the risk of penalty due to landlord violations. For more information about our certain non-compliance with relevant laws and regulations during the Track Record Period, see "Business – Legal and Regulatory Compliance".

We operate heavily-regulated businesses that require us to obtain, maintain and renew a number of licenses, qualifications and permits. Further, we are subject to regular inspections, examinations, inquiries and audits, as well as periodic and spot inspections by the relevant governmental authorities to maintain or renew such licenses, qualifications and permits. We cannot guarantee that we will be able to obtain, maintain or renew the requisite licenses, qualifications and permits, or comply with any new licensing requirements, when new laws or regulations are promulgated or existing laws or regulations are amended, which may subject us to resulting penalties, limitations or costs and, in turn, may have a material and adverse effect on our business, financial condition and results of operations. Further, extensive government regulation and related delays in seeking the requisite licenses, qualifications and permits can significantly delay the introduction of additional services or products, which could materially and adversely affect our competitiveness.

**Under PRC laws and regulations, we may be subject to additional social insurance and/or housing provident funds as well as late payment fees and penalties.**

In accordance with applicable PRC laws and regulations, we are obliged to make contributions to social insurance and housing provident funds for our employees. Some of our employees may have disputes with us over social insurance and housing provident funds. In the event of such disputes, under the Social Insurance Law of the PRC, the relevant PRC authorities may require us to pay outstanding social insurance premiums within a prescribed time limit, and we shall be subject to a late payment fee equal to 0.05% of the amount of outstanding social insurance premiums on a daily basis. If we still fail to pay such fees, we may be subject to a fine of more than one time but less than three times the amount of the outstanding fees. In respect of unpaid housing provident fund contributions, under the Regulations on the Administration of Housing Provident Fund, we may be required by the relevant PRC authorities to pay the underpayment of housing provident fund within a specified time limit. If we did not make such payment as required, the people's court may issue an enforcement order against us. In such event, our financial condition and results of operations may be materially and adversely affected. See "Business-Legal and Regulatory Compliance" for details.

As the interpretation and implementation of the Labor Contract Law of the PRC, the Social Insurance Law of the PRC and other relevant labor regulations (the "**Relevant Labor Laws and Regulations**") may be amended from time to time, there is no assurance that our employment practices did not or will not violate the Relevant Labor Laws and Regulations of the PRC, which may expose us to labor disputes or government investigations. If we are deemed to be in breach of Relevant Labor Laws and Regulations, we may be required to make additional compensation to our employees, and our business, financial condition and results of operations may be materially and adversely affected.

**We are involved in a shareholders dispute.**

In December 2022, a former individual shareholder of the Company had initiated a litigation against the Company and two former nominee shareholders (in which Shanxi CIG is also a defendant), alleging that his equity interests in the Company had been transferred without his prior consent and that he claimed for the payment of additional dividend of the Company other than the amount of dividend which he was entitled to and settled by our Group. It is expected that the trial will commence in mid-October 2023. See "History, Development and Corporate Structure – Corporate Development – Shareholders dispute" for further details.

However, due to disputes over the proportion, amount, and legality of the transfer of Shares that is in issue, as of the Latest Practicable Date, the Plaintiff has yet to agree to sign the relevant documents and withdraw the equity transfer funds and there exists uncertainties to the outcome of the litigation. We cannot assure you that we will not be subject to further claims arising from the shareholders dispute, or that if we lose in the upcoming trial, our business prospects, results of operations and reputation would not be materially and adversely affected.

**We may be involved in claims and litigations in our ordinary course of business.**

We may be involved in claims and litigation in the ordinary course of our business arising from defective or allegedly defective services or products, personal injuries, damage to or destruction of property, payment disputes, breaches of contract, project delays, and other miscellaneous matters with external parties and our prior shareholder. If found liable on such claims, we would be subject to significant monetary damages, as well as find ourselves subject to government sanctions, including fines and the loss or non-renewal of operational licenses, approvals and permits. For details on outstanding legal proceedings and potential claims, see "Business – Legal and Regulatory Compliance" and "Business – Overseas Business – Issues with our Australia Project". We may be subject to lengthy and expensive legal proceedings if the dispute is not resolved through negotiations. Further, we might suffer negative publicity resulting from such claims. If any negative publicity or reputational harm is not effectively remedied or reversed, our existing or potential customers may develop negative views of the safety and quality of our services and products, which may negatively affect our ability to maintain solid relationships with our customers, engage new customers and expand into new markets. We cannot assure you that we will not be subject to future liability claims, or that if any such claims were successful, our business prospects, results of operations and reputation would not be materially and adversely affected.

**We may receive claims for breach of contracts when we fail to pay our suppliers and subcontractors on time or in full**

We generally procure raw materials from our suppliers and engage subcontractors for our construction projects. In order to maintain our liquidity, we would generally manage our payments to suppliers and subcontractors with reference to the cash flows derived from the instalments made by our customers. However, the turnover period of our trade receivables were generally over 130 days, mainly due to the prolonged settlement from our customers. Accordingly, we recorded a relatively long turnover period for our trade payables to our suppliers and subcontractors during the Track Record Period.

During the Track Record Period, our trade and bills payables amounted to approximately RMB4,844.5 million, RMB7,594.5 million, RMB9,170.6 million and RMB9,541.0 million and accounted for approximately 41.8%, 48.8%, 47.7% and 47.8% of our total liabilities as at December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. There is no assurance that our suppliers and/or subcontractors will not claim against us for breach of contracts in the future as a result of delay in payments, which may adversely affect our results of operations. In addition, if our suppliers cease to supply materials to us as a result of our breach of contracts, our project progress may be impeded and thus our results of operation may be adversely affected.

**The recoverability of our deferred tax assets are subject to accounting uncertainties.**

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. As of December 31, 2020, 2021 and 2022 and June 30, 2023, we recognized deferred tax assets of RMB43.0 million, RMB64.0 million, RMB100.1 million and RMB107.8 million, respectively. Based on our accounting policies, deferred tax assets are recognized in case of timing differences between the carrying amount of assets for financial reporting purpose and the amounts used for taxation purposes. The realization of a deferred tax asset mainly depends on our management's judgment as to whether sufficient future profits or taxable temporary differences will be available in the future. Management will continuously conduct review and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. If sufficient profits or taxable temporary differences are not expected to be generated or are less than expected, a material reversal of deferred tax assets may arise in future periods.

**Our risk management and internal control systems may not fully protect us against various risks inherent in our business.**

Since our risk management and internal control systems depend on their effective implementation by our employees, we cannot assure you that all of our employees will adhere to such policies and procedures strictly, and the implementation of such policies and procedures may involve human error. We are unable to guarantee that our internal control system will be effective in preventing the occurrence of corruption, bribery or other illegal or unethical activities. Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control policies and procedures as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal control policies and procedures, our business, financial condition and results of operations could be materially and adversely affected.

**Our insurance may not be adequate to cover all risks of loss associated with our business operations.**

We maintain insurance policies in accordance with the needs of our business, industry practice and the requirements set forth in relevant laws and regulations. However, we cannot guarantee that our insurance will provide adequate coverage for all of the risks we face in our business operations. During the Track Record Period, we maintained group accident insurance for our personnel onsite our construction projects. Consistent with customary practice in China, we do not maintain any business interruption or litigation insurance policies which are not mandatory according to the laws and regulations of the PRC. If we were to incur substantial liabilities that are not covered by our insurance or if we suffer protracted periods of disruption or interruption in our business operations, we would incur significant costs and losses that could materially and adversely affect our results of operations. In addition, it is possible that the occurrence of certain incidents, including earthquakes, fires, adverse weather conditions, war, floods, power outages, equipment failures, construction accidents and the consequences, damages and disruptions resulting from any of the foregoing incidents, may not be covered adequately, or at all, by our insurance. Any uninsured loss or liabilities may cause us to incur substantial costs and the diversion of resources, which could have a material and adverse effect on our operating results.

**We may be involved in intellectual property disputes and claims of infringement, which may divert our management's attention and harm our reputation and profitability.**

We rely upon a combination of patents, trademarks, domain names and contractual rights to protect our intellectual property rights. As of June 30, 2023, we also owned over 750 valid patents, 17 registered trademarks, 86 domestic computer software copyrights and three domain names in China. We also possess proprietary information in connection with our operations, such as information relating to pricing, raw material procurement and construction methods. However, there can be no assurance that the steps we have taken to monitor and protect our intellectual property rights are adequate to prevent or deter infringement or other misappropriation of our intellectual property. Failure to successfully enforce our intellectual property rights would weaken competitiveness and harm our reputation. We believe that our trademarks are vital to our brand recognition and the success of our business, as such, we shall invest significant costs in monitoring and protecting our intellectual property.

We may be required to commence legal proceedings to strengthen protection of our intellectual property rights and protect our proprietary information. Additionally, we may also be subject to litigation involving claims by third parties that our products or services infringe their intellectual property rights. Any litigation or claims brought by or against us, whether with or without merit, or whether successful or not, can be both costly and time-consuming and may significantly reduce our resources reserved for our daily operations or other corporate usage. Unfavorable ruling in any such litigation or proceedings to which we are a party could materially and adversely affect our business, financial condition and results of operations.

**Our inability to attract, retain or secure senior management and key personnel for our operations could hinder our continuing growth and success.**

Our success depends, to a significant extent, on the services and efforts of senior management and key personnel and our ability to continue to attract, retain and motivate key personnel. We compete with other regional and national construction contracting companies for recruiting experienced management and qualified personnel, and the competition for such personnel is intense. There can be no assurance that we will be able to continue to attract and retain the qualified personnel who are essential for our growth. The loss of services of any employees holding important positions or possessing substantial industry expertise or experience, including those in charge of project management, risk management, production, sales and marketing, research and development, and accounting and financial management, could have a material and adverse effect on our operations. Under such circumstances, if we are unable to recruit and retain replacement personnel with the equivalent qualifications in time or at all, our growth and success could be adversely affected. For more information on our senior management, see "Directors, Supervisors and Senior Management."

**We may experience failures in our information technology systems.**

We rely, to a large extent, on our information technology systems for our daily operations. Our information technology systems are critical to our operations and also support our key operational processes, including project management, procurement and bidding. Our operating efficiency and risk management practices have been enhanced by such information technology systems. However, we cannot assure you that any damage or interruption caused by power outages, computer viruses, cyber-attacks from hackers, hardware and software failures, telecommunications failures, fires, natural disasters and other similar events relating to our information technology systems will not happen in the future. If any serious damage or significant interruption occurs, we may experience system errors and our operations may be disrupted. Breakdown or defects in our information technology systems may result in unwanted leakage of sensitive information and expose us to risks of claims from our clients and business partners. We may have to incur significant costs and time for recovering the information technology systems and retrieving the lost information.

**We may not be able to detect and prevent bribery or other misconduct committed by our employees, subcontractors or third parties.**

Bribery and other misconduct including, among others, acceptance of kickbacks, bribes or other illegal benefits or gains by our employees or third parties, such as our subcontractors or suppliers, in our ordinary course of business may be difficult to detect and deter and could subject us to negative publicity, litigation and harm our reputation. The precautions we take to detect and prevent these activities may not be effective in all cases, particularly as we expand into overseas jurisdictions, and our internal control system may not be effective in preventing the occurrence of corruption, bribery or other illegal activities in an unfamiliar market. We cannot assure you that any misconduct of employees or third parties, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on our business, financial position and results of operations.

**Our financial results may be affected by government grants.**

We received government grants of RMB7.3 million, RMB3.8 million, RMB2.1 million and RMB4.1 million for the years ended December 31, 2020, 2021 and 2022 and the six months ended June 30, 2023. Not all government grants are recurring. The government grants we may receive are uncertain and subject to certain selection criteria and procedures stipulated by local governments. In addition, the development focus of local government authorities may shift to other industries over time, and there is no guarantee that we will receive any such government grants in the future. If we fail to receive the same government grants in the future as we received during the Track Record Period, our profitability during that period may be adversely affected.

**Our engagement in research and development activities may negatively affect our profitability and operating cash flow in the future, and may not achieve the results as expected.**

Our technical capabilities and infrastructure are critical to our success. The industry in which we operate is rapidly evolving in technology and developing rapidly in technological innovation. Meanwhile, as we undertake a large number of projects that require new technologies, we need to allocate resources (including financial resources) for research and development to lead technological progress, which make our solutions competitive in the market. Therefore, we have always attached great importance to investing in research and development. For the years ended December 31, 2020, 2021 and 2022 and for the six months ended June 30, 2023, our research and development costs were RMB427.3 million, RMB562.0 million, RMB678.7 million and RMB185.3 million, respectively. We expect that research and development expenditure will continue to increase in the future. In addition, research and development activities are inherently uncertain, and there may be practical difficulties in putting research and development results into commercial use. Our large amount of expenses on research and development may not create benefits accordingly. Given that technology has been and will continue to evolve rapidly, we may not be able to update technology in an efficient, cost-effective and manner, or even at all. The emergence of new technologies in our industry may render the technologies, technology infrastructure or solutions we are developing or expect to develop obsolete or unattractive, thereby limiting our ability to undertake projects and resulting in a reduction in our revenue, profitability and market share.

**As the PRC economic, political and social conditions, as well as government policies are affected by the global macroeconomic, political and social conditions, such adverse factors could materially and adversely affect our business, financial position, results of operations and prospects.**

The majority of the Company's operations are located in China. As such, our results of operations, financial condition and prospects are affected by the economic, political, social and legal developments in the PRC to a large extent. Over the past decades, the Chinese government has taken various measures to promote the market economy and encourage entities to establish sound corporate governance. The Chinese government also exerts significant impact on China's economic growth by strategically allocating resources, controlling the payment of foreign currency-denominated debt, formulating monetary policy and providing preferential treatment to specific industries or companies. Although the Chinese economy has grown significantly over the past few decades, it may be difficult for us to predict all the risks and uncertainties we may face, and any economic slowdown in China due to global economic conditions may reduce customers' demand for our products and services, thereby materially and adversely affecting our business and results of operations. In addition, any significant changes in PRC government policies or PRC laws could have a significant impact on the overall economic growth of China.

**We may be subject to regulatory requirements on currency conversion as required by laws and regulations, which may affect our management of our business and day-to-day operations involving foreign exchange transactions, including dividend payments to our H Shares holders.**

Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to conduct foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under the existing foreign exchange regulations, following the completion of the [**REDACTED**], we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there is no assurance that these favorable foreign exchange policies regarding payment of dividends in foreign currencies will continue to be effective in the future. If we fail to obtain approval from SAFE to convert Renminbi into any foreign currency for any of the above purposes, our capital expenditure plans and our business, operating results and financial position may be materially and adversely affected.

**Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises holding of our H Shares.**

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to our dividends paid to them and the gains realized upon the sale or other disposition of H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. Generally, a withholding tax rate of 10% shall apply to the dividends paid by a company listed in Hong Kong to foreign individuals according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; or (c) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in China, and for those which have establishments or premises in China but whose income is not related to such establishments or premises, under the EIT Law, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代 繳企業所得稅有關問題的通知》) issued by the SAT, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

Despite the arrangements mentioned above, the interpretation and application of applicable PRC tax laws and regulations may be amended from time to time, and all non-PRC resident individual holders may be subject to PRC individual income tax at a flat rate of 20%.

In addition, the PRC's tax authorities may amend the interpretation and application of applicable PRC tax laws and regulations, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends paid to non-PRC resident shareholders holding our H Shares, and on gains realized on sale or other disposition of our H Shares. The PRC's tax laws and regulations may also change. If there is any change to applicable tax laws and regulations or in the interpretation or application of such laws and regulations, the value of your investment in our H Shares may be materially affected.

**The lapse of non-recurring nature of the preferential tax treatment we currently enjoy in the PRC and gains on disposal of assets of disposal group classified as held for sale could materially and adversely affect our business, financial condition and results of operations.**

The general corporate income tax rate in PRC is 25%, however, eligible enterprises in certain encouraged economic sectors are entitled to various preferential income tax rates. Since 2015, several members of our Group in PRC have been subject to preferential income tax rate, see "Financial Information – Taxation" for further details.

We have also recognized a non-recurring nature of gains on disposal of assets of disposal group classified as held for sale of RMB68.1 million under other income and gains for the year ended December 31, 2020, see note 6.1 to the Accountants' Report included in Appendix I to this document for further details.

The expiration or elimination of, or other adverse changes to, the non-recurring nature of the preferential tax treatment we currently enjoy and gains on the disposal of assets of disposal group classified as held for sale could adversely affect our business, financial condition and results of operation.

**Under the EIT Law, we may not continue to benefit from preferential tax treatment for "high and new-technology enterprise" of the PRC. Such classification could result in unfavorable tax consequences.**

Pursuant to the EIT Law, a high and new-technology enterprise may enjoy a preferential enterprise income tax rate of 15%. Our Company and five of our subsidiaries received approval by competent government authorities to be classified as high and new-technology enterprise. During the Track Record Period, our Company and five subsidiaries of our Company, namely, Shanxi Shan'an Biquan Haimian City Technology Company Limited* (山西山安碧泉海綿城市科技有限公司), Shanxi Shan'an Maode Distributed Energy Technology Company Limited* (山西山安茂德分布式能源科技有限公司), Gaoping Xinshi Yangtian Solar Power Company Limited* (高平市鑫時陽田光伏發電有限公司), Shanxi Shan'an Bluesky Energy Conservation Technology Co. Ltd.* (山西山安藍天節能科技股份有限公司) and Shan Shan'an Lide Environmental Technology Company Limited (山西山安立德環保科技有限公司), had obtained high and new-technology enterprise certificates with the validity period of three years, respectively.

Despite being eligible for the high and new-technology enterprise rate during the Track Record Period, there is no assurance that we would remain qualified as a high and new-technology enterprise so as to enjoy the high and new-technology enterprise preferential tax rate after the expiry of the Certificate of High and New-Technology Enterprise, in which case our Group and our subsidiaries will be subject to the normal enterprise income tax rate of 25% as for all PRC enterprises. The effective tax rate will therefore significantly increase and may materially and adversely affect our profitability, which may have a material adverse effect on our business, results of operations and financial condition. Also, there can be no assurance that the EIT Law, its application or its interpretation will not continue to change, in which case our effective income tax rate may increase significantly.

**RISK RELATING TO THE [REDACTED]**

**Possible setting of the [REDACTED] after making a [REDACTED]**

**[REDACTED]**

**There has been no prior public market for our H Shares, and their liquidity and [REDACTED] may be volatile. If the [REDACTED] of the Shares declines or fluctuates, this could result in substantial losses for investors purchasing Shares in the [REDACTED].**

Prior to the [**REDACTED**], there has been no public market for our H Shares. The initial [**REDACTED**] for our H Shares to the public will be agreed by us and the [**REDACTED**], and the [**REDACTED**] may differ significantly from the market price of the H Shares following this [**REDACTED**]. We have applied to the Stock Exchange for the [**REDACTED**] of, and permission to [**REDACTED**], the H Shares. A [**REDACTED**] on the Stock Exchange, however, does not guarantee that an active and liquid [**REDACTED**] market for the H Shares will develop or, if it does develop, that it will be sustained. In addition, the [**REDACTED**] of the H Shares may be subject to significant volatility as a result of various factors, including but not limited to:

- variations in our operating results or differences between our operating results and those anticipated by investors and analysts;
- changes in securities analysts' estimates of our financial performance;
- announcements made by us or our competitors;
- regulatory or market changes in the PRC affecting us or the industries in which we participate;
- any business interruptions resulting from natural disasters or accidents;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and the PRC;

- announcements of or completions of acquisitions, strategic alliances or joint ventures by us or our competitors;
- additions to, or departure of, our key personnel;
- release or expiration of lock-up or other transfer restrictions on our Shares;
- liability claims brought against us;
- involvement in litigation; and
- general political, economic, financial, social development and stock market conditions and other factors.

Moreover, in recent years, stock markets in general, and the H shares issued by other issuers in the PRC and listed on the Stock Exchange, have both experienced price and volume fluctuations, some of which were unrelated or did not fully correspond with the operating performance of the relevant companies. These broad market and industry fluctuations may materially and adversely affect the [**REDACTED**] of our H Shares in a similar manner.

**There will be a time gap of several business days between [REDACTED] and the commencement of [REDACTED] of our H Shares [REDACTED] under the [REDACTED].**

The [**REDACTED**] of our H Shares [**REDACTED**] under the [**REDACTED**] will be determined on the [**REDACTED**]. However, [**REDACTED**] of our H Shares on the Stock Exchange will not commence until they are delivered, which is expected to be several business days after the [**REDACTED**]. During that period, [**REDACTED**] of our H Shares may not be able to [**REDACTED**] or otherwise [**REDACTED**] our H Shares. Accordingly, holders of our H Shares may be subject to the risk that our H Share [**REDACTED**] could fall before [**REDACTED**] begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the [**REDACTED**] and the date on which the [**REDACTED**] begins.

**Future sales or a major divestment of Shares by any of our Shareholders could materially and adversely affect the prevailing [REDACTED] of our Shares.**

The future [**REDACTED**] of a significant number of our Shares in the [**REDACTED**] after the [**REDACTED**], or the possibility of such [**REDACTED**], by any one of our Shareholders could materially and adversely affect the [**REDACTED**] of our Shares and could materially impair our future ability to raise capital through [**REDACTED**] of our Shares. Although the Controlling Shareholder has agreed to a lock-up of its Shares, any major disposal of our Shares by the Controlling Shareholder upon expiry of the relevant lock-up periods or the perception that these disposals may occur may cause the [**REDACTED**] of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

**Potential conversion of Domestic Shares into H Shares may result in an increase in the number of H Shares available in the [REDACTED], which in turn affects the price of H Shares.**

Subject to approval by the CSRC, Domestic Shares may be [**REDACTED**] on an overseas securities exchange. Any [**REDACTED**] of the abovementioned Shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of the relevant overseas securities exchange. Unless otherwise required by the overseas securities exchange, there is no requirement for the [**REDACTED**] of the above-mentioned Shares to be approved in a class meeting of our Company. For details, see "Share Capital – Conversion of Our Domestic Shares into H Shares." Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of H Shares in the [**REDACTED**] and could have a material and adverse impact on the [**REDACTED**] of H Shares.

**Dividends distributed in the past may not be indicative of our dividend policy in the future.**

A declaration of dividends is proposed by our Board of Directors and the amount of any dividends distributed depends on various factors, including, without limitation, our results of operations, financial position, future prospects and other factors which our Board of Directors may deem important. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

**Facts and other statistics in this document derived from official government publications or public database sources may not be fully reliable.**

This document, particularly the "Industry Overview" section, contains information and statistics, including, but not limited to, information and statistics relating to the PRC, the PRC economy and the construction contracting and real estate industries in the PRC. Such information and statistics have been derived from various official government publications and other publications, and from a third-party report commissioned by us. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information from official government sources has not been independently verified by us, the Joint Sponsors, any of our or their respective directors, officers or representatives or any other person (excluding Frost & Sullivan) involved in the [**REDACTED**], and no representation is given as to its accuracy. We cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy, as the case may be, as that in other jurisdictions.

**Potential investors will experience immediate dilution as a result of the [REDACTED].**

Investors will pay a price per Share that exceeds the per Share value of the tangible assets after subtracting the total liabilities, and will therefore experience immediate dilution when they purchase the Shares in the [**REDACTED**]. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the [**REDACTED**], investors purchasing Shares in the [**REDACTED**] would receive less than they paid for their Shares. See "Appendix II – [**REDACTED**] Financial Information".

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

There has been coverage in the media regarding to us and the [**REDACTED**]. We do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this document. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.