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## BUSINESS

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### OVERVIEW

We are a growing private general contracting construction enterprise in the PRC and have been granted five first-grade construction contracting qualifications, including (i) the first-grade qualification in building construction general contracting (建築工程施工總承包一級); (ii) the first-grade qualification in municipal and public construction general construction (市政公用工程施工總承包一級); (iii) the first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包一級); (iv) the first-grade qualification in building electrical and mechanical installation and engineering specialised contracting (建築機電安裝工程專業承包一級); and (v) the first-grade qualification in building renovation and decoration construction specialised contracting (建築裝修裝飾工程專業承包一級). We also attain six second-grade and third-grade construction contracting qualifications covering different specialisations such as petrochemical engineering construction, steel structure construction and environmental protection construction. We were the recipient of the award named “Top 500 Enterprises in Shenzhen” (深圳500強企業) for 2020, 2021 and 2022.

Since our inception in 2017, we have strategically focused and placed efforts on municipal and public construction works in Guangdong Province to build up our reputation and market share and we have benefited from the rapid development in the construction industry in the PRC, especially in Guangdong Province. General contractors dominated in the construction market in Guangdong Province and the total revenue of construction market in Guangdong Province grew at a CAGR of approximately 13.4% from 2018 to 2022 according to the Frost & Sullivan Report. During the Track Record Period, we completed 39, 35, 21 and 7 municipal and public construction projects, respectively. We continuously leveraged our qualifications and proven track record in municipal and public construction projects to negotiate with new customers and submit a high volume of tenders in order to grasp business opportunities. Leveraging on our persistent determination for success, our Group has established a firm foothold in Guangdong Province with footprints in Henan Province, Sichuan Province, Fujian Province, Hubei Province, Zhejiang Province and Xinjiang Uygur Autonomous Region. According to the Frost & Sullivan Report, we ranked top 50 out of over 10,000 private construction companies headquartered in Guangdong Province in terms of revenue in 2022 and the size of the construction industry in Guangdong Province to the overall PRC market in 2022 is approximately 8.2% in terms of revenue.

We provided construction services to both the public sector (such as government departments, SOEs, public transport operators and/or statutory bodies) and the private sector (such as private or listed property developers, construction contractors and/or landowners) during the Track Record Period.

During the Track Record Period, over 75% of our recognised revenue were generated from construction engineering projects and municipal and public construction projects. We believe that our active participation in construction engineering projects and municipal and public construction projects enables us to develop an in-depth understanding of the project requirements imposed by public sector entities and reinforce their confidence in our services. During the Track Record Period, we recognised a total revenue of approximately RMB4,080.0 million from over 190

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construction engineering projects and municipal and public construction projects, of which 22 projects had contract value of more than RMB50 million and 79 projects had contract value of more than RMB10 million.

We may act as a general contractor or subcontractor for our projects depending on the availability of opportunities in the market. During the Track Record Period, we had completed 164 projects with an aggregate total contract value amounting to approximately RMB2,584.1 million. As at the Latest Practicable Date, we had a total of 97 projects on hand, including ongoing projects and projects undertaken by us but not yet commenced, with an aggregate total contract value of approximately RMB4,481.2 million. Among these projects on hand, 18 projects had contract value of RMB50 million or above. The aggregate total contract value of these 18 projects amounted to approximately RMB3,485.2 million.

### OUR STRENGTHS

Our Directors believe that there are several competitive strengths which differentiate us from our competitors and enable us to continue our growth. Such competitive strengths include:

**We attain a range of first-grade qualifications and licenses in the construction contracting industry, which allow us to undertake a diverse range of works for construction projects**

We attain a range of first-grade qualifications and licenses in the construction contracting industry including (i) the first-grade qualification in building construction general contracting (建築工程施工總承包一級); (ii) the first-grade qualification in municipal and public construction general construction (市政公用工程施工總承包一級); (iii) the first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包一級); (iv) the first-grade qualification in building electrical and mechanical installation and engineering specialised contracting (建築機電安裝工程專業承包一級); and (v) the first-grade qualification in building renovation and decoration construction specialised contracting (建築裝修裝飾工程專業承包一級). We also attain six second-grade and third-grade construction contracting qualifications covering different specialisations such as petrochemical engineering construction, steel structure construction and environmental protection construction. For details, please refer to the paragraph headed “Licences, qualifications and permits” in this section. According to the Frost & Sullivan Report, in 2022, there were 10,960 construction companies in Guangdong Province, of which 10,148 were private construction companies and 812 were state-owned construction companies, less than 9% of the private construction companies headquartered in Guangdong Province in 2022 attained the first-grade qualification in building construction general contracting (建築工程施工總承包一級), less than 4% of them attained the first-grade qualification in municipal and public construction general construction (市政公用工程施工總承包一級), less than 6% of them attained the first-grade qualification in foundation construction specialised contracting (地基基礎工程專業承包一級), less than 5% of them attained the first-grade qualification in building electrical and mechanical installation and engineering specialised contracting (建築機電安裝工程專業承包一級) and less than 15% of them attained the first-grade qualification in building renovation and decoration construction specialised contracting (建築裝修裝飾工程專業承包一級).

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With our broad coverage of qualifications, we are able to bid for and undertake an extensive portfolio of projects and to focus on emerging market opportunities created by the continuous development of the construction industries. Leveraging our comprehensive portfolio of construction services, our construction contracting business covers residential, public, industrial and commercial buildings, municipal and transportation infrastructure, as well as specialised construction areas such as electrical and mechanical installation and steel structure construction.

These qualifications allow us to undertake various construction engineering projects, municipal and public construction projects as well as specialised construction projects and provide us with competitive edge over our competitors. These qualifications also allow us to diversify our operations, provide integrated solution to our customers and ensure our sustainable development.

### **We have developed in-depth understanding of needs and demands of government departments through interaction in municipal and public construction projects**

While we attribute the strength of our operations in part to our wide range of service portfolio and in part to our service quality, we have developed in-depth understanding of needs and demands of government departments through interaction in municipal and public construction projects. During the Track Record Period, our Group completed 39, 35, 21 and 7 municipal and public construction projects, respectively, and we derived approximately 48.5%, 36.3%, 29.3% and 18.7% of our total revenue from municipal and public construction projects, respectively. The development of our business relationship with them enables us to better understand (i) the criteria, requirements and quality standard expected of us by government departments and (ii) the key elements and strategies for effective customer management and provision of services.

In general, public tenders in the construction industry in the PRC have stringent selection requirements, including requisite professional qualification and proven track record. Our Group leveraged our proven track record in municipal and public construction projects to submit a high volume of tenders in order to capture business opportunities. According to the Frost & Sullivan Report, developers and governments tend to cooperate with construction companies that have a proven track record and sound reputation based on years of experience in the construction industry.

We believe that our track record, financial condition and qualifications have assisted our Group in bidding for significant new projects, and our successful collaboration with various departments of the PRC government has enhanced our reputation in the public sector and the industry as a whole and has given us a competitive edge in new projects and business opportunities.

### **Our Group is led by a vibrant, dedicated and professional management team and a team of experienced project managers**

We are led by a vibrant, dedicated and professional management team, which is energetic, ambitious and motivated in leading our Group to a next stage of growth while creating a dynamic and adhocracy organisational culture in the workplace. Our management team is led by Mr. Xian, an executive Director and the chief executive officer of our Company, who has over 14 years of experience in the construction industry. His experience and extensive knowledge of the construction

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industry in the PRC enable our Group to understand market dynamism and industry practice and his close business relationships established with our customers and suppliers enhances our market profile and enables us to attract more potential business opportunities. He was the vice president of the Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Entrepreneur Association (深圳市企業家協會) from July 2020 to July 2021, was awarded “The Fourth Top 100 New Generation Entrepreneurs in Shenzhen”\* (第四屆百名深圳新生代創業風雲人物) by Shenzhen Enterprise Confederation (深圳市企業聯合會), Shenzhen Entrepreneur Association (深圳市企業家協會), Shenzhen Press Group\* (深圳報業集團) and Shenzhen Radio and Television Group Times Business Magazine\* (深圳廣電集團《時代商家》雜誌社) in December 2021 and was granted the Honest Entrepreneur Certificate by Yixu Credit Rating Limited\* (宜旭信用評級有限公司) in May 2022. Mr. Sang, an executive Director and Chairman of our Board, who has over 7 years of experience in the real estate development and construction industry, is mainly responsible for our Group’s strategic planning and supervision of implementation of our Group’s policies. With an average age of about 38, our executive Directors and senior management team are energetic and adaptable to challenges and changing economic environment, which have played a crucial role in shaping our industry recognition, market reputation and business success. Our senior management also possess extensive technical know-how and knowledge to respond to changing trends in the construction industry. Please refer to the section headed “Directors and senior management” in this document for further details of their biographies.

In addition, our projects are generally managed by our experienced project managers. As at 30 June 2023, we had 89 employees with the qualification of constructor (一級建造師) and/or associate constructor (二級建造師) in the PRC that is essential for acting as project manager to supervise and oversee our projects, 41 of them have five or more years of relevant industry experience, and most of them possess tertiary level qualifications.

We believe that our management team’s experience and knowledge will enable us to formulate competitive tenders, and manage and implement our projects effectively. In addition, the industry insight and strategic vision of our management team will allow us to develop robust and sustainable business strategies and seize market opportunities, thereby strengthening our presence in the industry.

### **We have adopted comprehensive and stringent occupational safety and quality control systems**

We endeavour to deliver consistently high-quality services and a safe working environment for our staff and subcontractors. We have established stringent safety management and quality management systems. Through systematic and effective control on our staff together with supervision procedures for our subcontractors, we uphold our standard of quality to reduce issues related to quality or non-conformity with specifications and standards. Our management systems were certified in accordance with the standards required under ISO9001:2015 (quality management), ISO45001:2018 (occupational health and safety management) and ISO14001:2015 (environmental management). Please refer to the paragraph headed “Quality control and management” in this section for further details of our Group’s quality control measures. Our reportable accident rate and related lost time injury frequency rate for the Track Record Period were

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nil and nil, respectively. For further details about reportable accident rate and related lost time injury frequency rate, please refer to paragraph headed “Social matters — Occupational health and safety” in this section.

Our stringent quality control measures, backed by our standardised operational procedures have enabled us to reduce the operational risks inherent in our operation. Our Group received numerous awards from government departments, industry organisations and property developers on recognising our Group’s work quality. Please refer to the paragraph headed “Awards and accreditations” in this section for further information. Moreover, our Directors believe that our customers, whether they are the ultimate owner or the general contractor of a project, would place strong emphasis on quality, including workmanship and material quality. Therefore, the quality of our services is essential to maintaining the reputation of our Group and is the key factor for us to remain competitive and to differentiate ourselves from our competitors. Hence, our Group is devoted and committed to maintaining and improving our quality management system, which will enhance our Group’s credibility and customers’ confidence.

### BUSINESS STRATEGIES

We strive to achieve sustainable growth in our current business and to further strengthen our overall competitiveness in providing construction services in the PRC. Hence, we plan to continue to capitalise on opportunities with competitive strengths of the Group and implement the following strategies:

#### **1. Continue to expand our construction business**

We plan to further expand our construction business by continuously seeking opportunities in the PRC, especially in Guangdong Province and adjacent provinces. As disclosed in the section headed “Industry overview” in this document, it is anticipated that the demand for construction services will continue to grow with favourable policies announcement by the PRC Government. The total output value of construction market in Guangdong Province has experienced solid growth in the past years and the total revenue of Guangdong Province has even achieved double-digit growth at a CAGR of approximately 13.4% from 2018 to 2022, reaching approximately RMB2,295.7 billion in 2022 and is expected to further increase to approximately RMB3,426.9 billion by 2027. In view of the above, we should bestow our extensive experience and knowledge in construction services to solidify and broaden our construction service offerings and enhance our market presence to capture more opportunities in the PRC by the following means:

##### ***Enhance our financing capabilities to undertake more projects***

As disclosed in this section, the business operations of our Group are capital intensive in nature. Construction projects often require us to have substantial cash outflows at the early stage, but most of the cash inflows are only collected at the later stage, and we are required to maintain significant amount of working capital to settle the cash outflows in projects, especially at the early stage. We usually have net cash

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outflows at the early stage of projects being required to pay for the cost of materials as well as the cost of the subcontractors and the progress payments from our customers would not cover these costs sufficiently until reaching the later stage. During the Track Record Period, our Group generally utilised internal resources as well as advances from our Controlling Shareholders to finance such upfront costs. We manage and monitor our working capital closely to ensure that we have sufficient financial resources to implement our projects observing mismatch in timing of cash inflows and outflows. In order to capture more business opportunities, we plan to improve our cashflow position and strengthen our capability in undertaking more projects, which largely depends on our available working capital. Our Group intend to undertake more projects of larger scale and higher contract value in the future. Our Directors believe that, coupled with the [REDACTED], the market presence of our Group will be significantly enhanced, allowing us to capture future business opportunities in the growing construction market in the PRC, consolidate our market position in the industry, thus reach out to more customers and a variety of projects, and acquire additional financial resources as the initial working capital to invest in our future projects.

### *Diversify and expand our client base*

On top of amplifying business relationship with existing customers, our Group also intend to deploy resources on diversifying and expanding our client base, and to compete for additional construction projects. Other than diversification of customer base through procuring new clients including landowners, property developers and general contractors, our Group also intends to participate in tenders more actively. As our Group continues to explore new business opportunities and enlarge our customer base, our Directors believe that the aforementioned anticipated improvement in cashflow position with the [REDACTED] will put us in a better position to fulfil the cash-related requirements imposed by our potential and/or existing customers and settle tender deposits and upfront costs, thereby enhancing our prospects in widening our market coverage. For further details, please refer to the section headed “Future plans and [REDACTED]” in this document.

## **2. Strengthen budget management and cost control to improve our rate of return**

We believe that effective cost control measures are crucial to maximising profitability and maintaining competitiveness. We will continue to strengthen our internal controls and further integrate the internal resource allocation system to improve efficiency and resource utilisation.

Leveraging our construction experience and accumulated data of project costs and expenditures, we aim to better tailor our preliminary project planning in the early stage of project management to estimate return with a more accurate mechanism.

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We have efficient and market-oriented decision-making process. We have access to a broad range of suppliers and detailed information on their capabilities and creditability. As at the Latest Practicable Date, we had access to over 2,000 suppliers and the broad range of suppliers enables us to engage the most qualified and suitable suppliers and subcontractors at ease, and streamlines the execution process, thereby enhancing our procurement efficiency and reducing our procurement costs.

### **3. Maintain conservative financial management**

Our Group has maintained the financial position in terms of a conservative gearing ratio. We intend to maintain such financial position without exposing to aggressive gearing in order to achieve sustainable growth in the long term and be less susceptible to any change in economy. We also intend to continue to manage our project process actively to ensure sufficient cash generated internally for our ongoing capital needs. Our Directors believe that a conservative financial management in capital commitment could provide a steady and reasonable return for shareholders while ensuring our continued growth in the long term.

### **4. Further strengthen our manpower**

We believe that our success in the construction industry is largely attributable to our experienced management and skilled staff members. In order to secure the emerging business opportunities in the construction industry and drive our business expansion, we intend to recruit more experienced staff for our engineering department and technical department with [REDACTED] from the [REDACTED]. For further details, please refer to the section headed “Future plans and [REDACTED]” in this document.

### **5. Purchase of construction equipment and machinery**

Our Group rented equipment and machinery used in our construction projects from equipment and machinery leasing suppliers at the aggregate cost of approximately RMB60.8 million, RMB99.2 million, RMB91.5 million and RMB43.9 million for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, respectively. For details, please refer to the paragraph headed “Raw materials, machinery and equipment, and subcontracting suppliers — Equipment and machinery” in this section. The increasing leasing cost of equipment and machinery, which will likely increase as we secure additional projects, aside, projects scheduling can be subject to availability of the machinery and equipment concerned. In view of the above, our Directors believe that purchasing our own machinery and equipment will help reduce our long-term expense on machinery and equipment, reduce our reliance on suppliers for leasing of equipment and machinery for our building construction projects, increase our scheduling flexibility and better maintain our work quality and safety. For further details, please refer to the section headed “Future plans and [REDACTED]” in this document.

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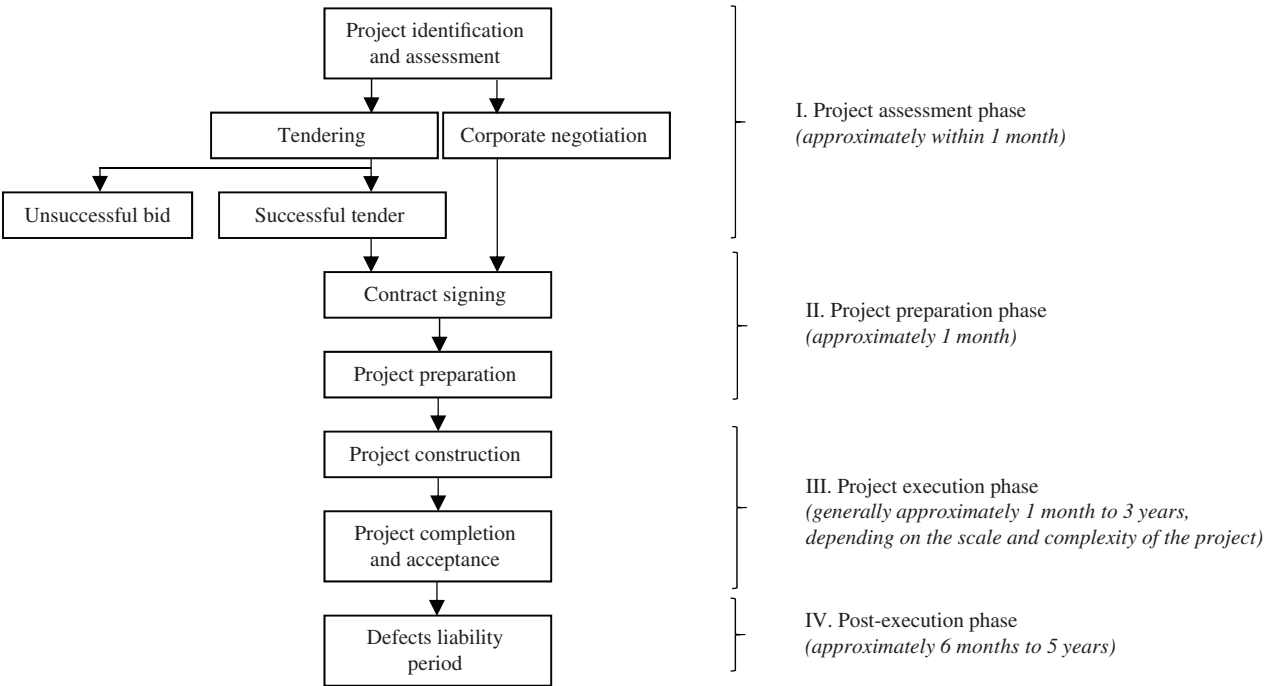
**OUR BUSINESS OPERATIONS AND SERVICES**

**Scope of services**

We primarily acted as a general contractor or subcontractor for our construction projects during the Track Record Period. We provide our customers with professional and comprehensive construction services. Generally, we are responsible for the overall coordination and management of a construction project, which cover workplan formulation, labour recruitment, leasing of equipment and machinery, procurement of construction raw materials and quality and construction progress control. We serve customers from both the public and private sectors, mainly government departments, property developers and commercial corporations. Our services span across different aspects of construction, which encompass (i) construction engineering works; (ii) municipal and public construction works; (iii) foundation engineering works; and (iv) specialised contracting works.

**Operating workflow**

For illustration purposes, a simplified flow diagram of our key operating workflow for our projects is set out below:



**I. Project assessment phase**

Our commerce department is responsible for identifying potential projects from a variety of sources, including (i) open tenders; (ii) invitation by existing customers or industry participants; and (iii) corporate negotiation.



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For public sector projects, they are usually contracted by way of open tender. In accordance with the Bid Invitation and Bidding Law of the PRC (中華人民共和國招標投標法), a tender is required for construction projects in the PRC, including projects involving large-scale infrastructure and public utility relating to public interest and safety, project entirely or partially financed by state-owned funds or loans by the State and projects financed by loans and financial aid from international organisations or foreign governments. For details, please refer to the section headed “Regulatory overview — Administration of tender and bid” in this document. Our commerce department is responsible for keeping track of government websites to identify projects suitable for bidding. We may also receive invitations to tender.

In determining whether to submit a bid, we will conduct an assessment taking into account of various factors, including but not limited to, scope of work involved, expertise and qualification required and prior experience.

For private sector projects, we are conventionally contracted through invitation to tender from or corporate negotiation with existing customers or property developers and commercial corporations. Most of our private sector projects have secured through pro-active liaison and commercial negotiation with potential customers. We will conduct further due diligence on the project owner, detailed analysis of the proposed construction project and determine the contract terms accordingly. Upon internal approval of such contract terms, we will engage in contract negotiations with customers and prepare a contract following the same review and approval process as discussed below for tender documents.

If we decide to participate in a bid or negotiation of a project, we will conduct an assessment to decide an acceptable price. For details, please refer to the paragraph headed “Customers, sales and marketing — Pricing policy” in this section below.

Our commerce department is responsible for preparing and reviewing tender documents.

We have designated a team within the commerce department, whose members possess the relevant experience or qualifications, to (i) review the achievability, technical requirements, risk and rewards of the potential projects; (ii) key financial and legal terms set out in the tender documents; and (iii) the background of customers, particularly for privately owned companies, mainly through the use of credit reports or similar credit search results.

In addition, our Group has also established another tier of risk management measure requiring the risk control team, comprising of the chief executive officer, financial manager, operations manager, engineering manager and legal manager, to further review more strategic and significant tenders, particularly those relating to privately owned companies and large in monetary amount before submission of the tender to the customers.

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The following breakdown sets out our revenue of projects secured through tendering and corporate negotiations with customers for the years/periods indicated:

|                        | For the year ended 31 December |              |                  |              |                  |              | For the six months ended 30 June |              |
|------------------------|--------------------------------|--------------|------------------|--------------|------------------|--------------|----------------------------------|--------------|
|                        | 2020                           |              | 2021             |              | 2022             |              | 2023                             |              |
|                        | RMB'000                        | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                          | %            |
| Tendering              | 682,121                        | 51.2         | 678,121          | 50.3         | 800,683          | 58.1%        | 293,566                          | 59.2%        |
| Corporate negotiations | 649,083                        | 48.8         | 668,098          | 49.7         | 577,372          | 41.9%        | 202,214                          | 40.8%        |
|                        | <u>1,331,204</u>               | <u>100.0</u> | <u>1,346,219</u> | <u>100.0</u> | <u>1,378,055</u> | <u>100.0</u> | <u>495,780</u>                   | <u>100.0</u> |

The following table sets forth the tendering results of our Group during the Track Record Period:

|                                | For the year ended 31 December |       |       | For the six months ended 30 June |
|--------------------------------|--------------------------------|-------|-------|----------------------------------|
|                                | 2020                           | 2021  | 2022  | 2023                             |
|                                | Number of tenders submitted    | 2,918 | 4,318 | 3,293                            |
| Number of projects awarded     | 45                             | 42    | 29    | 18                               |
| Success rate <sup>(Note)</sup> | 1.5%                           | 1.0%  | 0.9%  | 1.1%                             |

*Note:* Success rate is calculated based on the number of projects awarded during the relevant year/period, divided by the number of tenders submitted during the same year/period.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the number of tenders submitted by us was 2,918, 4,318, 3,293 and 1,642, respectively, and during the same period, we recorded a tender success rate of approximately 1.5%, 1.0%, 0.9% and 1.1%, respectively. In general, given the requisite professional qualification we attain, we adopted a pro-active approach and submitted a high volume of tenders (i.e. 2,918 for the year ended 31 December 2020, and 4,318 for the year ended 31 December 2021, 3,293 for the year ended 31 December 2022) when comparing with the number of projects awarded during the Track Record Period in order to maintain our presence in the market. This would allow us to keep abreast of the latest market requirements and conditions, and pricing levels of our competitors which is crucial in tendering for similar projects in the future and attracting new potential customers. Given our background and experience and our continuous efforts to seek new tenders as part of our normal operations, our Directors believe that we will continue to grasp new opportunities for works in the industry.

## II. *Project preparation phase*

### *Contract signing*

We generally enter into construction contracts with customers on a project-by-project basis. If we successfully bid on a construction project, upon the receipt of a letter of award, we will enter into a construction contract with the tenderee. For corporate

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negotiation projects, our commerce department is responsible for conducting negotiation on detailed terms with our customers. Construction contracts will be passed through our internal approval process prior to execution.

*Project preparation*

Upon the execution of a construction contract, we will commence to prepare the necessary resources and manpower required for the construction project, which includes (i) formation of a project management team; and (ii) selection and engagement of raw materials and equipment and machinery leasing services suppliers.

Our project management team is responsible for overseeing the project execution in accordance with our workplan, identifying on-site issues, seeking possible remedial actions and reporting work progress on a regular basis. The workplan would include setting management milestones, thereby dividing the project into various stages, which we would estimate the time required for the project and arrange to make plan for procurement of raw materials and equipment and manpower accordingly. Depending on the scale and complexity of works undertaken, our project management team generally includes the following core members, namely project manager, technical supervisor, construction officer, materials officer, mechanical officer, labour officer, quality officer, standardisation officer and safety officer.

The table below sets out the major responsibilities of key members of our project management team:

| <b>Position</b>      | <b>Major responsibilities</b>   |
|----------------------|---|
| Project manager      | <ul style="list-style-type: none"><li>— Overall management of the construction project.</li><li>— To conduct overall planning and control project budget, liaise with customers and other external parties, and coordinate throughout the construction project.</li><li>— To ensure the work efficiency and compliance with contractual and statutory requirements.</li></ul> |
| Technical supervisor | <ul style="list-style-type: none"><li>— Oversee the technical works of the construction project.</li><li>— Formulate construction plans, advise on construction sequences and methodologies, compiling construction process organisational design and specialised construction plans and liaise with relevant technical personnel of other parties.</li></ul>                 |

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| <u>Position</u>      | <u>Major responsibilities</u>  |
|----------------------|--|
| Construction officer | <ul style="list-style-type: none"><li>— Oversee the site work of the construction project.</li><li>— Organise and coordinate on-site construction works, allocate the production resources, and ensure the construction work plan is implemented according to the schedule as well as meeting the specified technical standards.</li></ul>   |
| Materials officer    | <ul style="list-style-type: none"><li>— Oversee construction materials related matters.</li><li>— Conduct planning, procurement and inspection of construction materials.</li><li>— Identify and engage suitable suppliers.</li><li>— Ensure the use of construction materials conforms to the specified technical standards and meets the demand according to the construction schedule.</li></ul>  |
| Mechanical officer   | <ul style="list-style-type: none"><li>— Oversee equipment and machinery related matters.</li><li>— Conduct planning and determining the number and types of equipment and machinery required for the construction project</li><li>— Identify and engage equipment and machinery leasing services suppliers.</li><li>— Ensure the use of equipment and machinery conforms to the specified technical standards and meets the demand according to the construction schedule.</li></ul> |
| Labour officer       | <ul style="list-style-type: none"><li>— Oversee labour force related matters.</li><li>— Conduct planning and determining of labour force required at different stages of the construction project according to the workplan.</li><li>— Identify and engage competent subcontractors.</li><li>— Ensure the labour force meets the demand according to the construction schedule.</li></ul>  |

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| <u>Position</u>         | <u>Major responsibilities</u>  |
|-------------------------|--|
| Quality officer         | <ul style="list-style-type: none"> <li>— Oversee the quality matters of the construction project.</li> <li>— Formulate quality management plans and participate in the quality review works throughout the construction project.</li> <li>— Ensure the quality of construction works conforms to the specified technical standards.</li> </ul>   |
| Standardisation officer | <ul style="list-style-type: none"> <li>— Oversee the implementation of engineering construction standards.</li> <li>— Participate in the review of construction drawings, compile construction plans and quality plans and organise trainings on engineering construction standards.</li> <li>— Ensure the effectiveness of the implementation of engineering construction standards.</li> </ul>   |
| Safety officer          | <ul style="list-style-type: none"> <li>— Oversee safety related matters.</li> <li>— Establish and implement safety production system and emergency rescue plans for construction site safety accidents.</li> <li>— Participate in the safety inspections in construction machinery, temporary electricity, and firefighting facilities, etc.</li> <li>— Conduct safety education and ensure the safety awareness of construction workers.</li> </ul> |

The raw materials used in our construction projects include concrete, steel, cement and other construction materials, all of which are sourced locally. We require the use of a range of equipment and machinery such as construction cranes, excavators, scaffolding and dump trucks to perform our construction works. Save for the personnel from our project management team, all of the construction workers we deploy on our projects are engaged by independent third party labour subcontractors. Depending on our capability, resources level, cost effectiveness and the complexity of the project, we may subcontract specific parts, which is permitted under the Construction Law, of the project to third party specialised construction subcontractors. For further details regarding our suppliers and selection criteria, please refer to the paragraph headed “Raw materials, equipment and machinery, and subcontracting suppliers” in this section below.

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### III. *Project execution phase*

#### *Project construction*

Our Group commences construction works in accordance with the schedule and timeline as stipulated in the construction contract. We generally assume the role of general contractor or subcontractor in our construction projects, which involves taking charge of the overall management within the scope of the contract to ensure the quality of works and progress milestones are met.

Throughout the construction process, our project management team will (i) hold regular on-site meetings with our customer and the independent project supervision entity to review and clarify specific project requirements, ensure statutory requirement compliance, give technical feedbacks and tackle any potential problems in the construction project; (ii) conduct interim inspections to assess the status of the construction project to ensure that our Group strictly adheres to the construction schedule as stipulated in the construction contract; and (iii) follow up with our customer with regards to any variation orders made.

Given the limited storage space at the construction sites, we will normally try to keep our construction material inventory at a minimal, and determine the quantity of materials to be stored in accordance with progress schedule, and place purchase orders based on the specific needs of each construction project. Our suppliers would deliver the construction materials to the corresponding construction sites for direct utilisation. Upon arrival of the construction materials, we may conduct quantity check and deliver sample of materials to relevant or designated independent qualified laboratories or institutions for quality check, depending on the requirements by our customers and the relevant industry standards. For details regarding our Group’s inventory management and quality assurance on raw materials, please refer to the paragraphs headed “Raw materials, equipment and machinery, and subcontracting suppliers — Inventory management” and “Quality control and management — Inspection of raw materials” of this section, respectively.

Project cost management is an ongoing process throughout the project, in particular, at the project execution phase. Our Group estimates the total project cost by considering, amongst others, the subcontracting costs, raw material costs, cost of equipment and machinery and other miscellaneous costs at project assessment and preparation phase. We keep track on the market price of raw materials and may obtain preliminary quotations from our suppliers in order to have a more accurate estimation of the project costs. The budgeted project cost will regularly be reviewed and typically be updated to reflect the volume of work or additional work, as agreed by us and our customers or, when necessary, to reflect material change of key cost components and related unit prices (the “**Rolling Budget**”). The rolling budget would be used as an indicator, together with other key indicators, by the management to assess whether the actual cost of related project at a particular time has a tendency of overbudget or whether the devotion of

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resources are falling behind the original plan. For material variance between budgeted and actual costs, the risk control team would either attempt to implement corresponding cost control or monitoring measures at its best effort or consider performing thematic review over the overall progress and quality management of the project.

### *Project completion and acceptance*

Upon completion of our construction projects and satisfaction of internal inspection by our project management team, the customer along with its independent supervision entity, construction design professionals and the relevant government authorities would then conduct a completion inspection with us. Further modifications or reworks may be required from us from time-to-time subsequent to the completion inspection. Upon satisfaction of the final completion inspection and if we are the general contractor of the project, our project management team will prepare a practical completion report which will be jointly approved by us, our customer, its independent supervision entity and other parties involved in the inspection process, representing the practical completion of the project. If we are the subcontract of the project, we may assist the general contractor in the final completion inspection process. Thereafter, save for the final portion of the retention money (generally no more than 3% of the contract value), we will confirm the final settlement amount with the independent supervision entity appointed by our customer by conducting an internal review of the account and according to the construction audit report agreed between us and the independent supervision entity appointed by our customer.

### **IV. *Post-execution phase***

The issuance of the practical completion report marks the commencement of the project’s defects liability period under the construction contract, which generally ranges from six months to five years, depending on the type of construction works, during such period we are liable to the rectification work on construction defects. The defects liability period in relation to waterproofing works may be up to five years. As at 31 December 2020, 2021 and 2022 and 30 June 2023, our contract assets in relation to projects with defects liability period exceeding one year was approximately RMB536.7 million, RMB705.7 million, RMB870.1 million and RMB845.6 million, respectively. At the end of the defects liability period, our customer would confirm that our obligations of rectification have been completed pursuant to the terms of our construction contract and will release the remaining retention money to us.

According to the Frost & Sullivan Report, the length of our Group’s defects liability period ranging from six months to five years is in line with industry norm, which is generally ranged from one to five years, depending on the type of construction services provided.

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### OUR PROJECTS

Our projects encompass a wide range of construction works, including (i) construction engineering works; (ii) municipal and public construction works; (iii) foundation engineering works; and (iv) specialised contracting works.

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

|  | Year ended 31 December |              |                  |              |                  |              | Six months ended 30 June |              |                |              |
|--|------------------------|--------------|------------------|--------------|------------------|--------------|--------------------------|--------------|----------------|--------------|
|  | 2020                   |              | 2021             |              | 2022             |              | 2022                     |              | 2023           |              |
|  | RMB'000                | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                  | %            | RMB'000        | %            |
|  | (Unaudited)            |              |                  |              |                  |              |                          |              |                |              |
| <b>Construction projects</b>               |                        |              |                  |              |                  |              |                          |              |                |              |
| Construction engineering projects          | 625,968                | 47.0         | 779,248          | 57.9         | 763,321          | 55.4         | 194,213                  | 52.2         | 279,378        | 56.4         |
| Municipal and public construction projects | 646,234                | 48.5         | 489,206          | 36.3         | 403,793          | 29.3         | 147,837                  | 39.8         | 92,850         | 18.7         |
| Foundation engineering projects            | 35,092                 | 2.6          | 60,539           | 4.5          | 53,597           | 3.9          | 1,776                    | 0.5          | 53,732         | 10.8         |
| Specialised contracting projects           | 23,910                 | 1.9          | 17,226           | 1.3          | 157,344          | 11.4         | 28,031                   | 7.5          | 69,820         | 14.1         |
| <b>Total</b>                               | <b>1,331,204</b>       | <b>100.0</b> | <b>1,346,219</b> | <b>100.0</b> | <b>1,378,055</b> | <b>100.0</b> | <b>371,857</b>           | <b>100.0</b> | <b>495,780</b> | <b>100.0</b> |

During the Track Record Period, all of our revenue were made on project basis.

#### *Construction engineering projects*

Construction engineering projects primarily consist of structural and/or engineering works such as building, piling, demolition and site formation for commercial and residential buildings. We generally provide construction engineering services to customers from both public and private sectors, including but not limited to government departments, SOEs, listed and private companies in the PRC. During the Track Record Period, our Group generated approximately RMB626.0 million, RMB779.2 million, RMB763.3 million and RMB279.4 million in revenue from construction engineering projects, respectively, representing approximately 47.0%, 57.9%, 55.4% and 56.4% of our total revenue, respectively.

#### *Municipal and public construction projects*

Municipal and public construction projects primarily consist of all urban and rural public infrastructure construction, including but not limited to environment improvement works, construction of sewage treatment infrastructure and roadwork. We generally undertook municipal and public construction projects as a general contractor. Our municipal and public construction customers are mainly government departments and SOEs. During the Track Record Period, our Group generated approximately RMB646.2 million, RMB489.2 million, RMB403.8 million and RMB92.9 million in revenue from municipal and public construction projects, respectively, representing approximately 48.5%, 36.3%, 29.3% and 18.7% of our total revenue, respectively.



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### *Foundation engineering projects*

Foundation engineering projects primarily consist of earthwork and foundation construction and slope protection work, which are all underground engineering, the design and quality of foundation engineering closely related to the safety of the building. We undertook foundation engineering projects as a general contractor in the public sector. During the Track Record Period, our Group generated approximately RMB35.1 million, RMB60.5 million, RMB53.6 million and RMB53.7 million in revenue from foundation engineering projects, respectively, representing approximately 2.6%, 4.5%, 3.9% and 10.8% of our total revenue, respectively.

### *Specialised contracting projects*

Specialised contracting projects represent the specialised construction works outsourced by the general contractor, which require strong professionalism and primarily consist of building renovation and decoration works services. During the Track Record Period, our Group generated approximately RMB23.9 million, RMB17.2 million, RMB157.3 million and RMB69.8 million in revenue from other specialised contracting projects, respectively, representing approximately 1.9%, 1.3%, 11.4% and 14.1% of our total revenue, respectively.

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The following table sets out the movement in the number of projects during the Track Record Period and up to the Latest Practicable Date:

|  | For the year ended 31 December |      |      | For the six months ended 30 June | From 1 July 2023 to the Latest Practicable Date |
|--|--------------------------------|------|------|----------------------------------|---|
|  | 2020                           | 2021 | 2022 | 2023                             | Date  |
| <b>Number of opening projects</b>                                  |                                |      |      |                                  |   |
| Construction engineering projects                                  | 14                             | 18   | 18   | 24                               | 37  |
| Municipal and public projects                                      | 33                             | 36   | 35   | 37                               | 41  |
| Foundation engineering projects                                    | 4                              | 1    | 3    | 12                               | 10  |
| Specialised contracting projects                                   | 2                              | 3    | 1    | 13                               | 7   |
|  | 53                             | 58   | 57   | 86                               | 95  |
| <b>Add: Number of new projects</b>                                 |                                |      |      |                                  |   |
| Construction engineering projects                                  | 9                              | 13   | 16   | 19                               | 1   |
| Municipal and public projects                                      | 42                             | 34   | 23   | 11                               | 1   |
| Foundation engineering projects                                    | 1                              | 2    | 9    | 5                                | —   |
| Specialised contracting projects                                   | 3                              | 5    | 14   | —                                | —   |
|  | 55                             | 54   | 62   | 35                               | 2   |
| <b>Less: Number of completed projects</b>                          |                                |      |      |                                  |   |
| Construction engineering projects                                  | 5                              | 13   | 10   | 6                                | —   |
| Municipal and public projects                                      | 39                             | 35   | 21   | 7                                | —   |
| Foundation engineering projects                                    | 4                              | —    | —    | 7                                | —   |
| Specialised contracting projects                                   | 2                              | 7    | 2    | 6                                | —   |
|  | 50                             | 55   | 33   | 26                               | —   |
| <b>Number of ongoing projects as of the end of the year/period</b> |                                |      |      |                                  |   |
| Construction engineering projects                                  | 18                             | 18   | 24   | 37                               | 38  |
| Municipal and public projects                                      | 36                             | 35   | 37   | 41                               | 42  |
| Foundation engineering projects                                    | 1                              | 3    | 12   | 10                               | 10  |
| Specialised contracting projects                                   | 3                              | 1    | 13   | 7                                | 7   |
|  | 58                             | 57   | 86   | 95                               | 97  |

During the Track Record Period, we completed 50, 55, 33 and 26 projects, respectively. As at the Latest Practicable Date, we had 97 ongoing projects (either in progress or yet to commence).

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The following table sets forth a breakdown of the number of new projects by contract value with respect to our construction contracting business and relevant revenue recognised for the years/periods indicated:

|  | For the year ended 31 December |                    |                   |                    |                   |                    | For the six months ended 30 June |                    |
|--|--------------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|----------------------------------|--------------------|
|  | 2020                           |                    | 2021              |                    | 2022              |                    | 2023                             |                    |
|  | Number of project              | Revenue<br>RMB'000 | Number of project | Revenue<br>RMB'000 | Number of project | Revenue<br>RMB'000 | Number of project                | Revenue<br>RMB'000 |
| Within RMB10 million   | 33                             | 68,089             | 38                | 127,862            | 31                | 101,761            | 24                               | 22,394             |
| RMB10 million to RMB50 million (excluding RMB10 million and RMB50 million) | 15                             | 110,562            | 14                | 195,177            | 24                | 262,813            | 8                                | 58,743             |
| RMB50 million to RMB100 million  | 4                              | 133,983            | 1                 | 55,211             | 2                 | 32,267             | 1                                | —                  |
| Over RMB100 million  | 3                              | 295,484            | 1                 | 27,014             | 5                 | 415,140            | 2                                | 35                 |
| <b>Total</b>   | <b>55</b>                      | <b>572,118</b>     | <b>54</b>         | <b>405,265</b>     | <b>62</b>         | <b>811,982</b>     | <b>35</b>                        | <b>81,172</b>      |

During the Track Record Period, we had undertaken the construction projects as general contractor and subcontractor. The following table sets forth the number of projects and the breakdown of our revenue by our role in the project for the years/periods indicated:

|                    | For the year ended 31 December |                    |                    |                   |                    |                    | For the six months ended 30 June |                    |                    |            |                |              |
|--------------------|--------------------------------|--------------------|--------------------|-------------------|--------------------|--------------------|----------------------------------|--------------------|--------------------|------------|----------------|--------------|
|                    | 2020                           |                    | 2021               |                   | 2022               |                    | 2023                             |                    |                    |            |                |              |
|                    | Number of project              | Revenue<br>RMB'000 | % of total revenue | Number of project | Revenue<br>RMB'000 | % of total revenue | Number of project                | Revenue<br>RMB'000 | % of total revenue |            |                |              |
| General contractor | 96                             | 1,070,316          | 80.4               | 83                | 1,176,457          | 87.4               | 184                              | 1,148,058          | 83.3               | 106        | 382,937        | 77.2         |
| Subcontractor      | 9                              | 260,888            | 19.6               | 18                | 169,762            | 12.6               | 44                               | 229,997            | 16.7               | 28         | 112,843        | 22.8         |
|                    | <b>105</b>                     | <b>1,331,204</b>   | <b>100.0</b>       | <b>101</b>        | <b>1,346,219</b>   | <b>100.0</b>       | <b>228</b>                       | <b>1,378,055</b>   | <b>100.0</b>       | <b>134</b> | <b>495,780</b> | <b>100.0</b> |

The following table sets forth the number of projects and the breakdown of our revenue by type of development for the years/periods indicated:

|                                      | For the year ended 31 December |                    |                    |                   |                    |                    | For the six months ended 30 June |                    |                    |            |                |              |
|--------------------------------------|--------------------------------|--------------------|--------------------|-------------------|--------------------|--------------------|----------------------------------|--------------------|--------------------|------------|----------------|--------------|
|                                      | 2020                           |                    | 2021               |                   | 2022               |                    | 2023                             |                    |                    |            |                |              |
|                                      | Number of project              | Revenue<br>RMB'000 | % of total revenue | Number of project | Revenue<br>RMB'000 | % of total revenue | Number of project                | Revenue<br>RMB'000 | % of total revenue |            |                |              |
| Infrastructure and public facilities | 96                             | 734,612            | 55.2               | 89                | 628,194            | 46.7               | 197                              | 581,771            | 42.2               | 107        | 289,870        | 58.5         |
| Residential                          | 6                              | 512,779            | 38.5               | 7                 | 647,487            | 48.1               | 14                               | 592,141            | 43.0               | 9          | 90,801         | 18.3         |
| Commercial                           | 3                              | 83,813             | 6.3                | 5                 | 70,538             | 5.2                | 17                               | 204,143            | 14.8               | 18         | 115,109        | 23.2         |
|                                      | <b>105</b>                     | <b>1,331,204</b>   | <b>100.0</b>       | <b>101</b>        | <b>1,346,219</b>   | <b>100.0</b>       | <b>228</b>                       | <b>1,378,055</b>   | <b>100.0</b>       | <b>134</b> | <b>495,780</b> | <b>100.0</b> |

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### Major projects

The following tables set forth particulars of our major projects during the Track Record Period in terms of revenue contribution:

#### *For the year ended 31 December 2020*

| Rank | Project      | Customer  | Customer Type   | Project type                     | Type of development                  | Location | Commencement date <sup>(2)</sup> | Completion date <sup>(3)</sup> | Revenue recognised for the year | Approximate percentage of total revenue for the year <sup>(4)</sup> | Total contract sum <sup>(5)</sup> | Approximate percentage of remaining contract sum <sup>(6)</sup> | Our role           |
|------|--------------|---|-----------------|----------------------------------|--------------------------------------|----------|----------------------------------|--------------------------------|---------------------------------|---|-----------------------------------|---|--------------------|
|      |              |   |                 |                                  |                                      |          |                                  |                                | RMB'000                         | %   | RMB'000                           | %   |                    |
| 1    | Project #87  | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) | Private company | Construction engineering project | Residential                          | Huizhou  | July 2019                        | Ongoing                        | 215,271                         | 16.2  | 724,771                           | 1.3   | General contractor |
| 2    | Project #129 | Customer Group A  | Listed company  | Construction engineering project | Residential                          | Shangqiu | April 2020                       | Ongoing                        | 130,375                         | 9.8   | 368,313                           | 8.5   | General contractor |
| 3    | Project #136 | CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)       | SOE             | Municipal and public project     | Infrastructure and public facilities | Dongguan | December 2019                    | July 2021                      | 105,247                         | 7.9   | 107,429                           | nil   | Subcontractor      |
| 4    | Project #137 | CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)       | SOE             | Municipal and public project     | Infrastructure and public facilities | Dongguan | December 2019                    | July 2021                      | 83,644                          | 6.3   | 84,516                            | nil   | Subcontractor      |
| 5    | Project #19  | Customer Group A  | Listed company  | Construction engineering project | Residential                          | Xuchang  | August 2019                      | Ongoing                        | 78,024                          | 5.9   | 198,557                           | nil   | General contractor |
| 6    | Project #25  | Customer C  | SOE             | Construction engineering project | Commercial                           | Xuchang  | May 2020                         | Ongoing                        | 73,172                          | 5.5   | 291,608                           | 73.7  | General contractor |
|      |              |   |                 |                                  |                                      |          |                                  |                                | Sub-total                       |   |                                   |   |                    |
|      |              |   |                 |                                  |                                      |          |                                  |                                | 685,733                         | 51.6  |                                   |   |                    |

#### *For the year ended 31 December 2021*

| Rank | Project      | Customer  | Customer Type   | Project type                     | Type of development                  | Location | Commencement date <sup>(2)</sup> | Completion date <sup>(3)</sup> | Revenue recognised for the year | Approximate percentage of total revenue for the year <sup>(4)</sup> | Total contract sum <sup>(5)</sup> | Approximate percentage of remaining contract sum <sup>(6)</sup> | Our role           |
|------|--------------|---|-----------------|----------------------------------|--------------------------------------|----------|----------------------------------|--------------------------------|---------------------------------|---|-----------------------------------|---|--------------------|
|      |              |   |                 |                                  |                                      |          |                                  |                                | RMB'000                         | %   | RMB'000                           | %   |                    |
| 1    | Project #87  | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) | Private company | Construction engineering project | Residential                          | Huizhou  | July 2019                        | Ongoing                        | 281,533                         | 20.9  | 724,771                           | 1.3   | General contractor |
| 2    | Project #129 | Customer Group A  | Listed company  | Construction engineering project | Residential                          | Shangqiu | April 2020                       | Ongoing                        | 180,982                         | 13.4  | 368,313                           | 8.5   | General contractor |
| 3    | Project #160 | CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)       | SOE             | Municipal and public project     | Infrastructure and public facilities | Fushan   | November 2020                    | Ongoing                        | 68,290                          | 5.1   | 121,996                           | 6.3   | Subcontractor      |
| 4    | Project #144 | Xinqi Technology (Dongguan) Co., Ltd.* (新祺科技(東莞)有限公司)           | Private company | Construction engineering project | Residential                          | Dongguan | October 2020                     | May 2022                       | 59,927                          | 4.5   | 83,051                            | nil   | General contractor |
| 5    | Project #190 | Customer I  | Private company | Construction engineering project | Commercial                           | Shanwei  | February 2021                    | Ongoing                        | 55,211                          | 4.1   | 65,743                            | 0.1   | General contractor |
| 6    | Project #94  | Customer Group A  | Listed company  | Construction engineering project | Residential                          | Gongyi   | June 2019                        | Ongoing                        | 52,820                          | 3.9   | 224,419                           | 2.8   | General contractor |
|      |              |   |                 |                                  |                                      |          |                                  |                                | Sub-total                       |   |                                   |   |                    |
|      |              |   |                 |                                  |                                      |          |                                  |                                | 698,763                         | 51.9  |                                   |   |                    |

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*For the year ended 31 December 2022*

| Rank | Project      | Customer  | Customer Type   | Project type                     | Type of development                  | Location | Commencement date <sup>(2)</sup> | Completion date <sup>(3)</sup> | Revenue recognised for the year | Approximate percentage of total revenue for the year <sup>(4)</sup> | Total contract sum <sup>(5)</sup> | Approximate percentage of remaining contract sum <sup>(6)</sup> | Our role           |
|------|--------------|---|-----------------|----------------------------------|--------------------------------------|----------|----------------------------------|--------------------------------|---------------------------------|---|-----------------------------------|---|--------------------|
|      |              |   |                 |                                  |                                      |          |                                  |                                | RMB'000                         | %   | RMB'000                           | %   |                    |
| 1    | Project #196 | Customer E  | SOE             | Construction engineering project | Residential                          | Zhuhai   | November 2021                    | Ongoing                        | 166,199                         | 12.1  | 284,332                           | 20.6  | General contractor |
| 2    | Project #237 | Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) | SOE             | Construction engineering project | Residential and commercial           | Shenzhen | April 2022                       | Ongoing                        | 147,882                         | 10.7  | 242,897                           | 24.9  | General contractor |
| 3    | Project #87  | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)   | Private company | Construction engineering project | Residential and commercial           | Huizhou  | July 2019                        | Ongoing                        | 141,509                         | 10.3  | 724,771                           | 1.3   | General contractor |
| 4    | Project #246 | Customer Group D  | SOE             | Municipal and public project     | Infrastructure and public facilities | Shenzhen | February 2022                    | April 2023                     | 107,369                         | 7.8   | 108,431                           | nil   | General contractor |
| 5    | Project #266 | Customer F  | Private company | Construction engineering project | Industrial                           | Huizhou  | October 2022                     | Ongoing                        | 65,857                          | 4.8   | 207,670                           | 41.5  | General contractor |
| 6    | Project #285 | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)   | Private company | Construction engineering project | Residential                          | Huizhou  | September 2022                   | Ongoing                        | 64,296                          | 4.7   | 140,574                           | 42.9  | Subcontractor      |
|      |              |   |                 |                                  |                                      |          |                                  |                                | Sub-total                       |   |                                   |   |                    |
|      |              |   |                 |                                  |                                      |          |                                  |                                | 693,112                         | 50.4  |                                   |   |                    |

*For the six months ended 30 June 2023*

| Rank | Project      | Customer  | Customer Type   | Project type                     | Type of development        | Location | Commencement date <sup>(2)</sup> | Completion date <sup>(3)</sup> | Revenue recognised for the period | Approximate percentage of total revenue for the period <sup>(4)</sup> | Total contract sum <sup>(5)</sup> | Approximate percentage of remaining contract sum <sup>(6)</sup> | Our role           |
|------|--------------|---|-----------------|----------------------------------|----------------------------|----------|----------------------------------|--------------------------------|-----------------------------------|---|-----------------------------------|---|--------------------|
|      |              |   |                 |                                  |                            |          |                                  |                                | RMB'000                           | %   | RMB'000                           | %   |                    |
| 1    | Project #302 | Customer G  | SOE             | Construction engineering project | Public facilities          | Shanwei  | January 2023                     | Ongoing                        | 66,692                            | 13.5  | 83,258                            | 19.9  | General contractor |
| 2    | Project #266 | Customer F  | Private company | Construction engineering project | Industrial                 | Huizhou  | October 2022                     | Ongoing                        | 55,737                            | 11.2  | 207,670                           | 41.5  | General contractor |
| 3    | Project #237 | Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) | SOE             | Construction engineering project | Residential and commercial | Shenzhen | April 2022                       | Ongoing                        | 34,533                            | 7.0   | 242,897                           | 24.9  | General contractor |
| 4    | Project #196 | Customer E  | SOE             | Construction engineering project | Residential                | Zhuhai   | November 2021                    | Ongoing                        | 32,628                            | 6.6   | 284,332                           | 20.6  | General contractor |
| 5    | Project #312 | Customer H  | SOE             | Municipal and public project     | Renovation                 | Shanwei  | April 2023                       | Ongoing                        | 30,708                            | 6.2   | 32,929                            | 6.7   | General contractor |
| 6    | Project #249 | Customer Group D  | SOE             | Specialised contracting project  | Hydropower installation    | Shenzhen | July 2022                        | Ongoing                        | 25,016                            | 5.0   | 83,230                            | 31.2  | Subcontractor      |
| 7    | Project #275 | Customer J  | Private company | Specialised contracting project  | Drainage                   | Shanwei  | September 2022                   | March 2023                     | 18,837                            | 3.8   | 24,085                            | nil   | Subcontractor      |
|      |              |   |                 |                                  |                            |          |                                  |                                | Sub-total                         |   |                                   |   |                    |
|      |              |   |                 |                                  |                            |          |                                  |                                | 264,151                           | 53.3  |                                   |   |                    |

*Notes:*

1. The aggregated revenue of major projects for each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 representing not less than 50% of the total revenue for the respective year/period.
2. Commencement date refers to the date of relevant construction works commencement permit.

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3. Completion date refers to the date of relevant practical completion report.
4. Percentage of our revenue is calculated by dividing the revenue of the relevant project recognised for the relevant year/period by the total revenue during the relevant year/period.
5. Total contract sum is the aggregate amount of contract value and variation order as at 30 June 2023.
6. Remaining contract sum is calculated by subtracting the aggregate recognised revenue as at 30 June 2023 from the total contract sum.

### **Project suspension and delays**

Project #25, a construction engineering project situated in Henan Province with a contract value (excluding VAT) of approximately RMB291.6 million was suspended from December 2020 to October 2022 as Customer C had financial difficulties due to COVID-19. The aggregate revenue generated from Project #25 during the Track Record Period amounted to approximately RMB76.2 million. For details, please refer to Note 3.1(b) of the Accountant’s Report in Appendix I to this document.

Save for disclosed above, none of the construction projects carried out by our Group experienced material suspensions or delays during the Track Record Period.

### **Loss-making projects during the Track Record Period**

During the Track Record Period, we recorded losses in 10 construction projects. The aggregate amount of losses during the Track Record Period was approximately RMB2.2 million and was mainly attributable to cost overrun caused by the unexpected complexities during project implementation. Such losses were provided for and recognised immediately to the relevant periods which is in line with our accounting policies. Save as disclosed above, there was no other loss-making project during the Track Record Period. For details regarding the associated risks, please refer to the section headed “Risk factors — Our Group determines our tender price based on the our pricing policy, and the actual costs incurred may exceed our estimations due to unexpected circumstances, thereby adversely affect our operations and financial results.” in this document.

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### Backlog and new contract sum

Backlog represents an estimate of the remaining aggregate contract sum of our construction projects as at each of the years ended 31 December 2020, 2021 and 2022 and as at the six months ended 30 June 2023. New contract sum represents the aggregate contract sum of construction projects undertaken by us during a specified period. The following table sets forth the movement in the aggregate contract sum of backlog of our projects during the Track Record Period and up to the Latest Practicable Date:

|  | Construction<br>engineering<br>projects | Municipal<br>and public<br>projects | Foundation<br>engineering<br>projects | Specialised<br>contracting<br>projects | Total            |
|--|---|-------------------------------------|---------------------------------------|--|------------------|
|  | RMB'000                                 | RMB'000                             | RMB'000                               | RMB'000                                | RMB'000          |
| <i>For the year ended 31 December 2020</i>             |   |                                     |                                       |  |                  |
| Opening aggregate contract sum of backlog              | 960,564                                 | 292,972                             | 36,023                                | 6,090                                  | 1,295,649        |
| Add: new construction projects contracted              | 481,502                                 | 720,275                             | 21,174                                | 18,875                                 | 1,241,826        |
| Add: adjustment/variation orders                       | 198,436                                 | 5,189                               | (2,141)                               | 5,825                                  | 207,309          |
| Less: revenue recognised                               | 625,968                                 | 646,234                             | 35,092                                | 23,910                                 | 1,331,204        |
| Closing aggregate contract sum of backlog              | <u>1,014,534</u>                        | <u>372,202</u>                      | <u>19,964</u>                         | <u>6,881</u>                           | <u>1,413,582</u> |
| <i>For the year ended 31 December 2021</i>             |   |                                     |                                       |  |                  |
| Opening aggregate contract sum of backlog              | 1,014,534                               | 372,202                             | 19,964                                | 6,881                                  | 1,413,582        |
| Add: new construction projects contracted              | 432,569                                 | 353,483                             | 48,178                                | 52,572                                 | 886,801          |
| Add: adjustment/variation orders                       | 25,259                                  | (8,676)                             | 349                                   | 254                                    | 17,186           |
| Less: revenue recognised                               | 779,248                                 | 489,206                             | 60,539                                | 17,227                                 | 1,346,219        |
| Closing aggregate contract sum of backlog              | <u>693,114</u>                          | <u>227,803</u>                      | <u>7,951</u>                          | <u>42,481</u>                          | <u>971,349</u>   |
| <i>For the year ended 31 December 2022</i>             |   |                                     |                                       |  |                  |
| Opening aggregate contract sum of backlog              | 693,114                                 | 227,803                             | 7,951                                 | 42,481                                 | 971,349          |
| Add: new construction projects contracted              | 956,696                                 | 357,962                             | 81,120                                | 269,735                                | 1,665,513        |
| Add: adjustment/variation orders                       | 94,897                                  | 14,608                              | (35)                                  | (72)                                   | 109,398          |
| Less: revenue recognised                               | 763,321                                 | 403,793                             | 53,597                                | 157,344                                | 1,378,055        |
| Closing aggregate contract sum of backlog              | <u>981,386</u>                          | <u>196,580</u>                      | <u>35,439</u>                         | <u>154,800</u>                         | <u>1,368,205</u> |
| <i>For the six months ended 30 June 2023</i>           |   |                                     |                                       |  |                  |
| Opening aggregate contract sum of backlog              | 981,386                                 | 196,580                             | 35,439                                | 154,800                                | 1,368,205        |
| Add: new construction projects contracted              | 254,125                                 | 289,553                             | 72,041                                | —                                      | 615,719          |
| Add: adjustment/variation orders                       | (10,742)                                | (19,132)                            | 6,302                                 | (1,788)                                | (25,360)         |
| Less: revenue recognised                               | 279,378                                 | 92,850                              | 53,732                                | 69,820                                 | 495,780          |
| Closing aggregate contract sum of backlog              | <u>945,391</u>                          | <u>374,151</u>                      | <u>60,050</u>                         | <u>83,192</u>                          | <u>1,462,784</u> |
| <i>From 1 July 2023 to the Latest Practicable Date</i> |   |                                     |                                       |  |                  |
| Opening aggregate contract sum of backlog              | 945,391                                 | 374,151                             | 60,050                                | 83,192                                 | 1,462,784        |
| Add: new construction projects contracted              | 365,808                                 | 184,824                             | —                                     | —                                      | 550,632          |
| Add: adjustment/variation orders                       | —                                       | —                                   | —                                     | —                                      | —                |
| Less: revenue recognised                               | 69,589                                  | 44,258                              | 14,076                                | 7,701                                  | 135,624          |
| Closing aggregate contract sum of backlog              | <u>1,241,610</u>                        | <u>514,717</u>                      | <u>45,974</u>                         | <u>75,491</u>                          | <u>1,877,792</u> |

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The decrease in the closing aggregate contract sum of backlog from approximately RMB1,413.6 million for the year ended 31 December 2020 to approximately RMB971.3 million for the year ended 31 December 2021 was mainly driven by the decrease in new construction projects contracted. The decrease in the aggregate contract value of the new construction projects contracted from approximately RMB1,241.8 million for the year ended 31 December 2020 to approximately RMB886.8 million for the year ended 31 December 2021 was mainly due to a larger number of construction projects with contract value greater than RMB100.0 million awarded to our Group in 2020, such as Project #129 with a contract value (excluding VAT) of approximately RMB360.1 million, Project #136 with a contract value (excluding VAT) of approximately RMB101.3 million and Project #160 with a contract value (excluding VAT) of approximately RMB122.0 million, whereas Project #196 with a contract value (excluding VAT) of approximately RMB284.3 million was the only construction project with contract value greater than RMB100.0 million awarded to the Group in 2021.

The closing aggregate contract sum of backlog increased by approximately RMB396.9 million or 40.9% from approximately RMB971.3 million for the year ended 31 December 2021 to approximately RMB1,368.2 million for the year ended 31 December 2022. Such increase was mainly due to the aggregate contract value of the new construction projects contracted of approximately RMB1,665.5 million, which primarily consisted of Project #237, a construction engineering project, with a contract value (excluding VAT) of approximately RMB242.9 million, Project #246, a municipal and public project, with a contract value (excluding VAT) of approximately RMB108.4 million, Project #266, a construction engineering project, with a contract value (excluding VAT) of approximately RMB207.7 million, Project #265, a construction engineering project, with a contract value (excluding VAT) of approximately RMB171.7 million, Project #285, a construction engineering project, with a contract value (excluding VAT) of approximately RMB140.6 million, Project #302, a construction engineering project, with a contract value (excluding VAT) of approximately RMB83.3 million and Project #249, a specialised contracting project, with a contract value (excluding VAT) of approximately RMB83.2 million for the year ended 31 December 2022.

The closing aggregate contract sum of backlog further increased by approximately RMB94.6 million or 6.9% from approximately RMB1,368.2 million for the year ended 31 December 2022 to approximately RMB1,462.8 million for the six months ended 30 June 2023. Such increase was mainly due to the aggregate contract value of the new constructions contracted of approximately RMB615.7 million, which primarily consisted of Project #333, a municipal and public project, with a contract value (excluding VAT) of approximately RMB109.5 million, Project #329, a municipal and public project, with a contract value (excluding VAT) of approximately RMB102.1 million and Project #311, a construction engineering project, with a contract value (excluding VAT) of approximately RMB99.3 million.

The backlog value of the projects on hand as at the Latest Practicable Date further increased to approximately RMB1,877.8 million, which was higher than the backlog value as at 30 June 2023 (i.e. approximately RMB1,462.8 million), 31 December 2022 (i.e. approximately RMB1,368.2 million), 31 December 2021 (i.e. approximately RMB971.3 million) and 31 December 2020 (i.e.



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RMB1,413.6 million). In light of the aforesaid, the Directors believe that our Group will be able to secure and undertake additional projects on top of the present scale of operation with the support from the Group’s proven track record and the pro-active approach on tender submission and the current projects on hand if we are able to continue to increase the available resources, including manpower, machinery and financial resources.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our revenue from variation orders amounted to approximately RMB88.6 million, RMB127.6 million, RMB112.2 million and RMB10.0 million, respectively.

### **Business Sustainability**

We may experience temporary net cash outflows in the ordinary course of our business operation. For instance, we recorded cash outflow in operations for the year ended 31 December 2020 and 2021 and the six months ended 30 June 2023, as we have been focusing on building up our reputation and market share via active tendering and delivering consistently high-quality services, rather than seeking immediate financial returns or profitability, in order to build a solid foundation for long-term development. Our future profitability and liquidity are subject to various factors, including recoverability of our contract assets and trade receivables and continuous grow in revenue by identifying and exploring new opportunities. For details regarding the associated risks, please refer to the section headed “Risk factors — Risks relating to our business and industry — Risks relating to our business” in this document. Our Directors are of the view that our Group’s business is sustainable taken into account the followings:

#### **(i) *Our positive financial performance***

Our profit for the years ended 31 December 2020, 2021 and 2022 and six months ended 30 June 2023 was approximately RMB13.6 million, RMB28.1 million, RMB25.3 million and RMB10.8 million, respectively.

Our Group has continuous growth in revenue. Our revenue increased from approximately RMB1,331.2 million for the year ended 31 December 2020 to approximately RMB1,346.2 million for the year ended 31 December 2021 and further increased to approximately RMB1,378.1 million for the year ended 31 December 2022.

Our Directors believe that our financial condition, our proven track record and our broad coverage of qualifications have assisted our Group in bidding for significant new projects and have given us a competitive edge in new projects and business opportunities.

#### **(ii) *Favourable future market developments***

According to the Frost & Sullivan Report, the market size of the construction industry in the PRC and Guangdong Province are expected to grow steadily from 2022 to 2027 and the total revenue of the construction market in Guangdong Province is expected to further increase mainly driven by the continuous development of large-scale construction projects in the PRC and

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favourable policies supporting the growth of the construction industry. For further details of the growth in output value and revenue of the PRC construction industry, please refer to the section headed “Industry Overview — Overview of the construction industry in the PRC and Guangdong Province” in this document.

As a growing company, we are well-placed to take advantage of the increasing trend in the demand on residential, industrial, and commercial building construction projects, public works, as well as civil engineering constructions in the coming years, to achieve growth in revenue and profit leveraging our first-grade qualifications and licenses, our developed in-depth understanding of needs and demands of government departments and our vibrant, dedicated and professional management team and experienced project managers.

**(iii) *Continuous progress in securing projects and diversifying and expanding our client base***

Subsequent to the Track Record Period and up to the Latest Practicable Date, two new construction contracts, one was from public sector and the other from private sector, with an aggregate contract value of RMB550.6 million were awarded to our Group and, as at the Latest Practicable Date, we had a total of 97 ongoing projects with an aggregate contract value of RMB4,481.2 million. The continuous progress in securing projects demonstrates our Group’s ability to sustain in the market. Furthermore, even though the depressed property industry in the PRC has a negative impact on the growth of construction industry, our Group was able to maintain our gross profit at a stable level. Further, according to the Frost & Sullivan Report, the downturn of the PRC property industry has less impact on companies from the public sector. Our Directors believe that we have built resilience amid the industry trend by leveraging the synergy among our ability to continuously secure projects from both public and private sectors and expand our customer base through procuring new customers including landowners, property developers and general contractors.

Our Directors believe that our stable relationships with our customers and our proven track record could increase our competitiveness in tendering, and coupled with the [REDACTED] status, we will be able to capture the expected market growth in the future. For further details of our competitive strengths, please refer to the section headed “Business — Our strengths” in this document.

**(iv) *Enhancing working capital efficiency***

Cashflow management is essential to our operation. We require an ample amount of working capital to run our daily operations. Our monthly operating expenses primarily comprise of subcontracting cost, cost of materials, staff costs and administrative expenses. It is crucial for us to fulfil our payment obligations, in particular payments to our workers and suppliers. During the Track Record Period and up to the Latest Practicable Date, we experienced delay in payment from certain customers which had an effect on our operation and our financial position. To meet our cashflow needs, we also intend to apply approximately [REDACTED]% of our [REDACTED] to finance our designated projects. Also, in line with industry practice, we generally have cash outflow at the early stage of a project and cash inflow at the completion stage of the project. Depending on

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the nature, scope and complexity of the projects to be undertaken, we generally have to incur significant initial costs. In light of this, we may experience potential time lags between making payments to our suppliers and receiving payments from our customers, resulting in possible cash flow mismatch.

To further enhance our cashflow management, we pay close attention to the payment progress for our projects. For projects with payment falls behind by a certain threshold, our finance department would forewarn against approving and undertaking projects with the relevant customer. While for projects that have been completed, we review the settlement progress and collectively come up with solutions to enhance the collection of unsettled payments.

During the Track Record Period, our Group’s cash and cash equivalents cycled according to the status of our construction projects. Our Group had a cash and cash equivalents of approximately RMB96.8 million as at 30 June 2023. As at the Latest Practicable Date, our cash and cash equivalents amounted to approximately RMB127.9 million.

### CUSTOMERS, SALES AND MARKETING

#### Sales and marketing

Our commerce department is responsible for preparing tender submission proposals, maintaining customer relationships, handling public relations, conducting evaluation on our customers, conducting market researches, and is responsible for our Group’s overall sales and marketing policy. We also maintain our own database for bidding and tendering, and pay efforts to identify and explore new tendering opportunities based on public and available information from the government and on the internet. Through our sales and marketing efforts, we keep abreast of information of new and potential projects of existing and potential customers.

Our customers mainly include government departments, SOEs, and listed and private enterprises. A vast majority of our construction projects were obtained by way of tenders. During the Track Record Period, we submitted 2,918, 4,318, 3,293 and 1,642 tender documents, respectively, and our tender success rates were 1.5%, 1.0%, 0.9% and 1.1%, respectively.

#### Customers

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our total revenue amounted to approximately RMB1,331.2 million, RMB1,346.2 million, RMB1,378.1 million and RMB495.8 million, respectively.

Our customers mainly include government departments, SOEs, and listed and private enterprises. Our projects can be further categorised into public sector projects and private sector projects. Public sector projects refer to projects from customers who are government departments and SOEs, while private sector projects refer to projects from customers who are non-SOEs and other listed and private enterprises engaging in various industries. The majority of our revenue

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during the Track Record Period was derived from public sector projects. The following table sets forth the number of projects and the breakdown of our revenue by project sector for the years/periods indicated:

|                | For the year ended 31 December |                  |                    |                   |                  |                    |                   |                  |                    | For the six months ended 30 June |                |                    |
|----------------|--------------------------------|------------------|--------------------|-------------------|------------------|--------------------|-------------------|------------------|--------------------|----------------------------------|----------------|--------------------|
|                | 2020                           |                  |                    | 2021              |                  |                    | 2022              |                  |                    | 2023                             |                |                    |
|                | Number of project              | Revenue          | % of total revenue | Number of project | Revenue          | % of total revenue | Number of project | Revenue          | % of total revenue | Number of project                | Revenue        | % of total revenue |
|                | RMB'000                        | %                |                    | RMB'000           | %                |                    | RMB'000           | %                |                    | RMB'000                          | %              |                    |
| Public sector  | 97                             | 807,784          | 60.7               | 81                | 578,196          | 42.9               | 179               | 846,380          | 61.4               | 96                               | 291,492        | 58.8               |
| Private sector | 8                              | 523,420          | 39.3               | 20                | 768,023          | 57.1               | 49                | 531,675          | 38.6               | 38                               | 204,288        | 41.2               |
|                | <u>105</u>                     | <u>1,331,204</u> | <u>100.0</u>       | <u>101</u>        | <u>1,346,219</u> | <u>100.0</u>       | <u>228</u>        | <u>1,378,055</u> | <u>100.0</u>       | <u>134</u>                       | <u>495,780</u> | <u>100.0</u>       |

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

| Province           | For the year ended 31 December |              |                  |              |                  |              | For the six months ended 30 June |              |
|--------------------|--------------------------------|--------------|------------------|--------------|------------------|--------------|----------------------------------|--------------|
|                    | 2020                           |              | 2021             |              | 2022             |              | 2023                             |              |
|                    | RMB'000                        | %            | RMB'000          | %            | RMB'000          | %            | RMB'000                          | %            |
| Guangdong Province | 982,248                        | 73.8         | 1,020,376        | 75.8         | 1,215,710        | 88.2         | 450,402                          | 90.8         |
| Henan Province     | 347,979                        | 26.1         | 276,764          | 20.6         | 52,771           | 3.8          | 7,334                            | 1.5          |
| Sichuan Province   | —                              | —            | 9,784            | 0.7          | 38,056           | 2.8          | 14,088                           | 2.8          |
| Fujian Province    | —                              | —            | 22,905           | 1.7          | 36,328           | 2.6          | 2,088                            | 0.4          |
| Others (Note)      | 977                            | 0.1          | 16,390           | 1.2          | 35,190           | 2.6          | 21,868                           | 4.5          |
| <b>Total</b>       | <u>1,331,204</u>               | <u>100.0</u> | <u>1,346,219</u> | <u>100.0</u> | <u>1,378,055</u> | <u>100.0</u> | <u>495,780</u>                   | <u>100.0</u> |

*Note:* The other construction projects were located in Hubei Province, Zhejiang Province and Xinjiang Uygur Autonomous Region.

During the Track Record Period, we generated revenue mainly from construction projects located in Guangdong Province and Henan Province, which in aggregate amounted to approximately RMB1,330.2 million, RMB1,297.1 million, RMB1,268.5 million and RMB457.7 million, respectively, accounting for approximately 99.9%, 96.4%, 92.0% and 92.3% of the total revenue, respectively. The other construction projects were located in Sichuan Province, Fujian Province, Zhejiang Province and Xinjiang Uygur Autonomous Region.

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The following tables set forth basic information of our five largest customers during the Track Record Period:

*For the year ended 31 December 2020*

| Rank                         | Customer  | Year of establishment | Registered capital | Principal business  | Commencement year of business relationship since | Credit terms                 | Payment method  | Revenue<br>RMB'000 | Approximate percentage of our total revenue<br>% |
|------------------------------|---|-----------------------|--------------------|---|--|------------------------------|-----------------|--------------------|--|
| 1.                           | Customer Group A (note 2)                                       | 2015                  | RMB60.0 million    | A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007 with a market capitalisation of approximately HK\$30.4 billion as at 9 August 2023  | 2019   | 7 days from the invoice date | Bank remittance | 274,807            | 20.6   |
| 2.                           | CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)       | 1983                  | RMB5.0 billion     | A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC   | 2019   | 7 days from the invoice date | Bank remittance | 252,012            | 18.9   |
| 3.                           | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司) | 2016                  | RMB40.0 million    | A private company principally engaged in real estate development  | 2018   | 7 days from the invoice date | Bank remittance | 215,271            | 16.2   |
| 4.                           | Customer Group B (note 3)                                       | 2000                  | HKD7.2 billion     | A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 1996 with a market capitalisation of approximately HK\$244.2 billion as at 9 August 2023 | 2019   | N/A (note 1)                 | Bank remittance | 89,791             | 6.7  |
| 5.                           | Customer C  | 2009                  | RMB1.2 billion     | A SOE principally engaged in investment business  | 2019   | N/A (note 1)                 | Bank remittance | 73,172             | 5.5  |
| Five largest customers total |   |                       |                    |   |  |                              |                 | 905,053            | 67.9   |
| Other customers              |   |                       |                    |   |  |                              |                 | 426,151            | 32.1   |
| Total                        |   |                       |                    |   |  |                              |                 | <u>1,331,204</u>   | <u>100.0</u>                                     |

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*For the year ended 31 December 2021*

| Rank | Customer  | Year of establishment | Registered capital | Principal business   | Commencement year of business relationship | Credit terms                  | Payment method  | Revenue                      | Approximate percentage of our total revenue |       |
|------|---|-----------------------|--------------------|--|--|-------------------------------|-----------------|------------------------------|---|-------|
|      |   |                       |                    |  |  |                               |                 | RMB'000                      | %   |       |
| 1.   | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)             | 2016                  | RMB40.0 million    | A private company principally engaged in real estate development   | 2018                                       | 7 days from the invoice date  | Bank remittance | 281,533                      | 20.9  |       |
| 2.   | Customer Group A (note 2)   | 2016                  | RMB60.0 million    | A group of property developers which are subsidiaries of a company listed on the Stock Exchange in 2007 with a market capitalisation of approximately HK\$30.8 billion as at 9 August 2023 | 2019                                       | 7 days from the invoice date  | Bank remittance | 276,764                      | 20.6  |       |
| 3.   | CCCC Fourth Harbor Engineering Co., Ltd.* (中交第四航務工程局有限公司)                   | 1983                  | RMB5.0 billion     | A SOE principally engaged in construction contracting works for municipal public utilities and sale and manufacturing of PC components in the PRC  | 2019                                       | 7 days from the invoice date  | Bank remittance | 71,228                       | 5.3   |       |
| 4.   | Shenzhen Huachuang Building Decoration Co., Ltd.* (深圳華創建築裝飾股份有限公司) (note 5) | 2005                  | RMB89.6 million    | A private company principally engaged in construction contracting works and sale of construction materials in the PRC  | 2021                                       | N/A (note 1)                  | Bank remittance | 69,702                       | 5.2   |       |
| 5.   | Xinqi Technology (Dongguan) Co., Ltd.* (新祺科技(東莞)有限公司)                       | 2003                  | US\$7.2 million    | A private company principally engaged in manufacture and sales of electronic components  | 2020                                       | 15 days from the invoice date | Bank remittance | 59,927                       | 4.5   |       |
|      |   |                       |                    |  |  |                               |                 | Five largest customers total | 759,154                                     | 56.5  |
|      |   |                       |                    |  |  |                               |                 | Other customers              | 587,065                                     | 43.5  |
|      |   |                       |                    |  |  |                               |                 | Total                        | 1,346,219                                   | 100.0 |

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*For the year ended 31 December 2022*

| Rank | Customer  | Year of establishment | Registered capital | Principal business   | Commencement year of business relationship since | Credit terms                                 | Payment method  | Revenue<br>RMB'000           | Approximate percentage of our total revenue<br>% |              |
|------|---|-----------------------|--------------------|--|--|--|-----------------|------------------------------|--|--------------|
| 1.   | Huizhou Xingsheng Century Investment Co., Ltd.* (惠州市興盛世紀投資有限公司)   | 2016                  | RMB40.0 million    | A private company principally engaged in real estate development   | 2018   | 7 days from the invoice date                 | Bank remittance | 205,806                      | 14.9   |              |
| 2.   | Customer Group D (note 4)   | 1953                  | RMB44.0 billion    | A group of SOEs principally engaged in construction contracting works for building and municipal public utilities in the PRC | 2018   | 7 days from the date of payment certificate  | Bank remittance | 168,065                      | 12.2   |              |
| 3.   | Customer E  | 1992                  | RMB50.0 million    | A SOE principally engaged in investment, asset management and real estate development and property management                | 2021   | 30 days from the invoice date                | Bank remittance | 166,199                      | 12.1   |              |
| 4.   | Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) | 2015                  | RMB1.0 million     | A SOE company principally engaged in real estate development   | 2021   | 30 days from the invoice date                | Bank remittance | 151,424                      | 11.0   |              |
| 5.   | Customer F  | 2007                  | RMB175.0 million   | A private company principally engaged in manufacturing of electronic components  | 2022   | 14 days from the date of payment certificate | Bank remittance | 79,852                       | 5.8  |              |
|      |   |                       |                    |  |  |  |                 | Five largest customers total | 771,346  | 56.0         |
|      |   |                       |                    |  |  |  |                 | Other customers              | 606,709  | 44.0         |
|      |   |                       |                    |  |  |  |                 | Total                        | <u>1,378,055</u>                                 | <u>100.0</u> |

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*For the six months ended 30 June 2023*

| Rank                         | Customer  | Year of establishment | Registered capital | Principal business  | Commencement year of business relationship | Credit terms                                 | Payment method  | Revenue | Approximate percentage of our total revenue |
|------------------------------|---|-----------------------|--------------------|---|--|--|-----------------|---------|---|
|                              |   |                       |                    |   |  |  |                 | RMB'000 | %   |
| 1.                           | Customer G  | N/A                   | N/A                | Government unit in Haifeng County   | 2023                                       | 14 days from the invoice date                | Bank remittance | 66,692  | 13.5  |
| 2.                           | Customer F  | 2007                  | RMB175.0 million   | A private company principally engaged in manufacturing of electronic components                               | 2022                                       | 14 days from the date of payment certificate | Bank remittance | 55,954  | 11.3  |
| 3.                           | Shenzhen 5297 Investment Development Co., Ltd.* (深圳市五二九七投資發展有限公司) | 2015                  | RMB1.0 million     | A SOE company principally engaged in real estate development  | 2021                                       | 30 days from the invoice date                | Bank remittance | 40,926  | 8.3   |
| 4.                           | Customer E  | 1992                  | RMB50.0 million    | A SOE principally engaged in investment, asset management and real estate development and property management | 2021                                       | 30 days from the invoice date                | Bank remittance | 32,628  | 6.6   |
| 5.                           | Customer H  | N/A                   | N/A                | Government unit in Haifeng County   | 2023                                       | 7 days from the invoice date                 | Bank remittance | 30,709  | 6.2   |
| Five largest customers total |   |                       |                    |   |  |  |                 | 226,909 | 45.9  |
| Other customers              |   |                       |                    |   |  |  |                 | 268,871 | 54.1  |
| Total                        |   |                       |                    |   |  |  |                 | 495,780 | 100.0                                       |

*Notes:*

- Sales are generally made without presumed credit term for this customer.
- Customer Group A represents a group of companies based in the PRC with an aggregate registered capital of RMB60 million and the ultimate holding company of which is the same and listed on the Stock Exchange. The aforementioned holding company is principally engaged in the sales of properties, property development, construction fitting and decoration, property investment, property management and hotel operation.
- Customer Group B represents a group of SOEs based in the PRC with an aggregate registered capital of approximately HK\$7.2 billion and the ultimate holding company of which is the same and listed on the Stock Exchange. The aforementioned holding company is principally engaged in the development of properties for sale.
- Customer Group D represents a group of SOEs based in the PRC with an aggregate registered capital of RMB50 billion and the ultimate holding company of which is the same.
- Shenzhen Huachuang Building Decoration Co., Ltd.\* (深圳華創建築裝飾股份有限公司) was also our supplier and subcontractor during the Track Record Period. Please refer to the paragraph below headed “Relationship with major customer that was also our supplier during the Track Record Period” for details.

For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the total revenue attributable to our five largest customers amounted to approximately RMB905.1 million, RMB759.2 million, RMB771.3 million and RMB226.9 million, representing approximately 67.9%, 56.5%, 56.0% and 45.9% of our total revenue, respectively, while the total



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revenue attributable to our largest customer for the same period amounted to approximately RMB274.8 million, RMB281.5 million, RMB205.8 million and RMB66.7 million, representing approximately 20.6%, 20.9%, 14.9% and 13.5% of our total revenue, respectively.

Our Directors confirm that as at the Latest Practicable Date, all of our five largest customers for each of the year/period during the Track Record Period were Independent Third Parties and they have no past or present relationships (including, but not limited to, employment, trust, financing, or family relationship) with our Group, its directors, shareholders, senior management or any of their respective associates. None of our Directors and their respective close associates or any of the Shareholders, who to the best knowledge of our Directors own more than 5% of the issued Shares immediately after the completion of the [REDACTED] and Capitalisation Issue, has any interests in any of such five largest customers during the Track Record Period.

### **Relationship with major customer that was also our supplier during the Track Record Period**

***Shenzhen Huachuang Building Decoration Co., Ltd.\* (深圳華創建築裝飾股份有限公司)***  
***(“Shenzhen Huachuang”)***

Shenzhen Huachuang is principally engaged in the provision of construction contracting work services and the sale of construction materials in the PRC.

During the Track Record Period, we provided construction engineering and specialised contracting services to Shenzhen Huachuang. For each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our total revenue generated from Shenzhen Huachuang amounted to approximately nil, RMB69.7 million, RMB16.8 million and nil, respectively, representing approximately nil, 5.2%, 1.2% and nil of our total revenue, respectively, for the corresponding periods. Gross profit for sale to Shenzhen Huachuang for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 was approximately nil, RMB4.6 million, RMB0.8 million and nil, respectively.

During the Track Record Period, we also engaged Shenzhen Huachuang for the provision of raw materials and construction services. For each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our total purchases from Shenzhen Huachuang amounted to approximately RMB4.8 million, RMB1.4 million, nil and nil, respectively, representing approximately 0.4%, 0.1%, nil and nil of our total purchase amount, respectively, for the corresponding periods. Our Directors confirm that the terms of engagement we entered into with Shenzhen Huachuang were similar to those we entered into with other customers and suppliers.

***Zhongjian Hetu Construction Co., Ltd.\* (中建河圖建設有限公司) (“Zhongjian Hetu”)***

Zhongjian Hetu is principally engaged in the provision of construction contracting work services in the PRC.

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During the Track Record Period, we provided foundation engineering and specialised contracting services to Zhongjian Hetu. For each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our total revenue generated from Zhongjian Hetu amounted to approximately nil, nil, RMB27.2 million and RMB27.9 million, respectively, representing approximately nil, nil, 2.0% and 5.6% of our total revenue, respectively, for the corresponding periods. Gross profit for sale to Zhongjian Hetu for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 was approximately nil, nil, RMB1.5 million and RMB1.6 million, respectively.

During the Track Record Period, we also engaged Zhongjian Hetu for the provision of construction contracting work services. For each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, our total purchases from Zhongjian Hetu amounted to approximately RMB3.9 million, nil, nil and nil, respectively, representing approximately 0.3%, nil, nil and nil of our total purchase amount, respectively, for the corresponding periods. Our Directors confirm that the terms of engagement we entered into with Zhongjian Hetu were similar to those we entered into with other customers and suppliers.

**Salient terms of typical sales agreements with our customers**

We generally enter into master sales contracts with our customers on project basis, which our Directors believe is in line with the general market practice of the industry. The master contract sets out the terms and conditions including the location of project, duration of project, and payment methods. The terms of each master contract entered into between our Group and the customers may vary significantly as they depend on various factors such as the duration, nature and complexity of the project.

The following table sets forth the summary of the typical key terms and conditions of the agreement with our customers:

|                                      |   |
|--------------------------------------|---|
| <b>Contract term:</b>                | Typically 1 month to 3 years, depending on the scale and complexity of the construction project.  |
| <b>Pricing and price adjustment:</b> | Usually on a fixed unit price or fixed total price basis. The final contract sum of fixed unit price contract is to be determined based on agreed unit rates and measurement of quantities of work completed. While the final contract value of fixed total price contract is fixed and could only be adjusted in certain circumstances stipulated in the contract such as request by the customers for additional services or changes in specification under variation orders. If during the course of the project there is any material change in the scope of work (such as change in work quantity, timetable of the project or when additional work is required), supplemental agreements will be entered into between us and our customers to document the price adjustments. |

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- Payment term:** We adopt progress payment methods in our construction contracts. Typically, approximately 0% to 30% of the contract value is required as upfront payment before the project begins. During the project execution phase, we would submit progress reports to our customers periodically, indicating the volume of work that we have performed. Subject to the certification of work by the independent supervision entity appointed by our customers, we would be entitled to request for progress payments. The progress billable amount is usually based on a progress billable percentage, generally ranging from 60% to 80%, of the total certified value of work performed, as stipulated in the relevant construction contracts. The total amount we are entitled to make billing to our customers (on an accumulative basis) is generally up to 95% to 97% of the final settlement value after the completion and acceptance of the project. Approximately 3% to 5% of the final settlement value will be retained by our customers as retention money and will be paid to us upon expiration of the defects liability period.
- Performance guarantee:** We may be required to pay performance guarantee in the form of a letter of guarantee of not exceeding 15% of the contract value or a specified amount stipulated in the construction contract.
- Defects liability period:** We may be required to provide a defects liability period ranging from 6 months to 5 years for the practical completion of the construction project. During the defects liability period, our Group is responsible for remedial works which may arise from the defective works or materials used.
- Subcontracting:** Depending on the scale and complexity of each project, we may be allowed to engage subcontractors to provide some of the specialised construction services required. Generally, we are required to inform and obtain approval from customers before we engage subcontractors.

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### **Defaults/termination:**

Our customer may be entitled to terminate the contract if there is a breach of contract by us. Usually, we will be deemed to have breached the contract if we (i) fail to meet the agreed quality or regulation standard; or (ii) cause delay in the construction works without any reasonable excuse. We may be required to pay a fixed amount of damages to the aggrieved party to compensate for its losses.

Generally, our construction contracts may be terminated (i) by mutual agreement between both parties; (ii) by us in the event that the customer delays payment without prior agreement, and such delays have not been rectified within the timeframe as specified in the construction contract; (iii) by the customer in the event that we subcontract the construction work in whole or in part without prior approval from the customer; or (iv) by any party due to a breach by the other party which prevents the performance of the contract. In such event, the customer shall settle all outstanding payments to our Group, and all remaining construction works will cease.

### **Pricing policy**

We generally provide price quotations in our tender documents or engage in price negotiations with customers. For tendering projects, the tender documents typically provide a ceiling price of bidding based on a list of items and works for the completion of the construction project (工程量清單), and our bid price is usually set with a discount rate based on such ceiling price of bidding. For corporate negotiation projects, a customer will provide a list of items and works for the completion of the construction project (工程量清單), and we may prepare a budget proposal based on such information and our pricing is generally determined on a cost-plus model with a markup. We usually determine the bid price or quotation on project-to-project basis depending on the following factors, including (i) the scope and complexity of the work; (ii) delivery schedule; (iii) the estimated cost of the required materials and leasing of equipment and machinery; (iv) the estimated subcontracting cost; (v) historical price fluctuation of major cost items; (vi) the pricing of the prevailing projects of similar scale; (vii) the prices that might be offered by other bidders; (viii) the expected profit margin; and (ix) payment terms. The bid price or quotation is usually prepared by our commerce department and approved by our senior management team. Our goal is to maintain the competitiveness of our pricing while maximising our profit margin.

Our contracts for construction projects are typically awarded and carried out on a fixed unit price or fixed total price basis. Under our fixed unit price contract, the final contract sum will be determined based on agreed unit rates and quantities of work completed. While for fixed total price contract, the contract value is fixed and could only be adjusted in certain circumstances stipulated in the contract such as request by the customers for additional services or changes in specification

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under variation orders. For details regarding the associated risks of our fee, please refer to the section headed “Risk factors — Our Group determines our tender price based on our pricing policy, and the actual costs incurred may exceed our estimations due to unexpected circumstances, thereby adversely affect our operations and financial results” in this document.

### **Credit policy and credit management**

Our Group generally allows our customers to settle within one month from the invoice date. In determining the applicable credit term for each customer, we consider various factors, including the length of the business relationship, the payment track record, size of operations and reputation of the customer, and the scale of the construction project. Our customers typically settle our bills by bank transfers.

Our trade receivables turnover days is approximately 43.6 days, 68.1 days, 62.2 days and 59.5 days for the years ended 31 December 2020, 2021 and 2022 and six months ended 30 June 2023, respectively. We implement internal control measure and review our overdue trade receivables regularly, and when appropriate, provide for impairment of such trade receivables. During the Track Record Period, our Group did not experience any significant bad debts. Further details on our trade receivables turnover days are set out in the section headed “Financial information — Discussion on selected items of the consolidated balance sheet — Trade and bills receivables — Trade receivables” in this document.

### **Credit risk management**

We have put in place a credit risk management for trade receivables and contract assets. We have applied both qualitative and quantitative measures of preventive and detective nature for the purpose of (i) minimizing default risks; (ii) facilitating a timely collection; (iii) taking pro-active action; and (iv) making appropriate disclosure to the public for any potential impact.

Our Board is ultimately responsible for managing the overall credit risks and monitoring the management team, including the financial manager and other personnel who are delegated with the execution of the day-to-day credit risk management measures. The key credit risk management measures include:

#### **1. *Credit history check***

We have established a credit history check procedure for our customers before tendering. Such credit history check focuses on the assessment of credit status of customers that are private companies. Our management team would assess the credit level of customers based on a combined consideration of the payment history and credit status of customers or their shareholders revealed in credit reports.

Moreover, all sizeable projects (being projects of contract sum of around 5% of our yearly total income, currently set at RMB67 million) must be approved by the risk control team which composes of the Chief Executive Officer, financial manager, department head of

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various departments, such as engineering department. Further, our management team is responsible for reviewing the credit reports of our customers and ensuring that they have a sound credit history, including absence of material default history of the customers or their shareholders.

### **2. *Specific credit risk control***

We have established a control procedure to set a limitation to entering new businesses with new and existing customers who are subject to the following trends or signals of defaults. The control procedure is intended to devise a specific action plan for potential default cases.

- A customer has clear trends of credit default or insolvency.
- A customer has an outstanding trade receivables and contract assets larger than 15% of total trade receivables and contract assets of our Group.

Specifically, our executive Director will made an executive order to devise an action plan for customers whose credit risk trends or signals appear to meet the above criteria. The action plan includes (i) holding up new tendering and related projects with that customer to minimize further credit risks exposure; and (ii) monitoring the progress of relevant ongoing projects.

### **3. *Overall collection target***

We have established a control procedure to set a target of recovering trade receivables and contract assets to ensure a progressive collection. Since 2022, our management team has set an overall recovery baseline target at 75% as compared with the current income incurred. Our management team also has a monitoring mechanism to monitor the recovery status on a quarterly basis. Based on the recovery analysis performed by the management team, our Group has fulfilled the pre-set ratio.

### **4. *Reconciliation and follow-up***

We have established a procedure to formally reconcile and follow-up with customers who are classified as top ten customers (by trade receivables and contract assets), or come with an overdue trade receivables (i.e. one month) and contract assets exceeding 5% of total contract assets of the Group.

This procedure shall be conducted regularly in interval no less than annual with the intent to circulate an official notification to the relevant customers reminding them to settle the amounts in due course; and it serves as an expressing business pressure which would form a basis of any future potential legal actions.

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### **5. *Contingent action plan***

Our Group takes pro-active action to follow up material long outstanding trade receivables and contract assets. We have a credit risk management policy that requires us to take further actions, for example, appointing collection agency or filing legal claims, for amounts larger than 3% of total trade receivables which has a long outstanding status of over 3 years. For default cases suddenly emerged, we shall take it as a matter reserved for the Board, and hence must obtain approval from the Board before accepting any restructuring plan proposed by the counterparty or initiated by us.

### **6. *Reporting and disclosure***

We have established a monthly reporting system by which the management shall update the Board of the financial information and operational information of the month, such as an trade receivables ageing analysis, recovery status and any signal of default of customers.

### **Result of assessment**

Our Board would review the overall recoverability of customers and liquidity of our Group and, in case of material default, would consider making appropriate and timely inside information disclosure. Our Board has also considered certain foundational factors, such as (i) a relative higher proportion of trade receivables and contract assets is due from customers that are SOEs; (ii) the relatively diversified customer bases and related trade receivables and contract assets; and (iii) there has not been material default cases. On this basis, our Directors are of the view that with the implementation of aforesaid measures, our Group has been able to manage its credit risks to a reasonable level. Our Board also undertakes to timely inform the public for any potential impact.

On 10 August 2023, the Internal Control Consultant has completed the review on the implementation status of aforesaid measures up to 30 June 2023 and do not identified material internal control defects. According to the results of the Internal Control Consultant Review result, our Directors are of the view that these measures are effective and adequate for the intended purposes of (i) minimizing default risks; (ii) facilitating a timely collection; (iii) taking pro-active action; and (iv) making appropriate disclosure to the public for any potential impact.

The Sole Sponsor has also taken additional steps, including reviewing the latest overall trade receivables and contract assets profiles of our Group, discussing credit loss provision with the management, and taking actual recoverability into considerations, the Sole Sponsor concurs with the view of our Directors.

### **Seasonality**

We normally record lower sales during the first quarter of a year as construction activities are less active due to Chinese New Year. For details, please refer to the sections headed “Risk factors — Risk relating to our business and industry — Risks relating to our business — Our construction business is subject to seasonality”.

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### RAW MATERIALS, EQUIPMENT AND MACHINERY, AND SUBCONTRACTING SUPPLIERS

#### Raw materials

Raw material costs is the largest component in our Group’s cost structure and accounted for approximately 46.7%, 49.2%, 47.4% and 52.5%, respectively, of our total cost of revenue for the Track Record Period. The principal raw materials used in our construction projects include concrete and steel (rebar and sheet pile), all of which are procured from suppliers in the PRC. Save for the raw materials purchased by our specialised construction subcontractors, our project management teams are severally responsible for formulating the procurement plan and budget in accordance with the respective project specifications.

The following table sets forth the breakdown of our Group’s raw material costs by type of raw materials for the years/periods indicated:

|                          | Year ended 31 December     |      |                            |      |                            |      | Six months ended 30 June   |      |                            |      |
|--------------------------|----------------------------|------|----------------------------|------|----------------------------|------|----------------------------|------|----------------------------|------|
|                          | 2020                       |      | 2021                       |      | 2022                       |      | 2022                       |      | 2023                       |      |
|                          | % of total cost of revenue |      | % of total cost of revenue |      | % of total cost of revenue |      | % of total cost of revenue |      | % of total cost of revenue |      |
|                          | RMB’000                    |      | RMB’000                    |      | RMB’000                    |      | RMB’000                    |      | RMB’000                    |      |
| Concrete                 | 163,122                    | 12.9 | 164,179                    | 12.9 | 128,781                    | 9.9  | 50,575                     | 14.4 | 34,088                     | 7.3  |
| Steel                    | 169,147                    | 13.4 | 143,218                    | 11.2 | 111,252                    | 8.6  | 30,680                     | 8.8  | 65,319                     | 14.0 |
| Others <sup>(1)</sup>    | 256,439                    | 20.4 | 320,089                    | 25.1 | 376,032                    | 28.9 | 95,821                     | 27.4 | 145,711                    | 31.2 |
| Total raw material costs | 590,708                    | 46.7 | 627,486                    | 49.2 | 616,065                    | 47.4 | 177,076                    | 50.6 | 245,118                    | 52.5 |

*Note:* Others raw material costs primarily consisted of costs of aggregates, asphalt, bricks, cement, pipes and other construction materials.

For discussion and analysis of the above table, please refer to the section headed “Financial information — Discussion on selected items of consolidated income statement — Cost of revenue”.

Unless otherwise requested by our customers, our project management teams will procure raw materials from suppliers which have been pre-approved by our Group. Suppliers are approved based on certain criteria including their track record, reputation, possession of requisite licenses, price and quality of products and services. Raw materials suppliers with close proximity to our construction sites will generally be selected to shorten order lead time and reduce transportation cost provided that they meet our aforementioned approval criteria. Our project management teams will normally obtain quotations and/or samples from suppliers prior to order placements. The amount and timing of raw materials to be ordered are assessed by our project management teams on a project-by-project basis depending on the progress and specific requirements of each project. To ensure our services meet the specification of our customers, we have stringent quality control procedures for incoming raw materials. For details, please refer to the paragraph headed “Quality control and management — Inspection of raw materials” in this section.



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Price adjustment terms may be included in certain construction contracts entered into between our Group and the customers, which allow us to mitigate part of the risk of price fluctuations by passing it to our customers. For details, please refer to the paragraph headed “Customers, sales and marketing — Pricing policy” in this section. For the sensitivity analysis of the impact of hypothetical changes in the raw material cost on our Group’s profit during the Track Record Period, please refer to the section headed “Financial information — Significant factors affecting our results of operation and financial condition — Fluctuation in cost of revenue” in this document.

**Salient terms of typical purchase agreements with our raw material suppliers**

We generally enter into framework purchase agreements with our raw material suppliers on a project-by-project basis. Salient terms of typical purchase agreements for principal raw materials are summarised below:

- Unit price, volume and specification of products:** The contract specifies the specification of products, unit price and expected volume (where applicable) to be purchased by our Group. There is no minimum purchase commitment on our Group.
- Pricing:** The total price of raw materials is not fixed under the purchase agreements and is determined by a unit price and the total volume of raw materials delivered. The unit price is determined (i) with reference to the prevailing market price; or (ii) through negotiation with our suppliers with reference to prevailing market price.
- Price adjustment:** The unit price will be adjusted (i) upon each purchase order to take into account of any fluctuations in the market price; or (ii) when the market price of raw materials has changed beyond a certain percentage.
- Delivery, inspection and acceptance:** Raw materials are generally delivered by our suppliers directly to the construction sites designated by us. The delivery cost and risks are usually borne by our suppliers. Upon delivery, our staff will ensure the volume/quantity and quality are in accordance with our specification and standard by (i) performing inspection; (ii) collecting the relevant quality assaying reports; and/or (iii) collecting sample for further testing.

If the quality falls below the specified requirements under the relevant agreement, the supplier will be liable to replace the goods.

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**Payment terms:**

Our Group is generally required to settle our purchases on a monthly basis for purchases made in the previous month or upon delivery as set forth in our purchase agreements. We are generally required to settle payment within 7 to one month from the invoice date.

Prepayments for raw materials procurement may be required on a case-by-case basis and by negotiation.

**Inventory management**

Our inventory is comprised primarily of raw materials, mainly being steel and consumables, which are used in our construction process. Our Group maintain and procure raw materials in accordance with our anticipated construction schedule to minimise wastage and avoid accumulation of obsolete inventories. The raw materials we purchase are generally delivered by our suppliers directly to the respective construction sites for prompt consumption and we store raw materials by category. Most of the raw materials we procure are essential to the construction industry, and therefore widely and readily available in the open market. During the Track Record Period, we did not experience any significant delays or shortages in supply of our raw materials which caused disruption to our works, and we do not anticipate significant difficulties in obtaining alternative sources of supply if necessary. For details regarding the risks associated with the availability of raw materials, please refer to the section headed “Risk factors — Our results of operations may be significantly affected by changes in the prices and availability of raw materials” in this document.

Due to the nature of our business, we keep low inventory levels for our operations. As such, inventory turnover days is not indicative of our operation status. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, our Group’s inventory amounted to approximately RMB0.1 million, RMB0.4 million, RMB0.3 million and RMB0.2 million, respectively.

**Equipment and machinery**

We require the use of a range of equipment and machinery such as construction cranes, excavators, scaffolding and dump truck, to perform our construction works. The equipment and machinery we used in our operation were leased from leasing service suppliers. During the Track Record Period, the equipment and machinery usage cost amounted to approximately RMB60.8 million, RMB99.2 million, RMB91.5 million and RMB43.9 million, representing approximately 4.8%, 7.8%, 7.0% and 9.4% of our total cost of revenue, respectively.

We determine the type, duration and quantity of the equipment and machinery required on a project-by-project basis by taking into account the project size, project nature, expected cost and project specifications. We select our equipment and machinery leasing service suppliers based on numerous factors, including geographic location, price, service and the specification of the equipment and machinery offered. Our equipment and machinery leasing service suppliers are

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generally responsible for transporting the equipment and machinery to the designated construction sites, providing relevant qualified operators and maintaining the equipment and machinery during the respective leasing period.

During the Track Record Period, we did not experience any difficulty in renting sufficient equipment and machinery.

### **Subcontracting**

During the Track Record Period, we engaged subcontractors to provide (i) labour services; and (ii) certain specialised construction services on a project-by-project basis. Save for the personnel from our project management team, which include, among others, project manager, technical supervisor, construction officer, mechanical officer, procurement officer, labour officer, standardisation officer, safety officer, quality officer and information officer, all of our construction labour force and specialised construction workers were provided by third party subcontractors. We believe that by engaging subcontractors, our Group can (i) deploy our valuable resources and focus on our core business needs which consist of project bidding, project management, cost control, quality control, occupational health and safety management and construction schedule; (ii) circumvent the tedious administrative processes of hiring full-time employees such as recruitment, training and payroll management; (iii) minimise legal risks and obligations; (iv) minimise the risks of labour shortage; (v) increase productivity and cost effectiveness; and (vi) utilise specialised construction workers with niche experience without long-term employment commitments.

We are selective of the subcontractors we work with and consider a number of factors, including but not limited to, track record and experience, past performance, possession of requisite licenses and qualifications, technological capabilities, labour resources, price, reputation and safety record.

In the selection of our subcontractors, we have established specific policies and practices (i) to ensure all subcontractors possess the necessary licenses for the works they are to be engaged for (ii) to conduct search on the background of relevant directors and shareholders, capital commitment, compliance records and inspect other certificates they may possess. We select subcontractors with higher level of compliance records, ethical standards, and quality of works, among other important commercial terms considerations, we have maintained a list of approved suppliers for all significant and strategic suppliers, including labour subcontractors and specialised construction subcontractors.

During courses we work with the subcontractors, our project managers are responsible for:

- holding meetings with designated representatives of subcontractors to communicate the works requirement and formulating work schedules acceptable by both sides;
- monitoring the performance of subcontractors and raising demands and concerns to designated representatives of subcontractors at construction sites; and

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- requiring subcontractors to formulate work schedules and producing timely progress reports.

We regularly conduct performance review of our significant and strategic subcontractors.

For details on the risks associated with labour and specialised construction services subcontracting, please refer to the section headed “Risk factors — Risks relating to our business — As we engage subcontractors in our works, unsatisfactory performance by our subcontractors may possibly affect our profitability and operation” in this document.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material interruption of operations as a result of any disputes between us and our subcontractors or other uncertainties and contingencies which may materially and adversely affect the business of our Group.

### *Labour subcontracting*

Our Group entered into labour subcontracting agreements with labour subcontractors. During the Track Record Period, the subcontracting costs attributable to labour services amounted to approximately RMB386.6 million, RMB403.4 million, RMB409.9 million and RMB126.8 million, representing approximately 30.6%, 31.6%, 31.6% and 27.1% of our total cost of revenue, respectively.

### **Salient terms of typical subcontracting agreements with our labour subcontractors**

Salient terms of typical subcontracting agreements with our labour subcontractors are summarised below:

#### **Responsibilities:**

The labour subcontractors are responsible for providing labour force to undertake the work as required and determined by us and under the supervision of our project management teams. The labour subcontractors are responsible for the overall management, training and requisite licenses and permits of their workers. The labour subcontractors are also responsible for its labour force’s payroll and payment of social insurance, housing provident fund and tax obligations.

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**Quality and safety:**

The labour subcontractors are primarily responsible for complying with the quality and safety standards, conducting training to their workers and monitoring their adherence to the safety measures and procedures. In the event that the quality of work fails to meet the quality standards as required by us, relevant regulations or local governmental authorities, the labour subcontractors are responsible for reworks and the associated costs. In general, most of our labour subcontracting agreements provide that our labour subcontractors are liable to safety accidents occurred during their construction work.

According to the relevant PRC laws and regulations, we, as the general contractor, and our labour subcontractors are jointly liable to any safety accidents on the construction project. However, our labour subcontractors shall hold the principal liability if the safety accident was a result of its non-compliance with the general contractor’s health and safety management procedures.

**Subcontracting fees:**

Our labour subcontracting agreements are generally prepared on a fixed total price basis. The fixed total price is generally determined based on the market price at the time of entering the subcontracting contract. The labour subcontracting fee is calculated with reference to the volume of actual work performed by the labour subcontractors, which will be adjusted during the course of the construction projects.

**Payment terms:**

Our Group is generally required to make progress payments to the labour subcontractors on a monthly basis upon our checking and acceptance of the work completed by the labour subcontractors.

***Specialised construction subcontracting***

We engage specialised construction subcontractors from time to time to provide certain specialised construction services such as construction of sewage system, earthwork, steel structure, piling foundation work and fireproofing work. During the Track Record Period, the subcontracting costs attributable to specialised construction services amounted to approximately RMB217.0 million, RMB131.1 million, RMB167.6 million and RMB45.1 million, representing approximately 17.2%, 10.3%, 12.9% and 9.6% of our total cost of revenue, respectively.

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**Salient terms of typical subcontracting agreements with our specialised construction subcontractors**

The terms of our subcontracting arrangements with specialised construction subcontractors may vary in accordance with the relevant contracts with our customers. Salient terms of typical subcontracting agreements with our specialised construction subcontractors are summarised below:

**Responsibilities:** Our subcontracting agreements stipulate the scope of works that the specialised construction subcontractors are expected to provide. The specialised construction subcontractors are generally responsible for the workers, construction materials, equipment and machinery necessary for the subcontracted works and meeting our project schedule.

**Quality and safety:** The specialised construction subcontractors are primarily responsible for complying with the quality and safety standards, conducting training to their workers and monitoring their adherence to the safety measures and procedures. In the event that the quality of work fails to meet the quality standards as required by us, relevant regulations or local governmental authorities, the specialised construction subcontractors are responsible for reworks and the associated costs. In general, most of our specialised construction subcontracting agreements provide that our specialised construction subcontractors are liable to safety accidents occurred during their construction work.

According to the relevant PRC laws and regulations, we, as the general contractor, and our specialised construction subcontractors are jointly liable for any safety accidents on the construction project. However, our specialised construction subcontractors shall hold the principal liability if the safety accident was a result of its non-compliance with the general contractor’s health and safety management procedures.

**Equipment and raw materials:** Our specialised construction subcontractors are usually required to provide the equipment and raw materials used in their subcontracted work and the related costs are included in the subcontracting fees.

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**Subcontracting fees:**

Our specialised construction subcontracting agreements are generally prepared on a fixed unit price basis. The unit price is generally determined based on the market price at the time of entering the subcontracting contract. The specialised construction subcontracting fee is calculated with reference to the volume of actual work performed by the specialised construction subcontractors, which will be adjusted during the course of the construction projects.

**Payment terms:**

Our Group is generally required to make progress payments to the specialised construction subcontractors upon our checking and acceptance of the work completed by the specialised construction subcontractors, with (i) 80% of the progress payment amount to be settled on a monthly basis or upon achieving certain key milestones; (ii) 97% of the total progress payment amount to be settled after the completion and certification of works; and (iii) 3% of the total progress payment amount to be retained by us as retention money and to be paid to the specialised construction subcontractors upon expiration of the defects liability period.

Prepayments for specialised construction subcontractors may be required based on the demand of raw materials for the projects and by negotiation.

**Defects liability period:**

Our Group may require our construction subcontractors to provide a defects liability period ranging from 6 months to 5 years after the completion and certification of works. During the defects liability period, our specialised construction subcontractors are responsible for remedial works which may arise from the defective works.

**Suppliers**

Our suppliers include raw materials suppliers, equipment and machinery leasing service suppliers, labour subcontractors and specialised construction subcontractors. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the total purchase from our largest five suppliers amounted to approximately RMB363.7 million, RMB346.4 million, RMB262.7 million and RMB109.1 million, respectively, accounting for approximately 28.9%, 27.2%, 20.3% and 23.4% of our total purchase, respectively. The total purchase from our largest

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supplier for the same period amounted to approximately RMB171.9 million, RMB192.9 million, RMB97.6 million and RMB28.4 million, representing approximately 13.6%, 15.2%, 7.5% and 6.1% of our total purchase, respectively. The following tables set forth basic information of our five largest suppliers during the Track Record Period:

*For the year ended 31 December 2020*

| Rank | Supplier  | Year of establishment | Registered capital | Principal business activities   | Principal materials supplied/ services provided | Commencement year of business relationship | Credit terms                         | Payment methods | Purchase amount<br>RMB'000 | Approximate percentage of our total purchase amount<br>% |       |
|------|---|-----------------------|--------------------|---|---|--|--------------------------------------|-----------------|----------------------------|--|-------|
| 1    | Supplier A  | 2013                  | RMB10.0 million    | A private company principally engaged in labour subcontracting              | Labour services                                 | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 171,866                    | 13.6   |       |
| 2    | Shenzhen Lvchuang Labour Service Co., Ltd.* (深圳市綠創勞務有限公司) | 2018                  | RMB50.0 million    | A private company principally engaged in labour subcontracting              | Labour services                                 | 2018                                       | Within 7 days from the invoice date  | Bank remittance | 69,976                     | 5.6  |       |
| 3    | Supplier B  | 2017                  | RMB10.0 million    | A private company principally engaged in trading of steel products          | Steel   | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 61,366                     | 4.9  |       |
| 4    | Supplier C  | 2016                  | RMB10.0 million    | A private company principally engaged in trading of steel products          | Steel   | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 31,303                     | 2.5  |       |
| 5    | Supplier D  | 2003                  | RMB25.0 million    | A private company principally engaged in manufacturing and sale of concrete | Concrete  | 2020                                       | Within 10 days from the invoice date | Bank remittance | 29,235                     | 2.3  |       |
|      |   |                       |                    |   |   |  |                                      |                 | Five largest suppliers     | 363,746  | 28.9  |
|      |   |                       |                    |   |   |  |                                      |                 | All other suppliers        | 896,638  | 71.1  |
|      |   |                       |                    |   |   |  |                                      |                 | Total purchases            | 1,260,384  | 100.0 |



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*For the year ended 31 December 2021*

| Rank | Supplier   | Year of establishment | Registered capital | Principal business activities   | Principal materials supplied/ services provided | Commencement year of business relationship | Credit terms                         | Payment methods | Purchase amount<br>RMB'000 | Approximate percentage of our total purchase amount<br>% |              |
|------|--|-----------------------|--------------------|---|---|--|--------------------------------------|-----------------|----------------------------|--|--------------|
| 1    | Supplier A   | 2013                  | RMB10.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 192,935                    | 15.2   |              |
| 2    | Supplier B   | 2017                  | RMB10.0 million    | A private company principally engaged in trading of steel products                                  | Steel   | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 48,552                     | 3.8  |              |
| 3    | Shenzhen Tower Industrial Co., Ltd.*<br>(深圳市鐵塔實業有限公司)        | 2005                  | RMB100.0 million   | A private company principally engaged in trading of steel products and other construction materials | Steel   | 2019                                       | Within 1 month from the invoice date | Bank remittance | 39,646                     | 3.1  |              |
| 4    | Supplier D   | 2003                  | RMB25.0 million    | A private company principally engaged in manufacturing and sale of concrete                         | Concrete  | 2019                                       | Within 10 days from the invoice date | Bank remittance | 33,075                     | 2.6  |              |
| 5    | Shenzhen Lvchuang Labour Service Co., Ltd.*<br>(深圳市綠創勞務有限公司) | 2018                  | RMB50.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 32,237                     | 2.5  |              |
|      |  |                       |                    |   |   |  |                                      |                 | Five largest suppliers     | 346,445  | 27.2         |
|      |  |                       |                    |   |   |  |                                      |                 | All other suppliers        | 922,093  | 72.8         |
|      |  |                       |                    |   |   |  |                                      |                 | Total purchases            | <u>1,268,538</u>   | <u>100.0</u> |

*For the year ended 31 December 2022*

| Rank | Supplier   | Year of establishment | Registered capital | Principal business activities   | Principal materials supplied/ services provided | Commencement year of business relationship | Credit terms                            | Payment methods | Purchase amount<br>RMB'000 | Approximate percentage of our total purchase amount<br>% |              |
|------|--|-----------------------|--------------------|---|---|--|---|-----------------|----------------------------|--|--------------|
| 1.   | 深圳市中農建勞務工程有限公司<br>Supplier A                                 | 2013                  | RMB10.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2019                                       | Within 7 days from the invoice date     | Bank remittance | 97,578                     | 7.5  |              |
| 2.   | Shenzhen Hangshunxin Trading Co., Ltd.*<br>(深圳市航順鑫貿易有限公司)    | 2007                  | RMB50.0 million    | A private company principally engaged in trading of steel products and other construction materials | Steel   | 2021                                       | Within 10 days from the date of invoice | Bank remittance | 54,344                     | 4.2  |              |
| 3.   | Shenzhen Lvchuang Labour Service Co., Ltd.*<br>(深圳市綠創勞務有限公司) | 2018                  | RMB50.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2019                                       | Within 7 days from the invoice date     | Bank remittance | 42,143                     | 3.3  |              |
| 4.   | Supplier E   | 2020                  | RMB5.0 million     | A private company principally engaged in trading of construction and decoration materials           | Construction materials                          | 2020                                       | Within 15 days from the invoice date    | Bank remittance | 39,022                     | 3.0  |              |
| 5.   | Supplier F   | 2020                  | RMB80.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2020                                       | Within 14 days from the invoice date    | Bank remittance | 29,595                     | 2.3  |              |
|      |  |                       |                    |   |   |  |   |                 | Five largest suppliers     | 262,682  | 20.3         |
|      |  |                       |                    |   |   |  |   |                 | All other suppliers        | 1,030,101  | 79.7         |
|      |  |                       |                    |   |   |  |   |                 | Total purchases            | <u>1,292,783</u>   | <u>100.0</u> |

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*For the six months ended 30 June 2023*

| Rank | Supplier  | Year of establishment | Registered capital | Principal business activities   | Principal materials supplied/ services provided | Commencement year of business relationship | Credit terms                         | Payment methods | Purchase amount<br>RMB'000 | Approximate percentage of our total purchase amount<br>% |       |
|------|---|-----------------------|--------------------|---|---|--|--------------------------------------|-----------------|----------------------------|--|-------|
| 1.   | Supplier F  | 2020                  | RMB80.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2020                                       | Within 14 days from the invoice date | Bank remittance | 28,355                     | 6.1  |       |
| 2.   | Supplier G  | 2019                  | RMB20.0 million    | A private company principally engaged in trading of steel products and other construction materials | Steel   | 2022                                       | Within 15 days from the invoice date | Bank remittance | 23,897                     | 5.1  |       |
| 3.   | Shanwei Yifeng Light Steel Structure Co., Ltd.* (汕尾市藝鋒輕鋼結構有限公司) | 2021                  | RMB5.0 million     | A private company principally engaged in trading of steel products and other construction materials | Steel   | 2023                                       | Within 7 days from the invoice date  | Bank remittance | 20,971                     | 4.5  |       |
| 4.   | Supplier I  | 2018                  | RMB30.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 20,808                     | 4.5  |       |
| 5.   | Supplier A  | 2013                  | RMB10.0 million    | A private company principally engaged in labour subcontracting                                      | Labour services                                 | 2019                                       | Within 7 days from the invoice date  | Bank remittance | 15,091                     | 3.2  |       |
|      |   |                       |                    |   |   |  |                                      |                 | Five largest suppliers     | 109,122  | 23.4  |
|      |   |                       |                    |   |   |  |                                      |                 | All other suppliers        | 356,943  | 76.6  |
|      |   |                       |                    |   |   |  |                                      |                 | Total purchases            | 466,065  | 100.0 |

To the best knowledge of our Directors, all of the five largest suppliers of our Group during the Track Record Period are Independent Third Parties, and none of our Directors, or their respective close associates or any Shareholders, who to the best knowledge of our Directors own more than 5% of the issued Shares immediately after completion of the [REDACTED] and the Capitalisation Issue, has any interests in any of such five largest suppliers.

### Impact of the COVID-19 pandemic

Since early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19. In order to reduce the risk of widespread of COVID-19, the PRC government announced to extend the Chinese New Year holiday in 2020 and delayed the resumption of work in the PRC. Different local governments of the PRC had also imposed temporary restrictions and measures on passenger traffic to control the spread of COVID-19. Due to the restrictions and measures, 50 of our constructions projects which were on-going at the relevant time had encountered suspension for around 19.0 days on average, all of which had resumed on or before 29 February 2020. As there is generally a lower level of construction activities during the first quarter of the year due to the seasonality factor, and based on the review of the status of all such projects, our Directors considered that the suspension did not result in material delays in our construction projects. Despite the outbreak of COVID-19 in 2020, we recorded revenue of approximately RMB1,331.2 million for the year ended 31 December 2020.

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In around March 2022, there was a resurgence of COVID-19 in certain areas of the PRC, temporary measures restricting certain business operation and activities were imposed in the affected areas from time to time, including Shenzhen and Minquan County where some of our construction projects were located. In late 2022, China began to modify its policy in relation to the COVID-19 and most of the travel restrictions and quarantine requirements were lifted in December 2022. From 1 March 2022 and up to the 31 December 2022, 45 of our construction projects which were on-going at the relevant time had encountered suspension for around 6.4 days on average, all of which had resumed on or before 5 September 2022. Despite the resurgence of COVID-19 in 2022, our revenue increased from approximately RMB1,346.2 million for the year ended 31 December 2021 to approximately RMB1,378.1 million for the year ended 31 December 2022. As at the Latest Practicable Date, none of our construction projects was suspended due to COVID-19 related measures imposed by the PRC government.

Our Directors confirmed that our suppliers and subcontractors resumed their business operation when we resumed construction works for our construction projects after the COVID-19 related measures had been lifted. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material disruption in the supply of raw materials, labour and subcontracting services from our suppliers due to the COVID-19 pandemic.

Based on the above, our Directors are of the view that the effect of the suspension of the affected construction projects on our Group’s financial position is relatively low as the suspension was relatively short in terms of duration and did not have material impacts on the progress of the affected construction projects. Accordingly, the COVID-19 pandemic has not resulted in a material adverse effect on the business or financial condition of our Group.

As at the Latest Practicable Date, we were closely monitoring the development of COVID-19 in China. There remains significant uncertainties associated with COVID-19 pandemic, including the severity and duration of the pandemic and further actions that may be taken by governmental authorities around the world to contain the virus, and the full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. For further details, please refer to the section headed “Risk Factor — The outbreak of COVID-19 or any other severe communicable disease could adversely affect our Group’s financial positions and results of operations” in this document. Our Directors have carried out a holistic review of the impact of COVID-19 on our operations, and confirmed that, based on the measures imposed by the central and local governments of the PRC as at the Latest Practicable Date, COVID-19 is not expected to bring any permanent or material impact to our business operation and financial performance.

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### QUALITY CONTROL AND MANAGEMENT

We endeavour to deliver quality services to our customers, Our Group have maintained the ISO 9001 quality management system certification throughout the Track Record Period. Our project management team, supported by our engineering department, is responsible for quality management and overseeing the quality of works of our construction projects. Our Directors believe that the provision of timely, safe and quality construction services is crucial to the reputation and success of our Group. As such, we have implemented rigorous quality control procedures and kept relevant reports and records covering all aspects and stages of the construction project lifecycle, from selection of suppliers and services providers, procurement of raw materials, implementation to project completion.

Set forth below is a summary of our key quality control measures:

#### **Inspection of raw materials**

We inspect incoming raw materials to ensure they meet our project requirements, technical specifications, and applicable national and/or industrial quality standards. Our Group typically inspects the product certificates and/or quality assaying reports of such raw materials and undertake sampling and testing of certain raw materials to ensure their quality before utilising in our construction projects. Raw materials that are defective or do not meet our requirements, specifications or standards will be returned to suppliers.

#### **Subcontractors**

We require subcontractors to abide by our quality control measures and meet our quality standards during the course of their performance in our construction projects. Please refer to the paragraph headed “Subcontracting” in this section for further details.

#### **Internal records**

We have established project management and control procedures and conduct construction works in accordance with such procedures to ensure that we comply with the construction contract requirements as well as the applicable PRC legal requirements. Our project management team is required to keep the relevant reports and records during construction process to document construction progress, inspection results, quality and issues for internal records and external submissions to independent qualified laboratories or institutions and the relevant government authorities.

#### **Quality control of projects**

Our project management team closely monitors the project quality control throughout the construction projects to ensure timely and satisfactory completion. After the completion of our projects but before our customers accept the finished project, we will internally conduct quality and safety inspections to ensure that all works comply with the contractual specifications and technical specifications.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material quality issues or receive any material complaints from our customers about the quality of our construction projects.

### SOCIAL MATTERS

#### Occupational health and safety

Owing to the inherent dangers of the construction industry, our business operations are subject to certain PRC laws and regulations relating to occupational health and work safety, such as Work Safety Law of the PRC (中華人民共和國安全生產法), Regulations on the Administration of Work Safety of Construction Projects\* (建築工程安全生產管理條例), Regulation on Work Safety Licenses (安全生產許可證條例) and Provisions on the Administration of Construction Enterprises' Work Safety Permits\* (建築施工企業安全生產許可證管理規定). Our Group is committed to ensure the compliance with such laws and regulations in the PRC and to provide a safe and healthy working environment for our employees and workers.

We have put in place work safety and prevention measures to minimise the occurrence of industrial accidents and construction risks. We have obtained the Occupational Health and Safety Management System certification in compliance with GB/T45001-2020/13045001:2018 standards and our Group possesses the Work Safety Permit (安全生產許可證) issued by the GHURD. Mr. Wong Xuguang (王旭光), one of our senior management members, is responsible for developing and overseeing our occupational health and safety policies and to ensure we comply with national standard, and the respective project managers of our construction projects are responsible for monitoring and supervising the implementation of work safety measures throughout the project lifecycle.

#### *Fatal accident relating to our specialised construction subcontractor*

In November 2020, a fatal accident occurred at the construction site of a municipal and public project of which we served as a general contractor and engaged a specialised construction subcontractor to provide façade renovation services. The specialised construction subcontractor employed the deceased worker who fell to death accidentally when painting an exterior wall of a 6-storey building. The relevant government authority, after investigation, found that the deceased worker did not wear sufficient protective gear and fasten his safety belt properly due to his personal factor, such as awareness of safety, notwithstanding that protective gear and safety training had been provided to the deceased worker, and the specialised construction subcontractor failed to set a proper façade scaffolding to ensure work safety due to managerial oversight. The specialised construction subcontractor and its responsible personnel were found to have violated the Work Safety Law of the PRC and were subject to administrative penalty. According to the investigation report of the relevant government authority, our Group was not involved in nor responsible for the accident. We had adopted a safety management system at the time of the accident which include the safety management measures of the subcontractors such as checking the work safety compliance history of the subcontractors before engaging them, establishing work safety policies for the subcontractors, providing safety training to the workers of the subcontractors, and inspecting the

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implementation of safety measures before the commencement of work. Our safety officer had provided safety training to site workers, including the deceased worker, and provided the site workers with the necessary personal protective and safety equipment, including safety belt and helmet, before the accident. During the construction process, our safety officer conducted safety inspections at the construction site, required the subcontractors to timely rectify any safety deficiencies and followed up on the implementation of rectification. After the accident, we held a safety warning meeting with all the subcontractors of such project. To prevent recurrence of similar accident in the future, we had implemented enhanced safety management measures which include enhanced due diligence on the subcontractors, regular reporting system at both construction site level and management level for making timely decision, weekly inspection and rectification at the construction site.

As advised by our PRC Legal Advisers, administrative penalty was not imposed on the Group in relation to the accident. Our Directors confirm that, as at the Latest Practicable Date, no administrative penalty has been imposed by any government authority on our Group in relation to the accident. Based on the above, our Directors are of the view that the accident shall not have any adverse implication on our Group’s compliance records and operation. Nevertheless, the risk control team of the Company has taken a prudent risk management approach and made a management decision to cease the business relationship with that subcontractors for any new projects since the occurrence of the incident. Having (i) reviewed the investigation report of the relevant government authority; (ii) reviewed the safety management measures implemented by us; (iii) the safety record of such project; (iv) reviewed the memorandum prepared by our management relating to the accident; and (iv) discussed with our PRC Legal Advisers on the legal liability of our Group, our Directors are of the view and the Sole Sponsor concurred that the incident was not caused by our Group’s negligence or deficiencies in internal control.

Save as disclosed above, we had not encountered any other material accidents and fatalities or had been subject to any regulatory penalty or investigation in relation to workplace safety during the Track Record Period and up to the Latest Practicable Date.

### ***Our three-tier occupational system***

Due to the nature of the industry we operate in, we have inherently high occupational safety risks at construction sites. We place a high priority on occupational safety for our employees and have therefore established a three-tier occupational safety system.

#### *1. Standard Setting*

- We have developed internal safety policies, such as the safety management protocol, which sets out our key requirements and standards for occupational safety.
- We have systems in place that require our subcontractors to comply with our requirements and standards for occupational safety. Under our typical subcontracting agreement entered with our subcontractors, our subcontractors are

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primarily responsible for complying with the safety standards, conducting training to their workers and monitoring their adherence to the safety measures and procedures.

- Prior to the commencement of project works, we provide necessary and relevant work safety training and related testing to our employees and the workers of our subcontractors and obtain their confirmation of their understanding of the relevant safety standards.

### 2. *Specific Safety Protection Measures*

- We provide our employees and subcontractors’ staff with the necessary work safety tools, such as helmets and safety harnesses before the project work begins.
- We inspect the necessary safety facilities and measures of our Group or subcontractors during the project, and issue inspection and follow-up reports regularly.
- We conduct higher level or relatively more independent site inspection or thematic inspections for larger or higher risk projects and closely monitor the progress of the project, including engineering safety issues, and issues inspection and follow-up reports.

### 3. *Incident Reporting*

- Our project managers must report any serious incidents, including safety-related issues, to the risk control team within 24 hours of occurrence.

We believe that our health and safety controls are effective and adequate and comply with applicable national and local health and safety laws and regulations in the PRC. Pursuant to the Regulations on the Reporting, Investigation and Handling of Work Safety Accidents\* (生產安全事故報告和調查處理條例), issued by the State Council on 9 April 2007 and effective on 1 June 2007, reportable construction accidents are divided into four categories: (i) particularly significant accidents shall refer to accidents that cause more than 30 deaths, or serious injuries of more than 100 people (including acute industrial poisoning, hereinafter the same), or direct economic losses of more than RMB100 million; (ii) significant accidents shall refer to accidents that cause more than ten deaths but less than 30 deaths, or serious injuries of more than 50 people but less than 100 people, or direct economic losses of more than RMB50 million but less than RMB100 million; (iii) relatively significant accidents shall refer to accidents that cause more than three deaths but less than ten deaths, or serious injuries of more than ten people but less than 50 people, or direct economic losses of more than RMB10 million but less than RMB50 million; and (iv) general accidents shall refer to accidents that cause less than three deaths, or serious injuries of less than ten people, or direct economic losses of less than RMB10 million. For details, please refer to the section headed “Regulatory overview — Construction safety — Work safety accidents regulations” in this document. During the Track Record Period, our Group did not have any reportable accidents

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within the aforesaid four categories of accidents. As a result, our reportable accident rate and related lost time injury frequency rate for the Track Record Period were nil and nil, respectively. Accident rate is referred to the number of accidents divided by the gross number of workers (inclusive of workers employed through our labour subcontractors). Lost time injury frequency rate is referred to the number of loss time (by days) caused by the injuries divided by the gross number of work time (by days). According to the Frost and Sullivan Report, it is not uncommon in the industry to use the four categories of accidents as defined in the Regulations on the Reporting, Investigation and Handling of Work Safety Accidents\* (生產安全事故報告和調查處理條例) to calculate the reportable accident rate and lost time injury frequency rate.

### **Staff Diversity and Workplace Equality**

Our Group places a high priority on diversity of talent, including gender diversity.

As at 30 June 2023, the total number of employees of our Group was 187, with approximately 73.3% belonging to the age group of 30–50 years old. The gender ratio of our Group (female: male) at the full-time employee level is: 18.7%: 81.2%, respectively.

The Board believes that the gender ratio is consistent with the characteristics of our industry and the attributes of labour supply. We have adopted policies on compensation and dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. Our Group respects the gender, age and ethnicity of each person. Each job applicant has an equal job opportunity. We always strive to achieve a fair workplace where we treat all employees fairly and protect them from any discrimination of age, race, gender, or religious background. Further, any promotion within our Group would be based solely on the employee’s performance, experience and capability. As such, any factors not related to work would not have an impact on employee’s promotion. As to board diversity, please refer to the section headed “Directors and senior management — Board diversity policy”.

### **Anti-corruption and whistle-blowing policy**

Our Company highly values ethical standards and has therefore established a three-tier anti-corruption system.

1. At the policy level, we have developed an internal for our employees and a for our strategic suppliers, which stipulates our zero tolerance for bribery and embezzlement.
2. At the monitoring level, the Board has instructed internal audit and legal department to include anti-fraud risks, including anti-corruption risks, in its internal audit plan.



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3. At the reporting mechanism level, we have established a whistleblower policy. Our whistleblower mechanism is an independent reporting channel that accepts anonymous reports, has provisions to protect good faith whistleblowers from discrimination or retaliation, and is managed directly by our Audit Committee. We will make our whistleblower policy available on our website for all stakeholders to review.

### ENVIRONMENTAL MATTERS

We are subject to a number of environmental laws and regulations in the PRC including, among others, the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law on the Prevention and Control of Environmental Noise Pollution (中華人民共和國噪聲污染防治法) and Law on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法). Please refer to the section headed “Regulatory overview” in this document for further details.

During the Track Record Period and up to the Latest Practicable Date, we have maintained the Environmental Management System Certification in compliance with GB/T24001-2016/13014001:2015 standards. We are committed to minimising any adverse impact on the environment resulting from our business activities and in order to ensure our compliance with the relevant laws and regulations in the PRC, we have established and implemented, among others, the following environmental protection measures:

#### *Greenhouse gas emissions and exhaust emissions*

Our Group has two main sources of direct greenhouse gas emissions, namely electricity consumption and diesel consumption in projects.

During the course of a project, we typically uses electricity at the construction site through the customer’s electrical system for operating machinery and project workstations, etc. We promote green concepts and encourages employees to reduce energy consumption, including promoting electricity conservation (e.g. turning off lights in common areas during non-working hours) and minimising environmental impact.

Some of our projects obtain power supply through the use of diesel-fueled generators, so our gas emission intensity depends largely on the level of diesel fuel consumed to produce electricity at the sites primarily used for projects. Our Group has always used qualified diesel fuel.

Electricity is generally provided by the government-supervised power grid, so we have not experienced any difficulties in identifying suitable electricity supplies.

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In measuring the consumption level, we take into consideration of the various consumption rate of our projects and the expected consumption rate of our subcontractors whose consumptions originate in our value chain, in accordance with the latest principles set out by the International Sustainability Standards Board.

### *Diesel Consumption*

The consumption volumes of diesel are quantified and projected with reference to the output value of our projects are as follows:

|  | For the year ended 31 December |          |          | For the six months ended |
|--|--------------------------------|----------|----------|--------------------------|
|  | 2020                           | 2021     | 2022     | 2023                     |
| Total Volume (tonnes)                  | 3,646.36                       | 3,578.86 | 3,588.46 | 1,274.43                 |
| Volume (tonnes) per million of revenue | 2.74                           | 2.66     | 2.60     | 2.57                     |

We have set quantitative targets for managing our diesel consumption at maintaining the volume (tonnes) per million of revenue at rate of 2.6 in year 2023 and 2024, and reducing it to 2.5 in 2025.

### *Electricity Consumption*

The consumption volumes of electricity are quantified and projected with reference to the output value of projects are as follows:

|                                     | For the year ended 31 December |           |           | For the six months ended |
|-------------------------------------|--------------------------------|-----------|-----------|--------------------------|
|                                     | 2020                           | 2021      | 2022      | 2023                     |
| Total Volume (kWh)                  | 4,652,456                      | 4,652,456 | 4,652,456 | 1,809,129                |
| Volume (kWh) per million of revenue | 3,496                          | 3,879     | 3,701     | 3,649                    |

We have set quantitative targets for managing our electricity consumption at maintaining the volume (kWh) per million of revenue at rate of 3,700 in year 2023 and 2024, and reducing it to 3,600 in 2025.

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### *Water Resources*

We consume water to some extent during the course of our projects. At construction sites, water is used primarily for cleaning (e.g. trucks) and general use. Our projects generally do not involve the consumption of large amount of water for production and production of highly polluting wastewater. Water supplies are generally provided by government-supervised water systems, so we do not experience any difficulties in identifying suitable water resources.

Utilising wastewater filtration and sedimentation systems (e.g., sedimentation tanks) are utilised at construction sites to filter and sediment wastewater to an acceptable level and discharge the treated water to a suitable drainage system.

The consumption volumes of water are quantified and projected with reference to the output value of projects are as follows:

|   | <u>For the year ended 31 December</u> |             |             | <u>For the six</u>  |
|---|---------------------------------------|-------------|-------------|---------------------|
|   | <u>2020</u>                           | <u>2021</u> | <u>2022</u> | <u>months ended</u> |
|   |                                       |             |             | <u>2023</u>         |
| Total Volume (cube)                     | 176,552                               | 178,543     | 183,121     | 58,161              |
| Volume (cube) per million<br>of revenue | 118                                   | 121         | 123         | 117                 |

We have set quantitative targets for managing our water consumption at maintaining the volume (cube) per million of revenue at rate of 120 in year 2023 and 2024, and reducing it to 115 in 2025.

For achieving the quantitative targets for diesel, electricity and water consumption, we undertake to implement the following initiatives:

(i) *ESG working team*

Discharge the duty of managing ESG matters to a group of management, as ESG working team, which shall execute our consumption saving measures, monitor the result and report to the Board regularly.

(ii) *Subcontractor selection*

Engage subcontractors with a clean environment record or certification, in a higher priority, to ensure the consumption saving practices are efficiently executed.

(iii) *Training*

Provide consumption saving training to our project team to ensure they are aware of latest consumption saving technique and technologies.

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(iv) *Specific measures*

Direct the ESG working team to research and implement specific measures, such as use of better quality of diesel, regular maintenance of machinery to reduce inefficient consumption of diesel and related emission, and better work scheduling as to avoid unnecessary consumption of electricity.

***Project noise control***

At a construction site, the project management team has basic noise control equipment. In addition, our Group implements project noise control primarily by appropriately scheduling project works within the time periods allowed by law and more acceptable to the community. It is our policy that the levels of noise emission in decibels (dB) at construction sites are set at a limit of 70 dB during daytime and 55 dB during nighttime.

Considering the overall compliance status regarding noise control, our Directors are of the view that the level of noise emissions has been controlled under the abovesaid limits in material time during the Track Record Period and up to 30 June 2023. We undertake to continuing implement our policy and related noise emission control level in the future periods. The ESG working team will continue to monitor the related compliance status.

***Solid and liquid waste***

Our Group generates construction waste and wastewater during the course of our projects. Our Group has established internal waste management policy. A team led by a project manager to handle construction waste and wastewater in accordance with local construction waste management practices, including key procedures below:

- *For construction waste*

Generally, our customers, as project owners, engage qualified environmental protection disposal companies to collect and dispose hazardous construction waste at the construction site. We have a practice of pulling our construction waste, mainly those remains or non-reusable of our non-hazardous raw materials to the designated areas. Our project managers at site are responsible for monitoring the process.

- *For wastewater*

Utilising wastewater filtration and sedimentation systems (e.g., sedimentation tanks) are utilised at construction sites to filter and sediment wastewater to an acceptable level and discharge the treated water to a suitable drainage system.

The risk control team is responsible for overseeing overall compliance in this area.

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### *Climate Change Impacts*

In assessing the impact of climate change on our Group, the risk control team has taken into account the recommendations and methodology of the Financial Stability Board’s (“**FSB**”) Task Force on Climate-related Financial Disclosures (“**TCFD**”) to assess the impact of climate change on the Group in terms of risks and opportunities. Our Group’s impact on climate change is assessed in terms of (i) risks and (ii) opportunities.

(i) *Risk*

Based on TCFD’s recommendations and methodology, our Group classifies climate change-related risks into two main categories: (a) physical risks related to the physical impacts of climate change and (b) transition risks which are associated with the transition to the low carbon economy.

**Physical Risks:** Physical risks that result from acute events or long-term chronic transitions and that have a financial impact on our Group.

**Transition Risks:** During the transition to a low carbon economy, there may be certain changes that may have impacts on our Group, mainly related to four key areas, namely policy and law, technology, markets and reputation.

On this basis, the risk control team considers the following specific factors related to climate change.

1. *Country and Industry Policies*

- “Annual Report on China’s Policies and Actions to Address Climate Change 2020” issued by the Ministry of Ecology and Environment
- “14th Five-Year Plan” Construction Industry Development plan” issued by The Ministry of Housing and Urban-Rural Development

2. *Events and Incidents*

- Recent incidents apparently caused by climate change and their impact on our Group’s business areas, such as the heavy rainfall events in China, especially in Henan Province, in 2021.

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The risk control team believes that our Group has the following relevant climate change impacts and our Company’s mitigation measures as listed in the table below.

| <u>Associated risk (by TCFD standards)</u>                      |  | <u>Impact of climate change on the Group</u>   | <u>Potential level of impact</u> | <u>Mitigation Measures</u>   |
|---|--|--|----------------------------------|--|
| Heavy rainfall events that are clearly caused by climate change | Physical Risk                            | Heavy rainfall (class 6 or above) will affect our client’s project schedule or may to certain extend cause physical damage to the works at the construction site | Medium                           | Our Group has been monitoring the trends of physical risks and will further enhance monitoring and disclosure controls   |
|   | Physical Risk                            | Heavy rainfall may, to certain extend, affect the stability of our main material supply chain  | Low                              | Our Group has been and will be maintaining a diversified supplier base to maintain a resilient level and to mitigate the impact  |
| “14th Five-Year Plan”<br>Construction Industry Development Plan | Transition Risk<br>(Medium to Long Term) | Our major customers are governments, SOEs, and large developers, who may prefer green construction teams over time and as required by the national policy        | Low                              | Our Group has been and will be maintaining valid environmental qualifications and will be devoting the necessary resources for obtaining newly required qualifications in the future |

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| <u>Associated risk (by TCFD standards)</u> | <u>Impact of climate change on the Group</u>  | <u>Potential level of impact</u> | <u>Mitigation Measures</u>  |
|--|---|----------------------------------|---|
| Transition Risk (Medium to Long Term)      | The relevant government bureau will be organising more inspection and tightening licensing conditions, it may affect the basis for our selection of suppliers | Low                              | Our Group has been and will be conducting effective supplier evaluation system, including the programme to monitor its key suppliers from an environmental perspective on a regular basis, no less than once a year |

The risk control team believes that physical risks are inherent and that our Group cannot completely control this external and inherent impact of climate change. However, our Group is committed to monitoring and, where necessary, disclosing the impacts to the market through our disclosure systems, such as the weekly project reporting system at project level and the monthly management reporting system at Board level, for those acute events, such as heavy rainfall. However, the Board believes that transition risks, driven primarily by policy changes and market expectations, are more manageable and that there is a buffer time for our Group to adopt or adjust new procedures to address these changes.

(ii) *Opportunities*

Based on TCFD’s recommendations, the risk control team also considered and categorised the following five broad categories of climate change-related opportunities:

1. resource efficiency and cost savings
2. adoption of low-emission energy
3. development of new products and services
4. access to new markets; and
5. building resilience in the supply chain.

The risk control team believes that, in the context of our Group, the opportunities for climate change impacts should have the following two refined areas. The risk control team has also assessed the status in which our Group can capture these opportunities.

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1. Our Group has maintained and will continue to maintain a diversified supplier base in a way that our Company should have a stable competitive edge in building resilience in the supply chain.
2. Our Group has maintained and will continue to maintain relevant product quality assurance procedures and relevant environmental related certificates in a way our Company should have a stable competitive edge in the market that will tend to purchase from more environmentally friendly companies.

### *Supply Chain Management (Environmental aspects)*

Our Group places great emphasis on the potential environmental and social risk management of its supply chain.

Our Group has adopted a rigorous and standardised sourcing system and supplier selection process, which includes regular assessment of suppliers’ compliance with environmental, quality, social, corporate governance and business ethics standards through background checks and annual quality assessments. In this process, our Group’s management generally evaluates suppliers’ ESG-related qualifications, licenses and compliance records and prefers to select suppliers that do not commit significant violations or unethical behavior. We will consider terminating or not renewing relationships with companies or suppliers that may result in, or have resulted in, significant ESG impacts.

Our Group places a high priority on ethical standards and ESG awareness among its suppliers and has therefore established and distributed a supplier code of conduct to its more strategic suppliers and obtained their confirmation of understanding. We require our suppliers to meet our Group’s expectations for human rights, anti-corruption and environmental protection.

During the Track Record Period, our cost of compliance with the applicable environmental protection laws, regulations and policies, which primarily consisted of construction waste disposal charges, amounted to approximately RMB264,200, RMB128,000, RMB25,000 and RMB138,000, respectively. Our Directors consider that our costs of environmental compliance have been and will continue to be consistent with our scale of operation, while we expect the increase in such costs would not have any material impact on our financial performance.

During the Track Record Period and up to the Latest Practicable Date, our Group was fined an aggregate of approximately RMB459,500 for various incidents arising from our construction operation, which constituted non-compliance with the relevant environment laws and regulations concerning water and soil conservation, wastewater discharge, noise and air pollution control. The relevant fines that we were subject to for each of such non-compliance incident ranged from RMB2,000 to RMB275,000. Notwithstanding that certain of such non-compliance incidents were committed by the subcontractors, we, as the general contractor, were liable for such non-compliance incidents. Under the standard subcontracting agreements, the subcontractors are required to comply with the relevant regulations regarding safe and civilised construction (安全文明生產) and shall be



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responsible for all injuries and/or monetary loss suffered by any third party in connection with the subcontractors’ non-compliance. As at the Latest Practicable Date, all fines relating to the subcontractors’ non-compliance have been fully paid by the relevant subcontractors.

We believe that we have adopted adequate measures to minimise wastage and pollution during our work process and such measures are in line with the industry practices and in accordance with the applicable environmental protection laws, regulations and standards. As advised by our PRC Legal Advisers, save as disclosed above, we had no administrative penalty in relation to material non-compliance or violations of environmental protection laws and regulations that would materially or adversely affect our business operations and financial condition. Our Directors confirmed that we had not been subject to any material claim or penalty in relation to environmental protection during the Track Record Period and up to the Latest Practicable Date.

### INSURANCE

We maintain insurance policies that are required under the relevant PRC laws and regulations as well as policies based on our assessment of our operational needs and industry practice. We are required by PRC social security laws and regulations to maintain mandatory social insurance policies for our employees and make contributions to mandatory social insurance fund for our employees. We also procure necessary insurance for our projects (the “**Project Insurance**”) in accordance with the applicable PRC laws and regulations and the requirements set out in the tender documents and contracts with reference to the associated risks of the projects.

We procure our Project Insurance directly from qualified insurance companies, mainly include work safety liability insurance, contractors’ all risks insurance and construction accident insurance. For contract fulfilment related insurance, namely the contract fulfilment security deposit, the Company takes a common industry adoption by making use of letter of guarantee issued by guaranteed companies to cover the related liabilities while lessening the cash flow burden.

Our Directors believe that the current insurance policies taken out by us provide efficient coverage of the risks to which we may be exposed and are in line with industry practice. During the Track Record Period, our total insurance expenses amounted to approximately RMB2.0 million, RMB2.7 million, RMB2.1 million and RMB0.9 million, respectively. For details regarding with associated risks of the coverage of our insurance policies, please refer to the section headed “Risk factors — Our insurance policies may not be sufficient to cover liabilities arising from claims and litigation and our insurance expenses may increase from time to time”.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material insurance disputes nor did we make or were the subject of any material insurance claims.

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### **INTELLECTUAL PROPERTY**

We rely on a combination of patents, copyrights, trademarks and domain name registrations to establish and protect our intellectual property rights. As at the Latest Practicable Date, we have registered 42 patents, 20 software copyrights, five trademarks and two domain names, and five patents and one trademarks pending registration in the PRC and one registered trademark in Hong Kong. For further details of our material intellectual property rights, please refer to the paragraph headed “Further information about the business of our Company — 2. Intellectual property rights” in Appendix IV to this document.

During the Track Record Period and up to the Latest Practicable Date, no material claim or dispute was brought against our Group in relation to any infringement of intellectual property rights. Our Directors are not aware of any use by any third party of our intellectual properties and believe that there has been no infringement of our intellectual property rights that would result in a significant potential impact to our business.

### **RESEARCH AND DEVELOPMENT**

We do not have a research and development department nor incurred any research expenses during Track Record Period and up to the Latest Practicable Date.

### **MARKET AND COMPETITION**

For details of the competitive landscape, entry barriers and overview of the construction industry in the PRC in which our Group operates, please refer to the section headed “Industry overview” in this document.

In view of the competition in the markets and industries in which we were involved, our Directors believe that our competitive strengths have contributed to the success of our Group and under the management of our Directors and senior management, our Group is well positioned to capture the growing demand in the construction industry in the PRC. For further details of our competitive strengths, please refer to paragraphs headed “Our strengths” in this section.

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### EMPLOYEES

As at the 30 June 2023, our Group has 187 employees in total, all of them are located in the PRC. The following table sets forth the number of our Group’s employees by job functions:

| <u>Functions</u>                   | <u>Number of employees</u> |
|------------------------------------|----------------------------|
| General management                 | 2                          |
| Commerce                           | 30                         |
| Engineering                        | 132                        |
| Technical                          | 7                          |
| Finance                            | 9                          |
| Internal audit and legal           | 1                          |
| Human resources and administration | 6                          |
| <b>Total</b>                       | <b><u>187</u></b>          |

We generally recruit our employees from the open market by placing recruitment advertisements. We offer competitive remuneration packages to our employees. We provide training courses for our staff to ensure their competence and to keep them abreast of the latest developments and best practices in the industry to enhance their work performance. For the Track Record Period, our total staff costs were approximately RMB14.4 million, RMB17.7 million, RMB22.2 million and RMB9.8 million, respectively.

Our Directors consider that we have maintained good relationships with our employees. We have not experienced any significant problems with our employees or any disruptions to our operations due to labour disputes nor have we experienced any difficulties in the recruitment or retention of experienced staff or skilled personnel during the Track Record Period and as at the Latest Practicable Date.

### PROPERTIES

#### Owned Properties

As at the Latest Practicable Date, our Group did not own any land use rights and properties.

During the six months ended 30 June 2023, our Group entered into a purchase agreement whereby our Group agrees to acquire a commercial property in Guangming District in Shenzhen for a cash consideration of approximately RMB42.1 million. A prepayment of approximately RMB8.4 million was made pursuant to the terms of the purchase agreement, and the remaining consideration is expected to be made before December 2023.

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### Leased Properties

As at the Latest Practicable Date, we leased and occupied 17 properties in the PRC with an aggregate gross floor area of approximately 1,578 sq.m. from Independent Third Parties, which were primarily used for our office purposes. The leases generally have a term ranging from one year to three years. As at the Latest Practicable Date, for five of our leased properties, we have not been provided by the lessors with the relevant ownership certificates or any other documentation proving their right to lease those properties to us. For details, please refer to the section headed “Risk factors — Risks relating to our business and industry — Risks relating to our business — We may face challenges by third parties with respect to property ownership, which may expose us to potential financial loss and negatively affect our ability to use the properties that we lease”.

As at the Latest Practicable Date, we used all of its leased properties as offices. Having considered our use of the leased properties without the relevant ownership certificates or any other documentation proving lessors’ right to lease those properties to us and our business mainly operates at the construction site, we consider that (i) insignificant time will be required to identify alternative properties at comparable costs; (ii) the relocation costs would be immaterial; and (iii) there would not be any material disruption to our business, if our leases are invalidated as a result of the lack of ownership certificates.

The following table sets forth the summary of the major properties leased by us as at the Latest Practicable Date:

| No. | Location  | Usage  | Term    | Tenancy period                      | Monthly rent  | Approximate gross floor area<br>(sq.m.) |
|-----|---|--------|---------|-------------------------------------|---|---|
| 1.  | Suite 1703–1706, Tower A, Jiangsu Building, 6013 Yitian Road, Futian District, Shenzhen   | Office | 2 years | 16 December 2022 – 15 December 2024 | RMB84,000 for the first year<br>RMB86,520 for the second year | 800.00                                  |
| 2.  | Nos. 615–616, Block 2, Nam Tai Inno Park, the southeast side of the intersection of Guangming Avenue and Dongchang Road, Guangming District, Shenzhen | Office | 3 years | 17 May 2021 – 16 May 2024           | RMB9,035 – RMB19,922<br>(Note)                                | 347.49                                  |

*Note:* Monthly rent was approximately RMB9,035 from 17 May 2021 to 31 December 2021 and approximately RMB18,069 from 1 January 2022 to 16 May 2022, and an annual increment of 5.0% starting from the second year.

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### Property valuation report

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

### LICENCES, QUALIFICATIONS AND PERMITS

Licences, qualifications and permits are required for our Group to carry out our operations and undertake a variety of construction projects in the PRC. Please refer to the section headed “Regulatory Overview — Qualifications” of this document for further details. Our PRC Legal Advisers advised that during the Track Record Period and up to the Latest Practicable Date, we have obtained the requisite licences, qualifications and permits from the relevant PRC regulatory authorities for our operations in all material respects. These qualifications enable us to undertake a variety of construction projects.

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

| No. | Name of licences/ qualifications and permits   | Scope of qualification  | Authorised scope   | Holder           | Issuing authority | Effective period                   |
|-----|--|---|--|------------------|-------------------|------------------------------------|
| 1.  | Certificate of qualification for enterprises in the construction industry<br>(建築業企業資質證書) | <p>First-grade qualification in municipal and public construction general contracting<br/>(市政公用工程施工總承包一級)</p> <p>First-grade qualification in foundation construction specialised contracting<br/>(地基基礎工程專業承包一級)</p> <p>First-grade qualification in building electrical and mechanical installation construction specialised contracting<br/>(建築機電安裝工程專業承包一級)</p> <p>Second-grade qualification in petrochemical engineering construction general contracting<br/>(石油化工工程施工總承包二級)</p> <p>Qualification in special engineering (structural reinforcement) specialised contracting (with no grading system)<br/>(特種工程(結構補強)專業承包不分等級)</p> | <p>Undertaking all types of municipal public works construction.</p> <p>Undertaking all types of foundation construction.</p> <p>Undertaking the following construction works:</p> <ol style="list-style-type: none"> <li>1. installation of equipment, circuits and pipelines of all types of construction.</li> <li>2. substation engineering with not exceeding 35kV.</li> <li>3. production and installation of non-standard steel structural parts.</li> </ol> <ol style="list-style-type: none"> <li>1. Undertaking small and medium sized petrochemical construction.</li> <li>2. Inspection and maintenance of all types of petrochemical works.</li> </ol> <p>Undertaking the construction work for respective specialised projects. Special engineering refers to the rectification and translation of buildings, structural reinforcement, special equipment lifting and hoisting, and special lightning protection projects.</p> | Zhongshen Jianye | GHURD             | 22 March 2022–<br>31 December 2023 |

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| No. | Name of licences/ qualifications and permits   | Scope of qualification   | Authorised scope   | Holder           | Issuing authority  | Effective period                        |
|-----|--|--|--|------------------|--|---|
|     |  | First-grade qualification in building construction general contracting<br>(建築工程施工總承包一級)                                  | Undertaking the following construction works with individual contract value exceeding RMB30.0 million:<br><br>1. industrial and residential buildings with a height not exceeding 200 metres.<br><br>2. structures with a height not exceeding 240 metres.   |                  |  |   |
|     |  | First-grade qualification in building renovation and decoration construction specialised contracting<br>(建築裝修裝飾工程專業承包一級) | Undertaking all types of renovation works and their ancillary works.   |                  |  |   |
| 2.  | Certificate of qualification for enterprises in the construction industry<br>(建築業企業資質證書) | Third-grade qualification in environmental protection construction specialised contracting<br>(環保工程專業承包三級)               | Undertaking the small and medium sized environmental protection projects for pollution restoration projects and domestic waste disposal projects.  | Zhongshen Jianye | SZHCB  | 24 March 2022–<br>31 December 2023      |
|     |  | Third-grade qualification in city and road lighting construction specialised contracting<br>(城市及道路照明工程專業承包三級)            | Undertaking all types of urban and street lighting projects with individual contract value not exceeding RMB6.0 million.   |                  |  |   |
|     |  | Second-grade qualification in fire proofing equipment construction specialised contracting<br>(消防設施工程專業承包二級)             | Undertaking the following fire proofing equipment construction works with a gross floor area not exceeding 50,000 sq.m.:<br><br>1. civil buildings other than Class I high-rise civil buildings<br><br>2. factory, warehouse, storage tank and yard with fire hazard class C or lower.   |                  |  |   |
|     |  | Second-grade qualification in curtain wall construction specialised contracting<br>(建築幕牆工程專業承包二級)                        | Undertaking curtain wall construction works with a gross area not exceeding 8,000 sq.m.  |                  |  |   |
|     |  | Third-grade qualification in steel structure construction specialised contracting<br>(鋼結構工程專業承包三級)                       | Undertaking the following steel structure construction works:<br><br>1. steel structures with a height not exceeding 60 metres.<br><br>2. single span of the steel structure with a height not exceeding 30 metres.<br><br>3. span of the short side of the reticulated shell and the grid structure with a height not exceeding 33 metres.<br><br>4. an individual steel structure with a total weight not exceeding 3,000 tons.<br><br>5. an individual steel structure with a gross floor area not exceeding 15,000 sq.m. |                  |  |   |
| 3.  | Certificate of qualification for construction supervision<br>(工程監理資質證書)                  | Grade A qualification in municipal and public project supervision<br>(市政公用工程監理甲級)  | Undertaking the engineering supervision business of all municipal and public construction projects.  | Zhongshen Jianye | GHURD  | 22 November 2021–<br>22 November 2026   |
|     |  | Grade A qualification in building engineering project supervision<br>(房屋建築工程監理甲級)  | Undertaking the engineering supervision business of all building construction projects.  |                  |  |   |
| 4.  | Work safety permit<br>(安全生產許可證)  | Construction works<br>(建築施工)   | Undertaking construction.  | Zhongshen Jianye | GHURD  | 29 September 2020–<br>29 September 2023 |
| 5.  | Installation (repair, test) power facilities permit<br>(承裝(修、試)電力設施許可證)                  | Class five of installation category<br>(承裝類五級)   | Installation of power facilities with voltage levels not exceeding 10 kV.  | Zhongshen Jianye | The South China Energy Regulatory Office of National Energy Administration<br>(國家能源局南方監管局) | 7 December 2020–<br>6 December 2026     |
|     |  | Class five of repair category<br>(承修類五級)   | Repair and maintenance of power facilities with voltage levels not exceeding 10 kV.  |                  |  |   |

With respect to the licences/permits that will expire in 2023, we will renew such licences/permits with the relevant government authorities prior to their expiration. As advised by our PRC Legal Advisers, there is no legal impediment to renewing the licences/permits so long as we meet the applicable requirements and conditions and adhere to the procedures set forth in the relevant laws and regulations as required by the relevant government authorities.

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### CERTIFICATIONS

The following table sets forth certain certifications with respect to quality control as at the Latest Practicable Date:

| No. | Name of certificate  | Certification                              | Awarding organisation or authority                               | Holder           | Effective period                 |
|-----|--|--|--|------------------|----------------------------------|
| 1.  | Quality Management System Certificate<br>(質量管理體系認證證書)<br>Scope of certification: The construction of construction projects, municipal public works foundation works and construction electromechanical installation projects, construction decoration and decoration works with the scope (資質範圍內的建築工程、市政公用工程、地基基礎工程、建築電安裝工程、建築裝修裝飾工程的施工) | GB/T19001-2016/ISO9001:2015 GB/T50430-2017 | Beijing Xingguo Global Certification Co., Ltd.<br>(北京興國環球認證有限公司) | Zhongshen Jianye | 10 January 2023 – 9 January 2026 |
| 2.  | Quality Management System Certificate<br>(質量管理體系認證證書)<br>Scope of certification: Supervision of municipal public works within the scope of qualification (資質範圍內的市政公用工程監理)  | GB/T19001-2016/ISO9001:2015                | Beijing Xingguo Global Certification Co., Ltd.<br>(北京興國環球認證有限公司) | Zhongshen Jianye | 10 January 2023 – 9 January 2026 |
| 3.  | Occupational Health & Safety Management System Certificate<br>(職業健康安全體系認證證書)   | GB/T45001-2020/ISO45001:2018               | Beijing Xingguo Global Certification Co., Ltd.<br>(北京興國環球認證有限公司) | Zhongshen Jianye | 10 January 2023 – 9 January 2026 |
| 4.  | Environmental Management System Certificate<br>(環境管理體系認證證書)  | GB/T24001-2016/ISO14001:2015               | Beijing Xingguo Global Certification Co., Ltd.<br>(北京興國環球認證有限公司) | Zhongshen Jianye | 10 January 2023 – 9 January 2026 |

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### AWARDS AND ACCREDITATIONS

The following table sets forth the major awards and recognitions received by our Group during the Track Record Period:

| No. | Recognitions and awards  | Project name   | Awarding organization or authority   | Year of grant |
|-----|--|--|--|---------------|
| 1.  | 2019 Guangdong Province Contract abiding and Trustworthiness Enterprise* (2019年度廣東省“守合同重信用”企業)   | N/A  | Shenzhen Administration for Market Regulation (深圳市市場監督管理局)   | 2020          |
| 2.  | 2019 “A” Credit Enterprise (Supreme and Class I of General Contracting for Housing Construction Group)* (2019年度房建一組 (房建施工總承包特級、一級) A信用企業)                        | N/A  | Shenzhen Construction Industry Association (深圳建築業協會)   | 2020          |
| 3.  | “AAA” Credit Enterprise (“AAA”信用企業)  | N/A  | China Construction Industry Association (中國建築業協會)  | 2020          |
| 4.  | 2020 Top 500 Enterprises in Shenzhen (2020深圳500強企業)  | N/A  | Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Entrepreneur Association (深圳市企業家協會)  | 2020          |
| 5.  | 2020 Shenzhen Business Anti-epidemic Pioneer Enterprise* (2020深商抗疫先鋒企業)  | N/A  | Federation of Shenzhen Commerce (深商總會), Shenzhen General Chamber of Commerce (深圳市商業聯合會), Shenzhen Time-Honored Brand Association (深圳市老字號協會) and Shenzhen Small and Medium-sized Enterprises Services Union (深圳市中小企業公共服務聯盟) | 2020          |
| 6.  | 2020 (First Half) Yangjiang City Housing and Municipal Engineering Safety Production Civilised Construction Demonstration Site* (2020年度上半年陽江市房屋市政工程安全生產文明施工示範工地) | Zhuhai (Yangjiang) Co-construction Park Jingang Avenue Municipal Supporting Project (Drainage Project)* (珠海(陽江)合作共建園區金港大道市政配套工程(排水工程)) | Yangjiang Construction Industry Association (陽江市建築業協會)   | 2020          |



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| No. | Recognitions and awards  | Project name  | Awarding organization or authority  | Year of grant |
|-----|--|---|---|---------------|
| 7.  | 2020 (Second Half) Shenzhen Construction Engineering Safety Production and Civilised Construction Excellent Site Award* (2020年度下半年深圳市建設工程安全生產與文明施工優良工地獎) | Kaixuan Mansion (East Gate)* (凱旋府(東地塊))   | Shenzhen Construction Industry Association (深圳建築業協會)                              | 2020          |
| 8.  | 2020 (Second Half) Shenzhen Construction Engineering Safety Production and Civilised Construction Excellent Site Award* (2020年度下半年深圳市建設工程安全生產與文明施工優良工地獎) | Pingshan District Center for Disease Control and Prevention Project* (坪山區疾病預防控制中心項目)  | Shenzhen Construction Industry Association (深圳建築業協會)                              | 2020          |
| 9.  | 2020 (Second Half) Shenzhen Construction Engineering Safety Production and Civilised Construction Excellent Site Award* (2020年度下半年深圳市建設工程安全生產與文明施工優良工地獎) | #1 to #7 Buildings of Gongyi Country Garden Phase III* (鞏義碧桂園三期1#-7#樓)                | Shenzhen Construction Industry Association (深圳建築業協會)                              | 2020          |
| 10. | 2020 (Second Half) Shenzhen Quality Structural Engineering Award* (2020年度下半年深圳市優質結構工程獎)  | Kaixuan Mansion (East Gate)* (凱旋府(東地塊))   | Shenzhen Construction Industry Association (深圳建築業協會)                              | 2021          |
| 11. | 2020 (Second Half) Shangqiu Construction Engineering Safety Civilisation Standardisation Demonstration Site* (2020年下半年度商丘市建築工程安全文明標準化示範工地)               | Minquan Country Garden Phase III* (民權縣碧桂園三期)  | Shangqiu Housing and Urban-Rural Development Bureau* (商丘市住房和城鄉建設局)                | 2021          |
| 12. | Shangqiu Quality Structural Engineering Award* (商丘市優秀結構工程獎)  | Tower nos. 15 and 16 Buildings of Minquan Country Garden Phase III* (民權碧桂園三期15#、16#樓) | Shangqiu Housing and Urban-Rural Development Bureau* (商丘市住房和城鄉建設局)                | 2021          |
| 13. | 2021 (First Half) Henan Province Construction Engineering Quality Standardisation Demonstration Site* (2021年度上半年河南省建築工程質量標準化示範工地)                        | Minquan Country Garden Phase III* (民權縣碧桂園三期)  | Henan Provincial Department of Housing and Urban-Rural Development* (河南省住房和城鄉建設廳) | 2021          |
| 14. | 2021 (Second Half) Shenzhen Construction Engineering Safety Production and Civilised Construction Excellent Site Award* (2021年度下半年深圳市建設工程安全生產與文明施工優良工地獎) | Huanyinhu Reservoir Bidao of Luohu District* (羅湖區環銀湖水庫碧道建設工程)                         | Shenzhen Construction Industry Association (深圳建築業協會)                              | 2021          |

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| No. | Recognitions and awards   | Project name  | Awarding organization or authority  | Year of grant |
|-----|---|---|---|---------------|
| 15. | 2021 Dongguan City Housing and Municipal Engineering Safety Production and Civilised Construction Demonstration Site* (2021年東莞市房屋市政工程安全生產文明施工示範工地)              | Office Building No. 1, Xinqi Technology Industry Project* (新祺科技產業項目1號辦公樓)   | Dongguan Construction Industry Association (東莞市建築業協會)   | 2021          |
| 16. | Guangdong Province Construction Industry “AAA” Credit Enterprise* (廣東省建築業AAA級信用企業)  | N/A   | Guangdong Province Construction Association* (廣東省建築業協會)                                       | 2021          |
| 17. | 2021 Top 500 Enterprises in Shenzhen (2021深圳500強企業)   | N/A   | Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Entrepreneur Association (深圳市企業家協會) | 2021          |
| 18. | 2022 Guangdong Province Construction Engineering Excellent Structure Award* (2022年廣東省建設工程優質結構獎)   | Basement No. 6, Factory Building No. 3, Office Building No. 1, Xinqi Technology Industry Project (新祺科技產業項目1號辦公樓、3號廠房、6號地下室工程) | Guangdong Province Construction Association (廣東省建築業協會)  | 2022          |
| 19. | Shenzhen Construction Engineering Safety Production and Civilised Construction Excellent Site Award in the second half of 2022* (2022年下半年深圳市建設工程安全生產與文明施工優良工地獎) | Main Works of Fengjing Yufu Project (A520-0175) (峰境譽府項目(A520-0175)主體工程)   | Shenzhen Construction Industry Association (深圳建築業協會)  | 2022          |
| 20. | Shenzhen Construction Engineering Safety Production and Civilised Construction Excellent Site Award in the second half of 2022* (2022年下半年深圳市建設工程安全生產與文明施工優良工地獎) | Municipal Reconstruction Project of Un-transferred Municipal Public Transportation (未移交市政管理公共道路市政化改造項目工程)                     | Shenzhen Construction Association (深圳建築業協會)   | 2022          |

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| No. | Recognitions and awards  | Project name | Awarding organization or authority  | Year of grant |
|-----|--|--------------|---|---------------|
| 21. | “AAA” grade in the Certificate of Honest Supplier (誠信供應商證書), Enterprise Credit Rating Certificate (企業信用等級證書), Service and Credit Certificate (重服務守信用證書), Certificate of Compliance with Contract (重合同守信用證書), Quality and Credit Certificate (重質量守信用證書), and Credit Rating Certificate (資信等級證書) | N/A          | Yixu Credit Rating Limited* (宜旭信用有限公司)  | 2022          |
| 22. | “AAA” Integrity Management Demonstration Unit (AAA級誠信經營示範單位)   | N/A          | Yixu Credit Rating Limited* (宜旭信用有限公司)  | 2022          |
| 23. | 2022 Top 500 Enterprises in Shenzhen (2022深圳500強企業)  | N/A          | Shenzhen Enterprise Confederation (深圳市企業聯合會) and the Shenzhen Entrepreneur Association (深圳市企業家協會) | 2022          |
| 24. | Member Unit of Guangdong Construction Safety Association (Supreme Class/ First Class) in 2022* (廣東省建築安全協會會員單位(特級/一級))  | N/A          | Guangdong Construction Safety Association* (廣東省建築安全協會)  | 2022          |
| 25. | 2022 Excellent Organisational Unit of the National Digital Computer Room Installation Skills Competition (Guangdong Provincial Regional Selection) of the National Industry Vocational Skills Competition* (2022年全國行業職業技能競賽—全國數字化機房安裝技能競賽(廣東省地區選拔賽)優秀組織單位)                                     | N/A          | Guangdong Construction Industry Association* (廣東省建築業協會)   | 2022          |
| 26. | Honest and High-quality Enterprise in the Construction Market of Luohu District, Shenzhen (General Contracting Group for Municipal Public Works Construction) in 2022* (2022年度深圳市羅湖區建築市場誠信優質企業(市政公用工程施工總承包組))  | N/A          | Shenzhen Luohu District Housing and Construction Bureau* (深圳市羅湖區住房和建設局)                           | 2023          |
| 27. | 2022 Top 10 Enterprises of Construction Industry Output Value in Guangming District* (2022年度光明區建築業產值十強企業)  | N/A          | Guangming District Housing and Construction Bureau* (光明區住房和建設局)                                   | 2023          |

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| No. | Recognitions and awards   | Project name  | Awarding organization or authority  | Year of grant |
|-----|---|---|---|---------------|
| 28. | “AAA” Credit Enterprise (Supreme and Class 1 of General Contracting for Housing Construction) for Shenzhen Construction Enterprise Housing Construction Group in 2022* (2022年度深圳市建築施工企業房建一組(房建施工總承包特級、一級)AAA信用企業)   | N/A   | Shenzhen Construction Industry Association<br>(深圳建築業協會)   | 2023          |
| 29. | 2020 Top 100 Enterprises in the Comprehensive Competitiveness Evaluation of Shenzhen Construction Industry* (2020年度深圳市建築行業綜合競爭力評估百強企業)  | N/A   | Shenzhen Construction Industry Association<br>(深圳建築業協會)   | 2023          |
| 30. | Guangdong Province Housing and Municipal Engineering Safety Production and Civilised Construction Demonstration Site, and Provincial Construction Project and Construction Safety Production Standardisation Site in the first half of 2023* (2023年上半年廣東省房屋市政工程安全生產文明施工示範工地、省建設工程項目施工安全生產標準化工地) | Main Works of Fengjing Yufu Project (A520-0175) (峰境譽府項目(A520-0175)主體工程) | Guangdong Province Construction Safety Association* (廣東省建築安全協會)   | 2023          |
| 31. | Vice President Unit* (副會長單位)  | N/A   | Guangming Construction Science & Technology Industry Promotion Association, Shenzhen<br>(深圳市光明區建築科技產業促進會) | 2023          |

## LEGAL AND COMPLIANCE MATTERS

### Litigation and claims

During the Track Record Period, we may from time to time subject to legal proceedings, investigations and claims arising in the ordinary course of our business.

As at the Latest Practicable Date, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened arbitration, litigation or administrative proceedings against us.

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### Non-compliance

#### *Failure to make social insurance and housing provident fund contributions in full*

During the Track Record Period, we did not make contribution in full in respect of social insurance and housing provident funds for our employees (including existing and former employees), respectively.

#### *Reasons for the non-compliance*

The non-compliance is mainly caused by (i) our finance department at the relevant time being not fully familiar with the relevant regulatory requirements and made the social insurance and housing provident fund contribution based on local minimum wages; and (ii) certain of our employees were unwilling to make such social insurance contributions.

#### *Legal consequences including potential maximum penalty*

As advised by our PRC Legal Advisers, from 1 July 2011, if an employer fails to pay its social insurance contribution in accordance with the Social Insurance Law of the PRC (中華人民共和國社會保險法), the regulator may order it to pay the overdue amount within a prescribed time limit and impose an overdue fine equivalent to 0.05% of the overdue amount per day. If the employer still fails to pay within the prescribed time limit, the regulator may impose a fine of one to three times of the overdue amount. If an employer fails to pay its housing provident fund contributions in accordance with the Regulations on the Administration of Housing Provident Fund\* (住房公積金管理條例), the regulator may order for payment of contribution within the prescribed time limit, failing which the regulator may apply to the People’s Court of compulsory enforcement.

Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that:

- (i) we have obtained a letter of confirmation from the Social Insurance Fund Administration Bureau of Shenzhen Municipality (深圳市社會保險基金管理局) dated 19 July 2022 confirming that we would not be required to pay the shortfalls with respect to social insurance and/or therefore subject to any penalty and we had not been penalised for violating the laws and regulations for social insurance. As advised by our PRC Legal Advisers, the Social Insurance Fund Administration Bureau of Shenzhen Municipality has the authority and is competent to make the aforesaid confirmation;
- (ii) our PRC Legal Advisers interviewed Shenzhen Housing Provident Fund Management Center (深圳市住房公積金管理中心) on 27 May 2022 and obtained confirmation that we had not been penalised for violating the laws and regulations for housing provident fund since 1 January 2019. As advised by our PRC Legal Advisers, the Shenzhen Housing Provident Fund Management Center has the authority and is competent to make the aforesaid confirmation;

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- (iii) as at the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay material shortfalls with respect to social insurance and housing provident funds;
- (iv) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date;
- (v) we were not aware of any material employee complaints nor were involved in any material labour disputes with our employees with respect to social insurance and housing provident funds;
- (vi) our Controlling Shareholders have undertaken to fully indemnify our Group in respect of any damages, losses and liabilities arising out of or in connection with any of the non-compliance matters; and
- (vii) we have made adequate provisions in the amount of approximately RMB0.6 million, RMB0.7 million, RMB0.1 million and nil, respectively, during the Track Record Period for the unpaid amount of housing provident fund contributions respectively.

Our PRC Legal Advisers are of the view that the possibility of Zhongshen Jianye being penalised by the Social Insurance Fund Administration Bureau of Shenzhen Municipality in relation to the social insurance is remote. Our PRC Legal Advisers are of the view that, if we have received any employee’s demands for payment of housing provident fund contributions, or any notification from the relevant PRC authorities demanding payment of the same and we make the relevant payments within the prescribed time limit, the risk for being penalised by Shenzhen Housing Provident Fund Management Center in relation to the housing provident fund contributions is relatively lower.

Our Directors are of the view that, based on the above reasons, such non-compliance would not cause any material adverse financial and operational impact on us.

### **Indemnity given by our Controlling Shareholders**

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify our Group in respect of any damages, losses and liabilities arising out of or in connection with any of the non-compliance matters detailed above or any claims and legal actions that may be brought against our Group in respect of any occurring up to the [REDACTED]. Further information of which is set out in the section headed “D. Other information — 1. Tax and other indemnities” in Appendix IV to this document.

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### INTERNAL CONTROL MEASURES

#### (a) Implementation of internal control measures over compliance issues

To ensure ongoing compliances with applicable laws and regulations upon the [REDACTED] and to prevent recurrence of non-compliance incidents in the future, our Group has implemented and adopted the following enhanced internal control measures:

##### *New and Revised Internal Control Measures*

Our Group has adopted the following remedial measures. Since March 2022, our Group has made sufficient social insurance and provident funds contributions for all its employees.

##### 1. *Regular Regulatory Requirement Update*

The legal department would be responsible for regularly reviewing and updating the management the latest requirement regarding social insurance and provident funds in accordance with Labour Law of the PRC (中華人民共和國勞動法), Social Insurance Law of the PRC (中華人民共和國社會保險法) and Regulations concerning the Administration of Housing Provident Fund\* (住房公積金管理條例).

##### 2. *Execution*

The human resource department would be responsible for ensuring the monthly calculation and payment of social insurance and provident fund contributions are made in accordance with the latest regulation requirement.

##### 3. *Oversight Reporting*

Our finance manager would be responsible for updating the Board through monthly management report of key financial, compliance and operation information of the Group, including the ongoing compliance status regarding social insurance and provident funds.

##### 4. *Independent Monitoring*

The internal audit department would be responsible for reviewing the key controls and risks relating to social insurance and provident funds. The Board has instructed the Internal audit department to include such areas into the latest internal audit plan.

The Board believes these preventive, detective, and monitoring measures, performed by various management functions, are effective and adequate in remediating the issue and preventing the future occurrence of similar events.

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### **(b) Internal control review by the internal control consultant**

In December 2021, we engaged Moore Advisory Services Limited as our independent internal control consultant (the “**Internal Control Consultant**”) to perform a comprehensive review of our Group’s internal control system (the “**Internal Control Review**”). The scope of Internal Control Review performed by the Internal Control Consultant includes both (i) entity-level governance, such as governance structure and listing rules compliance control; and (ii) activities-level controls, covering key business processes of the Group, including but not limited to revenue and tendering and project management, revenue and trade receivables, procurement, subcontracting and accounts payable, human resource management, cash flow and treasury management, financial reporting and budgeting. The Directors are of the view that the scope has a reasonable coverage and commensurate with the business model, activities and risk level of the Group. The Internal Control Consultant has further conduct reviews (the “**Internal Control Expert Review**”) with respect to the non-compliance incidents identified above. The Internal Control Consultant has made recommendations to the Management of the Company for the purpose of assisting the Group in (i) building a risk management and internal control system that can reasonably manage key risks encountered by the Group to a reasonable level; and (ii) establishing relevant policies and procedures that can reasonably prevent (inclusive timely detect) future occurrence of the said material non-compliance issue. The Internal Control Expert Review was conducted by the Internal Control Consultant regarding our Group’s newly adopted policies and the implementation status of our improved internal control in relates to the non-compliance matters identified above. Save for the internal control issues relating to the above stated material non-compliance, the Internal Control Consultant did not identify any other material internal control weaknesses. The Group has also implemented remedial issues with reference to the recommendations made by the Internal Control Consultant and in accordance with the associated risk level. Our Group has adopted and implemented all of the major recommendations. The Internal Control Consultant had performed a follow-up review subsequently to review our Group’s newly adopted policies and the implementation status of our improved internal controls. According to the result of the last follow-up review completed on 10 August 2023, all necessary key controls and newly adopted measures of our Group were effectively designed and implemented from their respective implementation dates up to 30 June 2023. After considering our remedial actions and results of the reviews by the Internal Control Consultant, our Directors are of the view that these enhanced internal control measures are adequate and effective under the Listing Rules to ensure ongoing compliance with the relevant laws and regulations by our Group. The Sole Sponsor, on similar basis as our Directors, concurs with our Directors’ view.



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## **BUSINESS**

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### **RISK MANAGEMENT**

Key risks relating to our business operation are set out in the section headed “Risk factors” in this document. The following sets out the key measures adopted by us under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operations:

#### **Liquidity risk**

Please refer to the section headed “Financial information — Financial risk management” of this document.

#### **Credit risk**

Please refer to the paragraph headed “Customers, sales and marketing — Credit policy and credit management” in this section and the section headed “Financial information — Financial risk management” in this document.

#### **Risk of potential inaccurate cost estimation and cost overruns**

Please refer to the paragraph headed “Customers, sales and marketing — Pricing policy” in this section.

#### **Quality control risk**

Please refer to the paragraph headed “Quality control and management” in this section.

#### **Risk relating to performance of our subcontractors**

Please refer to the paragraph headed “Raw materials, equipment and machinery, and subcontracting suppliers — Subcontracting” in this section.

#### **Occupational health and safety risk**

Please refer to the paragraph headed “Social matters — Occupational health and safety” in this section.

#### **Environmental compliance risk**

Please refer to the paragraph headed “Environmental matters” in this section.

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### **Regulatory risk management**

#### *Anti-corruption and anti-bribery measures*

We adopt a zero-tolerance approach to bribery and corruption and are committed to acting fairly and with integrity in all our business dealings and relationships wherever and whenever operate. In order to comply with the applicable laws and regulations in relation to anti-corruption and anti-bribery, we have established and implemented anti-corruption and anti-bribery policy and measures to prohibit all forms of bribery-and-corruption acts or intention of such acts, specifically summarised below:

- i. soliciting or accepting any advantages from others as a reward for or inducement to doing any act in relation to our Group’s business;
- ii. offering any advantage to an agent of another as a reward for or inducement to doing any act in relation to the latter’s business;
- iii. offering any advantage to a government or public servant as a reward for or inducement to performing any act in his/her official capacity, or while having business dealings with the government department or public body he/she belongs to;
- iv. our directors and staff soliciting or accepting advantages from persons having business dealings with them (e.g. suppliers and contractors); and
- v. the offering of advantages to the directors/staff of other companies having business dealings with our Group.

The policy also sets out the approach of dealing with any potential conflicts of interest, the requirements of a company-wide anti-bribery-and-corruption training and disciplinary actions to be taken in situation of violation of the policy and/or relevant laws and regulations, including termination of employment/service and bringing forward to legal proceedings.

We have also put in place a whistle-blowing system which is overseen by the Audit Committee, serving as a deterrence and monitoring over fraud, misconduct, malpractices and noncompliance.

#### *Corporate governance measures*

We will comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. We have established three Board committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee, with respective terms of reference in compliance with the Corporate Governance Code. In particular, one of the primary duties of our Audit Committee is to review the effectiveness of our internal audit activities, internal controls and risk management systems and to develop and review our policies and practices on corporate governance. For further details of the three board committees, please refer to the section headed “Directors and senior

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management — Board committees” in this document. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code every financial year.

***Risk management relating to compliance with the Listing Rules after [REDACTED]***

In order to ensure continuous compliance with the Listing Rules after [REDACTED], our Directors attended training sessions conducted by our Hong Kong legal advisers, Cheung & Choy, on the ongoing obligations and duties of a director of a company whose shares are listed on the Stock Exchange. We have also appointed Kingsway Capital Limited as our compliance adviser to advise us on compliance issue.

After [REDACTED], our executive Directors will be responsible for overseeing our compliance issues. When considered necessary and appropriate, we will also seek professional advice and assistance from independent professional advisers with regards to matters relating to our legal compliance.