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## RISK FACTORS

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*You should carefully consider all information set out in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that all of our operations are conducted in the PRC and are governed by a legal and regulatory environment that differs from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**Our business operations, working capital and cash flow position may be adversely affected if our customers delay in processing payment or fail to settle our bills.**

Our working capital, future operations and cashflow largely depend on the timely settlement of the payments by our customers. Our major projects generally take three years or more to complete. Moreover, even after we have completed the work required, the process of the settlement audit as well as the internal procedure for our customers to settle their payments to us afterwards may take years to complete, especially for some Government-related Entities customers, which require a longer settlement audit period as the internal approval processes for Government-related Entities customers are generally more complicated and require multiple rounds of negotiations with multiple levels of responsible persons to determine the final settlement. Therefore it may take more than four years for us to receive the corresponding payments for our construction work, which may affect our working capital and cash flow position. If we experience late payments from our customers, our trade and bill receivables will increase.

Moreover, according to the data published by the Ministry of Finance, the general public budget income of PRC local governments in 2022 amounted to approximately RMB10.9 trillion, representing a decrease of approximately 2.1% as compared to that in 2021; and the general public budget expenditure of PRC local governments in 2022 amounted to approximately RMB22.5 trillion, representing an increase of approximately 6.4% as compared to that in 2021. For FY2019, FY2020, FY2021 and 3Q2022, approximately RMB662.9 million, RMB453.3 million, RMB447.7 million and RMB676.5 million of our revenue was generated from Government-related Entities, representing approximately 36.4%, 25.6%, 24.6% and 49.5% of our total revenue during the same period, respectively. The amount of trade receivables attributable to Government-related Entities was approximately RMB226.2 million, RMB216.6 million, RMB266.3 million and RMB252.1 million as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively, representing 47.2%, 42.2%, 58.8% and 64.0% of the trade receivables as at the same date, respectively. The amount of contract assets attributable to the Government-related Entities was approximately

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RMB669.3 million, RMB669.6 million, RMB638.5 million and RMB663.8 million as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively, representing 56.8%, 54.3%, 52.2% and 55.8% of the contract assets as at the same date, respectively. Given the contribution of our Government-related Entities customers on our revenue, trade receivables and contract assets during the Track Record Period, if the fiscal conditions of the PRC local governments continue to deteriorate, they may reassess or adjust the future budget on construction works and engage in less construction works, or may delay the settlement of trade receivables and contract assets to us.

Further, we would make payments in advance for procuring construction materials, equipment and labour at the beginning of a project or before achieving certain project milestones. As such, if our customers fail to make timely payments or are in default in making payments or if there is a lapse in time between our receipt of payments from our customers and our payments due to our suppliers, our results of operations would be adversely affected and our working capital would be reduced. In the event that we are unable to generate sufficient cash flow from our operations or are otherwise unable to obtain sufficient funds to bridge the temporary cash flow mismatch, our liquidity and financial condition may be materially and adversely affected.

Our trade and bills receivables (gross) amounted to approximately RMB488.8 million, RMB518.7 million, RMB453.8 million and RMB394.6 million as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively, representing 26.2%, 26.3%, 24.1% and 21.7% of our total assets, respectively. As at 31 December 2019, 2020, 2021 and 30 September 2022, the provision for impairment of trade and bills receivables amounted to RMB6.0 million, RMB8.8 million, RMB8.3 million and RMB7.8 million, respectively, accounting for 1.2%, 1.7%, 1.8% and 2.0% of our trade and bills receivables, respectively. For each of FY2019, FY2020, FY2021 and 3Q2022, our average trade and bills receivables turnover days were 76.9 days, 103.9 days, 97.3 days and 85.1 days, respectively. Our average trade and bills receivables turnover days increased from 76.9 days for FY2019 to 103.9 days for FY2020 when compared with that of FY2019 mainly because a number of projects have completed their settlement audit during FY2020, thus we were entitled to bill a larger amount of contract assets and our trade receivables as at 31 December 2020 were proportionately larger, leading to a higher trade and bills receivables turnover day for FY2020. Our trade receivables aged over one year based on invoice dates and on due dates amounted to RMB107.1 million and RMB20.1 million as at 31 December 2021, respectively. Our trade receivables (net of impairment loss) aged over one year based on invoice dates and on due dates amounted to RMB114.4 million and RMB33.5 million as at 30 September 2022, respectively. For further details, please refer to the section headed “Financial Information — Discussion on selected items of consolidated statements of financial position — Trade, bills and other receivables” in this prospectus. We cannot assure you that we will be able to collect all or any of our trade and bill receivables and we may record impairment losses on such receivables in the future, which may materially and adversely affect our business, results of operations and financial conditions.

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**If we are unable to fully recover our contract assets or if retention money is not fully released to us after expiry of the warranty period, our liquidity and financial position may be adversely affected.**

Contract assets represent our right to consideration for work completed at the reporting date on revenue related to the provisions of construction services. Contract assets are recognised when our Group recognises revenue before being unconditionally entitled to the consideration under the payment terms as set out in the contract (such as upon completion of settlement audit). For details of the billing progress and accounting treatments of our construction projects, please refer to the section headed “Financial Information — Significant factors affecting our financial condition and results of operations — Billing progress and accounting treatments of our construction projects” in this prospectus. Contract assets are transferred to receivables when the rights to the consideration has become unconditional which usually occurs when we bill the customers. Our Group recorded contract assets of approximately RMB1,173.5 million, RMB1,227.2 million, RMB1,216.1 million and RMB1,179.0 million as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively.

We cannot assure you that the financial position of our customers will remain solvent or that our customers will settle our progress payments or release the retention money on time or that we will be able to recover our contract assets in full or at all in the future. If we are unable to receive our progress payments and retention money or recover our contract assets, our liquidity and financial position may be materially and adversely affected.

**If we are unable to perform our contracts with customers and unable to fulfil our obligation in respect of contract liabilities, our financial position and results of operations may be adversely affected.**

We may receive advance payment from our customers for providing construction contracting services on a case-by-case basis, giving rise to contract liabilities. As at 31 December 2019, 2020, 2021 and 30 September 2022, our contract liabilities amounted to RMB29.1 million, RMB37.2 million, RMB25.0 million and RMB50.1 million, respectively. For details, please refer to the section headed “Financial Information — Discussion on selected items of consolidated statements of financial position — Contract assets and contract liabilities — Contract liabilities” in this prospectus. If we fail to fulfil our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the payments we have received, which may adversely affect our cash flow and liquidity position and our ability to meet our working capital requirements and in turn, our financial position and results of operations.

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**Our working capital, liquidity and financial condition may be adversely affected if we do not maintain comparable level of responsibility deposits from the persons-in-charge of our construction projects.**

We had put in place a project management responsibility system for better monitoring of our construction projects, which the person(s)-in-charge of our construction projects place responsibility deposits to us. We assess each project individually in determining whether a project should be managed under the project management responsibility system and if so, the minimum amount of responsibility deposits and the minimum number of person(s)-in-charge we require for the project. As at 31 December 2019, 2020 and 2021 and 30 September 2022, approximately 52.6%, 35.5%, 30.1% and 23.1% of our projects (in terms of numbers) and approximately 56.1%, 70.8%, 56.3% and 43.4% of our projects (in terms of contract sum), respectively, are managed under the project management responsibility system. For further details, please refer to the section headed “Business — Operation process — Project implementation phase — Project management — Project management responsibility system” in this prospectus.

As at 31 December 2019, 2020 and 2021 and 30 September 2022, responsibility deposits of approximately RMB32.3 million, RMB36.4 million, RMB34.8 million and RMB25.3 million, respectively, were placed by the persons-in-charge to our Group, representing approximately 40.0%, 47.4%, 39.1% and 19.9% of our Group’s cash and cash equivalents as at the same date. If we receive significantly less amount of responsibility deposits from the persons-in-charge under the project management responsibility system or if we cease to put in place the project management responsibility system, our working capital may be reduced. In the event that we are unable to generate sufficient cash flow from our operations or are otherwise unable to obtain sufficient funds, our liquidity and financial condition may be materially and adversely affected.

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

We recorded net cash used in operating activities of RMB23.5 million for 3Q2022, primarily due to the decrease in trade and bills payables of approximately RMB298.5 million, partially offset by the increase in accruals and other payables of approximately RMB79.6 million and the decrease in trade, bills and other receivables of approximately RMB53.2 million. For further details, please refer to the section headed “Financial Information — Liquidity and capital resources — Cash flows” in this prospectus. Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements.

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While we believe we have sufficient working capital to fund our current operations, we may, however, experience net cash outflows from our operating activities in the future. If we are unable to maintain adequate working capital, we may default in our payment obligations and may not be able to meet our capital expenditure requirements or pursue our growth strategies, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

**Discontinuation of any of the preferential tax treatments we enjoy or imposition of any additional taxes can adversely affect our financial conditions and results of operations.**

Pursuant to the EIT Law, the EIT rate generally applicable in the PRC has been 25% since 1 January 2008. However, Zhongtian Construction, our principal operating subsidiary, was certified as a High and New Technology Enterprise (高新技術企業) in October 2018 and enjoyed a preferential enterprise income tax rate of 15% for FY2018, FY2019 and FY2020. Zhongtian Construction successfully renewed its status of a High and New Technology Enterprise (高新技術企業) in September 2021, and is entitled to the preference income tax rate of 15% for FY2021, FY2022 and FY2023. The preferential tax treatment will expire on 17 September 2024 unless the High and New Technology Enterprise Certificate (高新技術企業證書) is renewed in FY2024. If Zhongtian Construction fails to maintain or renew the High and New Technology Enterprise certification or the PRC government changes its tax policy of supporting new technology development, the applicable EIT rate would increase to 25%, which can have an adverse effect on our financial condition and cash flow position.

**We have limited control over the quality, availability and costs of our subcontractors and subcontracted workers.**

We subcontract certain of our construction services from time to time and engage labour subcontractors to provide labour to conduct manual work in the course of our project execution. Despite the fact that we regularly monitor and conduct quality check on the performance of our subcontractors and subcontracted workers, we cannot guarantee the service quality provided by our subcontractors. We are exposed to legal liabilities if we are not able to monitor the performance of our subcontractors as efficiently as commensurate to our own staff, or if our subcontractors violate any laws, rules or regulations in relation to environmental protection, and health and safety matters regulations, which may affect their renewal of relevant registrations or licences or may even lead to revocation of their registrations or licences.

In addition, the subcontracting arrangement also exposes us to risks associated with any non-performance, delayed performance or sub-standard performance by our subcontractors or their respective employees. If this happens to our subcontractors in our projects, we will have to appoint replacement subcontractor(s) and additional costs will be incurred. We may also incur additional costs or be subject to liability due to delay in schedule or defect in the works of our subcontractors

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or if there is any accident causing personal injuries or death of our subcontractors' employees. In addition, our inability to hire qualified subcontractors may hinder our ability to complete a project successfully.

These events may impact upon our profitability, financial results and reputation, as well as result in litigation or damage claims.

### **There is uncertainty as to the tender success rate of our Group in the future.**

Due to our industry nature, all of our revenue is derived from contracts awarded through tendering and such contracts are not recurring in nature. During the Track Record Period, a vast majority of our revenue were generated from projects that were awarded by either public tender or invitation by tender. Our Group's tender success rates for FY2019, FY2020, FY2021 and 3Q2022 were approximately 28.1%, 19.2%, 25.5% and 10.6%, respectively. After the Track Record Period and up to the Latest Practicable Date, our tender success rate was approximately 15.2%. We cannot guarantee that we will be invited to participate in the tender process and even if we are invited, our tender success rate is influenced by the following factors which may be out of our control, including (i) our Group's project capacity; (ii) the number of tenders submitted by our Group and (iii) the pricing and other terms and conditions offered by our competitors. Therefore, we cannot assure you that we will succeed in the tender process and we may not be able to maintain or increase our tender success rate. Moreover, we may not be awarded with new contracts by our customers upon expiry of the existing contracts. If our Group is not able to maintain the current tender success rate, or if we are unable to secure new projects with a contract sum similar to or larger than the contract sum of our current projects on a continuous basis, our revenue and operation may be materially and adversely affected.

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

We are vulnerable to changes in market prices and the availability of our raw materials. Our principal raw materials include steel, cement, concrete and gravel. Our raw materials represent a substantial portion of our cost of sales. For FY2019, FY2020, FY2021 and 3Q2022, costs of our raw materials represented 48.6%, 43.5%, 39.5% and 43.7% of our total cost of sales, respectively. Raw materials prices depend on a variety of factors beyond our control, including the global and PRC economy and related government policies, climatic change and industry demand. For example, according to the F&S Report, the price index of steel in China increased from 84.8 in 2016 to 131.70 in 2021 while the price index of concrete increased from 93.5 in 2016 to 157.20 in 2021. We cannot guarantee that the price of our raw materials will remain at the current level and

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will not be in shortage. In addition, we may not be able to shift the price increase to our customers in a timely manner or at all. If there is shortage of raw materials or fluctuation of their prices, our costs of sales may increase and our results of operations may be adversely affected.

**Any material discrepancies between the estimated costs and the actual costs ultimately incurred may adversely affect our financial conditions and result of operations.**

We determine the tender price based on among other things, our cost analysis. As it is difficult to predict the costs accurately at the outset, cost overruns may be resulted due to the evolving macroeconomic conditions, variations in labour and equipment productivity, price fluctuations of raw materials, cost fluctuations of labour and unforeseen project conditions. Cost overruns may result in lower profits or even a loss in spite of any buffers we may have built into the contract value to safeguard against the increase of costs. Some of our contracts may have a price adjustment mechanism, which allows adjustment of price in certain circumstances. For details, please refer to the section headed “Business — Operation process — Project preparation phase — Price determination and costs management” in this prospectus. However, we cannot guarantee that the price adjustment clause could adequately cover the amount of increased costs. In the event that our actual costs significantly exceed our estimated costs and the price adjustment mechanism is not adequate to cover the increased costs, our financial conditions and results of operations could be materially and adversely affected.

During the Track Record Period, there were seven loss-making projects out of 164 projects which has completed construction during the Track Record Period. The total contract sum for these projects was approximately RMB63.5 million and the total net loss recorded for these projects during the Track Record Period was approximately RMB1.9 million. Save as disclosed above, our Group did not have any other loss-making projects which has completed construction during the Track Record Period.

**Our borrowings and significant interest payment obligations could limit our working capital required for our business operations.**

We fund the working capital required for our business operations and capital expenditure mainly through cash generated from operations and interest-bearing bank and other borrowings. As at 31 December 2019, 2020, 2021 and 30 September 2022, our borrowings amounted to approximately RMB76.2 million, RMB65.6 million, RMB66.9 million and RMB142.8 million, respectively. For further details, please refer to the section headed “Financial Information — Indebtedness” in this prospectus. We cannot assure you that we will be able to renew existing borrowings upon expiry, or secure new borrowings from banks or other financial institutions, whether on commercially acceptable terms or not. If the banks and other financial institutions providing existing borrowings do not continue to extend similar or more favourable facilities to us

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and we fail to obtain alternative borrowings on comparable terms or at all, our construction projects may result in delay, our operation and expansion may be curtailed and we may be forced to give up certain business opportunities. As a result, our business, financial position and results of operations will be adversely affected.

**If there is disagreement on the value of the works performed by our Group, we may have profit lower than the estimated profits or incur losses on contracts.**

Disagreement may arise between us and our customers as to the value of work performed and the progress billing that we are entitled to in the relevant period. The value of our work done is generally ascertained with reference to the scope of work and fees specified in the contracts or determined by the mechanism specified in the contracts. However, we and our customers may have different assessment as to the valuation of the works performed. Any dispute regarding the value of the work performed may prolong our payment application, which may affect our liquidity and financial position.

There is no assurance that we will be able to recover the disputed cost of the works performed under such circumstances in full, and we may not be able to maintain the same or similar profit margins under such circumstances, resulting in adverse effect on our financial condition and results of operations.

**Failure to comply with relevant laws and regulations could materially affect our business operations.**

We are subject to extensive laws and regulations at the national and local levels, which govern various aspects of our operations. Despite the implementation of the internal control measures, we cannot assure you that our measures are sufficient and effective to protect our Group from violation of laws and regulations in the PRC. Certain legal uncertainties, inconsistent interpretations and enforcement of current PRC laws and regulations, rapid changes in the relevant laws and regulations and their interpretation and enforcement may expose us to risk of non-compliance of the laws and regulations. We may be subject to administrative or regulatory fines and penalties, including the suspension or revocation of our licences, if non-compliance is identified and our operations may be hindered or halted, which could have a material and adverse effect on our business and results of operations. During the Track Record Period, we entered into interest bearing loans with our related parties which do not comply with the General Rules for Loans (貸款通則) promulgated by the People's Bank of China. For more information, please refer to the section headed "Business — Legal and regulatory — Non-compliance incidents" in this prospectus. As advised by our PRC Legal Advisers, the maximum penalty for non-compliance of



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the General Rules for Loans (貸款通則) promulgated by the People's Bank of China would be up to five times of the income deriving from such loan. Should the non-compliance loan arrangements incur any claim or penalty, our results of operation may be adversely affected.

**Failing to maintain or renew material qualifications, operating licences, certificates and permits could affect our business operations and results of operations.**

Since we operate a heavily regulated business, we are required to maintain and renew a number of qualifications, operating licences, certificates and permits. For details of the material qualification, operating licences and permits possessed by our Group, please refer to the section headed “Business — Licences, qualifications and permits” in this prospectus. To maintain or renew such qualifications, operating licences, certificates and permits, our Group may subject to inspections, examinations and inquiries by the relevant government authorities. We cannot guarantee that we will be able to maintain or renew the requisite qualifications, operating licences, certificates and permits or comply with the new requirements for maintaining those qualifications, operating licences, certificates and permits if new laws and regulations are promulgated or the existing laws and regulations are amended. Failure in renewing any material qualifications, operating licences, certificates and permits may prevent us from undertaking or carrying certain types of projects or works or we may be subject to penalties or may incur additional costs. As a result, our business, financial condition and results of operations may be adversely affected.

**We may not be able to complete a construction project in a timely manner.**

The following factors may lead to project delays:

- suspension of the construction of certain outdoor projects owing to unexpected adverse weather conditions such as inclement weather, prolonged precipitation and extreme temperature;
- temporary halt of the construction of certain outdoor projects ordered by authorities under severe air pollution;
- unexpected natural disasters and other operating hazards such as earthquakes, floods, typhoons, landslides or fire;
- outbreak, epidemic and/or pandemic of (or the escalation and/or intensification of any outbreak, epidemic and/or pandemic of) infectious or contagious diseases (such as the avian influenza A (H5N1), swine influenza (H1N1), Severe Acute Respiratory Syndrome (SARS) or COVID-19) and/or other adverse public health development in the PRC;

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- failure to obtain various regulatory approvals, licences or permits from government agencies as scheduled;
- delivery delays caused by shortages of key equipment, materials or labour;
- quality problems with equipment;
- suspension of water and electricity supplies;
- unexpected engineering, design, environmental or geological problems; and
- failure to obtain sufficient bank loans or other financing on favourable terms, or at all.

All of the above situations may result in our inability to meet the key milestones as agreed in the construction contracts and thus delays in the target completion date for the concerned projects. Moreover, the extreme weather conditions, natural disasters and operating hazards may also cause damages to our construction projects which are in progress, and additional time and costs may be incurred to repair those destructions. Any delay in construction projects that is resulted by other than force majeure events could impair our ability to meet our contractual obligations and cause us to be liable for damages or cause our customers to cancel orders, any of which could negatively affect our reputation, business and results of operations. We cannot assume that we can always complete our projects in time in the future and if this occurs, we may be held liable for the delay in schedule and therefore be required to make compensation to our customers for their losses in the future. Further, any delay in achieving key milestones of a construction project or completing a construction project could result in a delay or a reduction of payment of the contract value by our customers and hence our business operations and financial condition will be materially and adversely affected.

### **The outbreak of COVID-19 or any other severe communicable disease could adversely affect our Group's financial positions and results of operations**

Our business could be materially and adversely affected by widespread epidemic of COVID-19 or other communicable disease such as Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), H5N1 flu, H7N9 flu, H1N1 flu and Ebola virus. Our operations could also be disrupted if any of our employees were suspected of contracting or contracted an epidemic disease, since this could require us to quarantine some or all of our employees and disinfect the buildings or sites. Moreover, the outbreak may also result in shortage of raw materials and labour and may cause temporary suspension of our construction projects which may result in the delay of our construction projects. In addition, the outbreak may also severely affect and restrict the level of economic activity as the government may impose

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regulatory or administrative measures quarantining affected areas or other measures to control or contain the outbreak of the severe communicable diseases. Any economic downturn and travel restrictions as a result of severe communicable diseases may result in delay in payment from our customers and/or termination of projects. Should any such events occur, our financial positions and results of operations may be adversely affected. During the Track Record Period, all of our construction projects which are on-going immediately before the outbreak of COVID-19 had encountered suspension for around 37.1 days on average due to the outbreak of COVID-19 and have resumed on or before 1 April 2020. For details, please refer to the section headed “Summary — Recent development — The impact of the COVID-19 outbreak” in this prospectus.

**Our Chinese company name may be identical or similar to other companies in the construction industry established in the PRC.**

The Chinese company name of our Company and our subsidiaries contain “中天” (Zhongtian). In particular, Zhongtian Construction, our major operating subsidiary, has been using “中天” (Zhongtian) in its name since 2004. As at the Latest Practicable Date, we have not registered any trademark containing “Zhongtian” or “中天” in the PRC and have registered six trademarks in Hong Kong which contain the words “中天” and/or “Zhongtian”. For more information on our intellectual property rights, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix V to this prospectus. Meanwhile, there are many PRC and Hong Kong companies whose names contain “中天” (Zhongtian), including companies in the construction industry.

As the general public may not be able to differentiate us and other companies whose names contain “中天” (Zhongtian), if these companies are subject to any complaint, litigation, regulatory action or other negative publicity, our reputation, market recognition, business, growth prospect, results of operation and financial condition could be adversely affected.

We may also be subject to dispute over the use of company name(s) containing “中天” (Zhongtian) with other companies whose names contain “中天” (Zhongtian). We cannot guarantee that we will be able to resolve such disputes in our favour. For details of the potential liability that may arise from the use of “中天” (Zhongtian) in our company names, please refer to the section headed “Business — Intellectual property” in this prospectus. If any of such dispute arose against us, even if groundless, our reputation, market recognition and business could be adversely affected.

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

We rely upon a combination of patents, trademarks and domain names to protect against infringement. As at the Latest Practicable Date, we have registered 31 patents and one domain name in the PRC while three patent applications were under review in the PRC. As at the Latest Practicable Date, we have also registered six trademarks in Hong Kong which contain the words “中天” and/or “Zhongtian”. For more information on our intellectual property rights, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix V to this prospectus.

We may have to resort to litigation to enforce our intellectual property rights and protect our proprietary information. Similarly, we may also face litigation for infringement of the intellectual property rights of third parties, whether with merits or not. In particular, there are many PRC and Hong Kong companies whose names contain “中天” (Zhongtian), including companies in the construction industry established in the PRC, and we may be subject to litigation regarding infringement of intellectual property rights and/or passing off commenced by such companies, whether with merits or not. Any legal proceeding, litigation or claim, brought by us or against us, can incur additional costs, divert our management’s attention and resources and hence may undermine our profitability. In case of unfavourable determination of any legal proceeding, litigation or claim, our business, financial condition and results of operations could be adversely affected. If any third party commence litigation against us claiming for infringement of their intellectual property rights and/or passing off, even if groundless, our reputation could be adversely affected.

In addition, we cannot guarantee our employees will not breach the employee confidentiality agreements and therefore cannot ensure that there will not be any misappropriation of proprietary information. Any case of such misappropriation may result in a decrease in our revenue and a decline in our competitiveness.

**Backlog may not be indicative of our future results of operations.**

We have provided our contract backlog amount, which represents the aggregate value of the construction contracts we have executed as at certain dates, less revenue already recognised in connection with such contracts up to and including the same date. For details of the contract backlog amount, please refer to the section headed “Business — Our business operations — Backlog and new contract value” in this prospectus. It gives an indication of the value of work contracted for and yet to be completed and the revenue expected to be recognised in the future. The values are calculated based on the assumption that the construction contracts will not be terminated and will be performed in full in accordance with the terms. However, we are subject to

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risks that the contracts may be modified, cancelled or even terminated under certain circumstances which may be out of our control, including, project delays and failure to settle the contract value by our customers. We cannot assure you that the contract backlog amount can accurately reflect our actual earnings in the future. We also cannot guarantee that our backlog amount will be recognised timely, or at all, or that our backlog amount once recognised will result in profits. Therefore, our backlog information as at 31 December 2019, 2020 and 2021 and 30 September 2022 and as at the Latest Practicable Date may not be an accurate indicator of our future results of operations and earnings.

**Our historical financial and operating results may not be indicative of future performance, and we may not be able sustain the historical level of revenue and profitability.**

For FY2019, FY2020, FY2021 and 3Q2022, our revenue accounted for approximately RMB1,821.9 million, RMB1,769.9 million, RMB1,823.4 million and RMB1,366.0 million, respectively, while our net profit accounted for approximately RMB50.9 million, RMB49.6 million, RMB61.9 million and RMB51.2 million, respectively, representing a CAGR of 10.3% from FY2019 to FY2021. Such trend of historical financial information of our Group is merely an analysis of our past performance and does not have any implication or may not necessarily reflect our financial performance in the future. Our future financial performance largely depends on our capability to secure new contracts, maintain our relationships with our existing customers and keep our costs at a level comparable to the current level. We cannot assure you that such growth rate can be sustained and if our Group experiences any stagnant or negative growth in the future, our profitability will be adversely affected.

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

We believe our success depends, to a significant extent, on the services and effort of our senior management and key personnel and our ability to attract, retain and motivate them. We compete with other construction contracting companies for experienced personnel. If the terms of the service agreements of our senior management and key personnel expire, we may not be able to retain those personnel due to such intense competition. The loss of service of any personnel holding an important position or possessing industry expertise or experience, especially those specialised key technical personnel, could have an adverse impact on our business operations. Further, owing to the intense competition, we cannot guarantee that we will be able to recruit sufficient personnel with comparable qualifications and experience timely. As such, our business and growth may be hindered.

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**We may be unable to detect, deter and prevent misconduct by our employees, customers, suppliers, subcontractors and other third parties.**

Fraud or other misconduct including, among others, acceptance of kickbacks, bribes or other illegal benefits or gains by our employees at different levels of our Group, whether individually or in collusion with other employees, customers, suppliers, subcontractors or other third parties, could reduce our operational efficiency and business performance, and may even result in violations of laws by our Group, third party claims and regulatory actions against our Group and serious reputation or financial harm to our Group. We cannot assure that all of our employees will fully comply with our internal control procedures and systems when performing their duties. In addition, we may also be subject to misconduct by third parties such as our customers, suppliers, subcontractors. We cannot guarantee that we will be able to prevent or detect all incidents of wrongdoings by our employees or other third parties timely, or at all. Any misconduct committed against us or our interests, which may include past acts that have gone undetected or past acts that have failed to be identified timely or future acts, could subject us to financial losses, harm our reputation and may have an adverse effect on our business and results of operations.

**We may be unable to detect, deter and prevent the involvement of our employees in the “qualification affiliation” arrangement.**

Our employees including the project managers and the persons-in-charge of our projects may bid for, undertake and/or engage in projects themselves in the name of our Group without our knowledge, which may result in violation of the laws by our Group and we may be liable to rectify the non-compliance, confiscation of illegal income, fines, being restricted from bidding new construction projects, or being ordered to suspend our business for rectification and reduce our qualification level. If such incident occurs and we are not able to prevent or detect involvement of our employees in the “qualification affiliation” arrangement in a timely manner, or at all, we may be subject to financial losses, harm our reputation and may have an adverse effect on our business and results of operations.

**If we fail to meet specified technical standards or industry requirements, we may have to incur additional costs to remedy the defects.**

We are generally required to comply with certain technical standards and industry requirements as stipulated in our contracts. If we fail to adhere to the standards and requirements stipulated in our contracts, additional capital, manpower, time and other resources may be incurred to rectify the defects. Further, our reputation may be harmed, which would as a result, hinder our business expansion in the future. If any of the foregoing events occur, our business, results of operations and financial condition may be adversely affected.

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**We are exposed to claims and litigations in our ordinary course of business and we may suffer financial losses and damage to reputation if we are found liable.**

We may be involved in claims and litigation in the ordinary course of business for, among other things, defective services, personal injuries, damage to or destruction of property, payment disputes, breaches of contract and project delays. Please refer to the section headed “Business — Legal and regulatory — Legal proceedings” in this prospectus for the details of material on-going litigation of our Group as at the Latest Practicable Date. If the legal proceedings resulted in unfavourable judgement or finding against us, we could face significant financial losses and find ourselves subject to government sanctions, including fines and the loss of operational licences, approvals, certificates, permits and qualifications. Further, we may be subject to lengthy and expensive legal proceedings if the dispute is not resolved through negotiations. Some of the claims or litigation may raise the attention of the public, damaging our reputation.

**We may subject to fines for failing to register the lease agreement of leased property**

As at the Latest Practicable Date, the lease agreement of one of our leased properties had yet to be registered with the relevant Government authorities. For details, please refer to the section headed “Properties — Leased properties — Properties leased from Independent Third Parties” in this prospectus. As advised by our PRC Legal Advisers, lease agreement have to be registered with the relevant authorities within 30 days of signing according to the Administration Measures for Commodity House Leasing (《商品房屋租賃管理辦法》). We may be subject to a fine of RMB1,000 to RMB10,000 for each unregistered lease, amounting to a total maximum potential fine of RMB10,000. Our PRC Legal Advisers further advised that the non-registration of lease agreement would however not affect the enforceability of such lease.

**Our R&D expenses may not enhance our operations and improve our services in the short run.**

We believe that R&D is of great importance to our business owing to the constantly evolving construction industry. Through R&D, we endeavour to enhance the efficiency and effectiveness of our construction solutions and to develop more innovative construction solutions so as to maintain or even enhance our competitiveness in the construction industry. For further details, please refer to the section headed “Business — Intellectual property” and “B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix V to this prospectus. Our R&D expenses for FY2019, FY2020, FY2021 and 3Q2022 amounted to approximately RMB60.8 million, RMB54.1 million, RMB56.7 million and RMB42.1 million, respectively, representing approximately 56.3%, 48.1%, 48.6% and 52.3% of our total administrative expenses. Going forward, we intend to apply approximately 20.0% or approximately HK\$17.1 million (equivalent to approximately RMB15.6 million), of the net proceeds from the Global Offering to fund the

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establishment and operation of our know-how centre. For further details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. However, the outcomes resulting from R&D may not realise within the timeline as our Company has expected and there may also be a discrepancy between the actual returns resulting from applying the outcome of the R&D. As a result, if the profits generated from the R&D are not able to cover its costs in the short run, our revenue, results of operations and business will be adversely affected in the short run.

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

Our information technology systems may be subject to risks associated with computer viruses, hardware and software failures, telecommunications failures, power outages, fires, natural disasters and other similar events. Any information systems failure will interrupt our operations and additional time and costs will be incurred for restoring the information lost or damaged. We cannot guarantee that all information lost or damaged could be fully restored and if any of such information which is critical to our business operations could not be restored, our operations may be adversely affected.

### **We may be unable to implement our business strategies effectively.**

Our ability to continue to grow our business depends on our continuing ability to successfully implement our business strategies, which primarily depends on our ability to tender for and compete for more construction projects, improve our profitability, as well as capture more business opportunities. Further, our ability to implement our business strategies depends on factors which are beyond our control, including the general macroeconomic conditions in the PRC, the relationships with our customers, suppliers and subcontractors, the policies of the PRC government and its increasing spending on construction infrastructure projects. In the event that we are unable to implement our business strategies, we may not be able to grow at a rate comparable to our growth in the past, or at all. As a result, our business, financial position and results of operations may be adversely affected.

## **RISKS RELATING TO OUR INDUSTRY**

### **Our business and future growth are subject to changes in the construction industry and real estate market in the PRC.**

Our business and future growth depends on the growth of the construction industry in the PRC which in turn depends on the government policies in the PRC. For example, the Thirteenth Five-Year Plan is introduced to promote the reconstruction of dilapidated houses in rural areas, accelerate the shantytowns transformation and indemnificatory housing construction, accelerate the construction of trunk road system and branch road system in urban central areas and promote the



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construction of transportation infrastructure. Moreover, as the PRC government considers urbanisation as one of the core national strategies, the urbanisation and reconstruction in Hunan Province are promoted and accelerated which stimulated the local demand for civil buildings and municipal works. As we were one of the top ten non-state owned construction enterprises in Zhuzhou in terms of total construction revenue in 2021 in Hunan Province and our revenue generated from Hunan Province accounted for 71.5%, 74.9%, 75.8% and 67.5% of our total revenue for FY2019, FY2020, FY2021 and 3Q2022, respectively, we believe we can benefit from the existing government policies. However, we cannot assure that the government policies will be implemented as effectively as planned, or at all, or will remain favourable to our business and future growth. Our business and future growth may also be affected by other factors which may affect the construction industry and are beyond our control such as market preference, consumption habit, costs of raw materials and labour supply, investment atmosphere, availability and performance of other market participants. If these factors are unfavourable to our business, or if there is slowdown or regression in the China's construction industry, which is shown in some negative news in relation to the apparently deteriorated property sales in the PRC since the second half of FY2021 and certain property developers has been in financial distress, the demand for our services will be adversely affected, which may have a material and adverse effect on our business, results of operations and prospect and leads to a higher default risk of our customers.

Furthermore, we are susceptible to adverse changes in government policies which will affect the PRC's construction industry, such as implementation of laws, regulations and policies which limit the land supply for real estate development, tighten project financing, impose heavier tax burden, reduce local government budgets and funding in the construction industry. The series of macro-control policies issued by the PRC government which target to restrict the total amount of real estate investment may also affect the growth of the real estate market. Moreover, the regulations and policies implemented by the PRC government to cool down the real estate market and hinder the growth in property prices, including the restriction policy on purchases of residential properties by domicile of household, restrictions on mortgage and increase in interest rate for real estate loans in the secondary market as adopted in certain cities, may hinder the growth of the real estate market in the PRC and hence would adversely affect the development of the PRC's construction market. In the event that laws, regulations and policies which are adverse to the growth of the construction industry are introduced, our business, results of operations and prospect may be adversely affected.

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**We face intense competition in our industry, and failure to compete effectively may cause us to lose market share and our business operations and financial conditions could be adversely and materially affected.**

The construction industry in the PRC is highly competitive. Accordingly, we face intense competition from a significant number of construction companies which provide similar services or alternatives. According to the F&S Report, we are the fifth-ranked non-state owned construction enterprise with first grade general contractor qualification in Hunan Province in terms of construction revenue in 2021. We cannot guarantee that we will be able to increase or maintain our existing market share since some of our competitors may have greater capital, financial, technical and marketing resources and a wider range of services than we do. Owing to the above competitive strengths, our competitors may be capable of providing better services and responding to market changes promptly and effectively than we do. These intense competitions would adversely and materially affect our business operations and financial conditions.

**We may have inadequate insurance coverage, and the occurrence of uninsured damages could have adverse effects on our business, financial conditions and results of operations.**

We maintain insurance policies that are required under PRC laws and regulations as well as policies based on our assessment of our operational needs and industry practice. For further details on our insurance policies, please refer to the section headed “Business — Insurance” in this prospectus. We cannot assure you that the insurance policies will provide adequate coverage for all of the risks associated with our business operations. In addition, the occurrence of certain incidents including accidents which led to personal injuries, property damage or death, earthquakes, fires, adverse weather conditions, war, floods, power outages may not be covered adequately, or at all, by our insurance policies. Any uninsured losses or liabilities may cause us to incur substantial costs and to divert resources from our business operations, which could have an adverse effect on our business, financial conditions and results of operations.

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

Construction sites are potentially dangerous workplaces and our construction projects routinely place our employees, subcontracted workers and others in close proximity with heavy duty construction machinery and equipment, moving motor vehicles and highly regulated and volatile materials. Our employees and subcontracted workers are subject to the risks associated with our construction activities, such as equipment failure, industrial accidents, geological catastrophes, fire and explosions. These hazards would cause personal injuries and fatalities and damage to our properties and equipment. During the Track Record Period, we did not record any fatal incident in connection with occupational safety. Despite the implementation of safety

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policies, we cannot guarantee that workplace accidents will not occur in the future. Even the accidents are not caused by our fault or negligence, they may result in disciplinary action by the PRC government and/or cause us to incur relatively large costs, damage our reputation and result in loss of future business. Further, there may be work safety related claims or legal proceedings against us, which may incur substantial costs and could divert our senior management's attention from our business. As a result, our business, financial conditions and results of operations may be adversely affected.

**Our business operations may be adversely affected by present or future environmental regulations or enforcement.**

Our operations are subject to environmental protection laws, regulations, including the Law of the People's Republic of China on Prevention and Control of Noise Pollution (中華人民共和國環境噪聲污染防治法). For example, we are required to adopt measures to control environmental pollution produced at the construction sites and are subject to fees for discharging waste substances. In the event of serious environmental offences, we may be subject to fines and other administrative punishments. Enforcement agents are also authorised to order the close of our construction facilities if our construction facilities cause harm or damage to the environment and we fail to remediate the damage. As confirmed by our PRC Legal Advisers, our operations were in compliance with the PRC environmental laws and regulations in all material respects during the Track Record Period. However, we cannot assure you that we will not be subject to any fines or administrative punishments for damage to the environment, if any, in the future. If the amount of the fines is substantial or punishments are imposed, our results of operations, financial condition and business may be adversely affected.

In addition, the PRC government and the relevant government authority may impose additional or more stringent environmental protection laws, regulations, policies and standards from time to time, and as a result, we may be subject to more onerous duties and obligations. We may also be required to revise our current practices, implement enhanced compliance and internal control manuals and systems, purchase new pollution control equipment, offer training to our employees and subcontractors and introduce new preventive or remedial measures so as to ensure compliance with the relevant laws, regulations, policies and standards, which would incur additional financial, human and other resources. If we fail to comply with the relevant laws, regulations, policies and standards in a timely manner, or at all, we may be subject to penalties and hence our results of operations, financial condition and business may be adversely affected.

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## RISK FACTORS

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### RISKS RELATING TO THE PRC

#### **The macroeconomic conditions in China determine our prospects and future growth.**

The demand for our services, prospect and future growth, depends on the macroeconomic conditions in China, including the GDP growth rate, levels of inflation, unemployment rates and interest rates. According to the F&S Report, due to a series of economic stimulus policies including the Revitalisation Plans of Ten Key Industries and the Belt and Road Initiative, the nominal GDP in China has been growing moderately over the past five years, increasing from RMB74.6 trillion in 2016 to RMB114.4 trillion in 2021 with a CAGR of 8.9% and it is estimated that the nominal GDP in China would continue to grow at a CAGR of 5.2% from RMB121.0 trillion in 2022 to RMB148.3 trillion in 2026. If the local economy experiences slower growth or enters into recession or if there is an adverse change in other economic conditions such as levels of inflation, unemployment rates and interest rates, our business, results of operations and prospect would be materially and adversely affected.

#### **Political and economic policies of the PRC government could affect our Group's business.**

Since the commencement of the PRC government's effort to reform the Chinese economy in late 1970s, these reforms have led to significant economic growth and progress in social development.

We anticipate that the PRC government will continue to further implement these reforms, further reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bring positive effect on our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With our business and operations are based in the PRC, our operations and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC government. We may not be able to capitalise on economic reform measures adopted by the PRC government. We cannot assure you that the PRC government will not impose economic and regulatory controls that may adversely affect our Group's business, financial position and results of operations.

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**Introduction of new laws or changes to existing laws by the PRC government may adversely affect the construction industry.**

Our business and operations in the PRC are governed by the legal system of the PRC. The legal system in the PRC is based on statutory law. Under this system, prior court decisions may be cited for references but do not have binding precedential effect. Accordingly, the outcome of dispute resolution may not be consistent as in other common law jurisdictions.

Interpretation and enforcement of the PRC laws and regulations, including those regulating the PRC construction industry and foreign investments may be subject to changes in policies and political environment. Different regulatory authorities may have different interpretation and enforcement of the PRC construction industry policies and foreign investment policies, which requires companies to meet the policies requirements issued by relevant regulatory authorities from time to time, and obtain approvals and complete filings in accordance with the relevant regulatory authorities' interpretation and enforcement of such policies. If there are any future changes in applicable laws, regulations, administrative interpretations or regulatory documents, or stricter enforcement policies by the relevant PRC regulatory authorities, more stringent requirements could be imposed on the industries we are currently engaged in. Compliance with such new requirements could impose additional costs or otherwise have an adverse effect on the PRC construction industry. In addition, if we fail to meet such new rules and requirements relating to approval, construction, environmental or safety compliance of our operations, we may be ordered by the relevant PRC regulatory authorities to change, suspend construction of or closure of the relevant production facilities. Alternatively, these changes may also relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. As a result, our business, financial condition and results of operations could be adversely affected. For details of some of the relevant PRC laws and regulations to which our Group is currently subject to, please refer to the section headed "Regulatory Overview" in this prospectus.

**Government control on currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends.**

RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign invested enterprises ("FIEs") are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates.

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Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payment are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE. The PRC regulatory authorities may impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

### **Distribution and transfer of funds may be subject to restrictions under the PRC law.**

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries.

Under the PRC laws, dividends from our subsidiaries in the PRC may only be paid out of distributable after-tax profit, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profit that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profit under PRC accounting principles is different in many respects from Hong Kong accounting principles.

Distributions by our subsidiaries in the PRC to our Company may be subject to governmental approval and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by PRC governmental authorities. These limitations on the free flow of funds between our Company to subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner.

### **PRC tax law may affect tax exemptions on dividends received by our Company and Shareholders and increase our enterprise income tax rate.**

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a number of subsidiaries incorporated in BVI and Hong Kong. According to the EIT Law and the Regulation on the Implementation of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), if our Company is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our Company, unless our Company is entitled to reduction or elimination of such tax, including by tax treaties. Under the Arrangement between the Mainland and HKSAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with

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Respect to Taxes on Income (內地和香港特別行政區關於所得稅避免雙重徵稅和防止偷漏稅的安排), such dividend withholding tax rate is reduced to 5% if a Hong Kong tax resident enterprise owns over 25% of equity interest in the PRC company distributing the dividends. Pursuant to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Agreements (非居民納稅人享受協定待遇管理辦法) released by the State Administration of Taxation on 14 October 2019 and took effect on 1 January 2020, non-resident taxpayers who need to enjoy the treatment of the agreement shall submit the report forms and materials by themselves or by the withholding agent at the time of tax declaration. Any new enactment of PRC tax law affecting tax exemptions on dividends may reduce the amount of dividends that could be distributed to our Company and Shareholders.

In addition, the EIT Law provides that, if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to statutory enterprise income tax at the rate of 25% on its worldwide income. Substantially all members of our management are located in the PRC, we may be deemed as a PRC tax resident enterprise and therefore subject to a statutory enterprise income tax rate of 25% on our worldwide income, excluding the dividends received directly from another PRC tax resident. As a result of these changes described above, our historical operating results will not be indicative of our operating results for future periods and the value of the Shares will be adversely affected.

### RISKS RELATING TO THE GLOBAL OFFERING

**The shares of Zhongtian Construction, our principal operating subsidiary, had been quoted on NEEQ from 16 May 2017 to 20 January 2019, and the characteristics of NEEQ and our Shares market may differ.**

The shares of Zhongtian Construction, our principal operating subsidiary, had been quoted on the NEEQ from 16 May 2017 to 20 January 2019. On 21 January 2019, the shares of Zhongtian Construction ceased to be quoted on the NEEQ. With different trading characteristics, the Stock Exchange and the NEEQ have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of the NEEQ may not be comparable to that of the Stock Exchange. Due to the different characteristics of the Stock Exchange and the NEEQ, the historical prices of the NEEQ may not be indicative of the performance of our Shares. You should therefore not place undue reliance on our prior trading history on the NEEQ when evaluating an investment in our Shares.

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**You should not place any reliance on the information published regarding to Zhongtian Construction's prior quotation on the NEEQ.**

As the shares of Zhongtian Construction had been quoted on the NEEQ from 16 May 2017 to 20 January 2019, Zhongtian Construction was required to comply with the then PRC regulations on periodic reports and other disclosures. Accordingly, Zhongtian Construction published its relevant information on the NEEQ or other media designated by the CSRC. However, the information published on the NEEQ was based on the regulatory requirements and market practices of the PRC securities regulatory authorities and the financial information published on the NEEQ was prepared based on accounting principles generally accepted in the PRC which may be different from that applicable to the Global Offering. Therefore, such published information does not form a part of this prospectus. As a result, prospective investors in our Shares are reminded that, when making their investment decisions as to whether to purchase our Shares, they should rely only on the financial, operating and other information included in this prospectus. By applying for the Offer Shares, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and other formal announcements made by us regarding the Global Offering in Hong Kong.

**There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained.**

Prior to the Global Offering, no public market for our Shares existed. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Global Offering.

In addition, we cannot assure you that our Shares will be traded in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by agreement among the Joint Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, and may not be indicative of the market price of the Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of Shares could be materially and adversely affected.

**The trading prices of our Shares may be volatile, which could result in substantial losses to you.**

The trading prices of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. Various broad market and industry



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factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance. In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

**Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins.**

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be four Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**Our Controlling Shareholder has substantial influence over our Group and its interests may not be aligned with the interests of our other Shareholders.**

Immediately upon completion of the Capitalisation Issue and the Global Offering, our Controlling Shareholder will directly own an aggregate of approximately 55.62% of our Shares (without taking into account any Share which may be issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme). The interests of our Controlling Shareholder may differ from the interests of our other Shareholders. Our Controlling Shareholder could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership, as a result, may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. In addition, to the extent the interests of our Controlling Shareholder conflict with the interests of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

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**We have a dispersed shareholder base and there is a lack of agreement among our Shareholders or their respective shareholders regarding the arrangement on the disposal of our Shares.**

We have a dispersed shareholder base with 14 corporate Shareholders. There is no shareholder agreement among these Shareholders or their respective shareholders regarding the arrangement or restrictions on the disposal of our Shares. The Shares held by ZT (A), ZT (B), ZT (C), ZT (D), ZT (E), ZT (F), ZT (G), ZT (H), ZT (I), ZT (J), ZT (K), ZT (L) and ZT (M) as well as the shares of ZT (A) and ZT (E) are subject to lock-up undertakings commencing from the Listing Date. For details, please refer to the section headed “Underwriting — Undertakings pursuant to the Hong Kong Underwriting Agreement” in this prospectus. In the event that any of these Shareholders dispose of the Shares after the expiry of the relevant lock-up periods, it could negatively impact the market price of our Shares or lead to volatility in the market price or trading volume of our Shares, affecting the value of your investment.

**There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all.**

For FY2019, FY2020, FY2021 and 3Q2022, we declared and paid an aggregate dividend of approximately RMB0.1 million, RMB0.2 million, nil and nil, respectively. After the completion of the Global Offering, we may in the future distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the recommendations of our Board and approval of our Shareholders. Under the Articles, our Directors have the power to pay interim dividends but only if they are justified by the profits of our Company. The decision to pay dividends will be reviewed in light of factors such as our results of operations, financial condition and position, and other factors deemed relevant. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our future declarations of dividends will be at the absolute discretion of our Board.

**Because the Offer Price of our Shares is higher than our net tangible book value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.**

If you purchase our Shares in the Global Offering, you will pay more for your Shares than our net book value on a per Share basis. As a result, investors of our Shares in the Global Offering will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their

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interest if the Joint Overall Coordinators and the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) exercises the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

**There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme.**

We have adopted the Share Option Scheme, details of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus. Issuance of Shares pursuant to the exercise of options granted or to be granted under the Share Option Scheme will result in an increase in the number of Shares in issue after the issuance and thereby will cause dilution to the percentage of ownership of the existing Shareholders, the earnings per Share, and net asset per Share.

**The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong.**

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Companies Act and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some aspects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company’s minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of Cayman Islands company law is set out in Appendix IV to this prospectus.

**Certain statistics and forecasts in this prospectus were derived from official government sources and have not been independently verified.**

This prospectus includes certain statistics and facts that have been extracted from official government sources and publications which we believe to be reliable. We have taken reasonable care in the reproduction or extraction of the official government sources and publications for the purpose of disclosure in this prospectus. However, we cannot guarantee neither the quality nor the reliability of such source materials. They have not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any of its or their respective affiliates or advisers, and therefore we make no representation as to the accuracy of such facts and statistics. In all cases, investors should give due consideration as to how much weight or importance they should attach to, or place on, such facts and statistics in this prospectus.

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**There are risks associated with the forward-looking statements contained in this prospectus.**

This prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Group, which are based on the beliefs of our management as well as assumptions made by and information currently available to our management. Such statements reflect the current views of our Company's management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus.

**You should not rely on any information contained in press articles or other media regarding our Group and the Global Offering.**

Prior to the publication of this prospectus, there may be certain press and media coverage regarding our Group and the Global Offering which may include certain information relating to business operations, financial information, industry comparisons and other information about our Group that does not appear in this prospectus. We did not authorise the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any investment decision.