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OVERVIEW

We are a construction group based in Tianjin which offers comprehensive construction services. According to the Frost & Sullivan Report, there were 2,547 construction enterprises in Tianjin in 2022, which our Group accounted for a market share of 0.1% in the overall construction market in terms of construction revenue in Tianjin in 2022. We ranked fourth among the private companies engaged in municipal public construction in Tianjin in terms of revenue generated from municipal public construction works in 2022, representing a market share of approximately 0.2%. During the Track Record Period, we primarily engaged in construction business and strove to provide high quality construction services to our customers by leveraging our self-developed Jiexiao System, a comprehensive construction project management software equipped with multiple functions including cost monitoring, progress measuring and resources tracking.

According to the Frost & Sullivan Report, among the 2,547 and 3,351 construction enterprises in Tianjin in 2022 and 2023, respectively, there were only three and four construction companies which possessed qualifications in both petrochemical engineering works and highway construction works at the same time, respectively, out of which we were the only construction company which is a private company. In addition to qualifications in petrochemical engineering works and highway construction works, we also possessed qualifications in municipal public construction works and building construction, enabling us to participate in a wider range of projects compared to construction companies possessing fewer qualifications. As of the Latest Practicable Date, we possessed 25 qualifications related to our construction business, which included two first-grade construction qualifications: (i) first-grade qualification in petrochemical engineering construction general contracting* (石油化工工程施工總承包壹級資質); and (ii) first-grade qualification in foundation construction professional contracting* (地基基礎工程專業承包一級資質). For details, please refer to the paragraph headed “— Licenses, Qualifications and Permits” in this section.

During the Track Record Period, we received a number of honors and certificates for our technological innovation and digital exploration in the field of construction, including the Leading Enterprise in the Strategic Emerging Industries in Tianjin* (天津市戰略性新興產業領軍企業), Specialized, Sophisticated, Unique and Innovative Small and Medium-sized Enterprises in Tianjin* (天津市「專精特新」中小企業), Leading Nurturing Technological Enterprises in Tianjin* (天津市科技領軍培育企業), and High and New Technology Enterprise* (高新技術企業). Furthermore, as of the Latest Practicable Date, we had 23 patents and 17 software copyrights.

During the Track Record Period, we primarily focused on construction business, comprising (i) municipal public construction works, which mainly included road construction and traffic facilities construction; (ii) foundation works, which mainly included foundation construction and earthwork; (iii) building construction related works; and (iv) petrochemical engineering works.

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Our construction projects are mainly located in Tianjin, the revenue of which accounted for 92.9%, 97.4% and 86.6% of our total revenue generated from construction projects for the years ended December 31, 2021, 2022 and 2023, respectively.

During the Track Record Period, our reputation was built in the construction industry in Tianjin with an operating history of more than a decade. By leveraging our brand and industry experience, we aim to capture more market share in the relevant market.

By capitalizing on our industry experience and quality service, during the Track Record Period, we undertook 145 construction projects and served 67 customers including government authorities, state-owned enterprises, and private enterprises. As of December 31, 2023, we had a total of 27 ongoing projects (including projects in progress and projects undertaken by us but not yet commenced) with a total contract amount (exclude variation orders) of approximately RMB262.2 million.

Since late 2020, in order to capture the business opportunities arising from the substantial investment in infrastructure projects of larger size by the local government in Tianjin, we adjusted our business focus from small-to-mid size construction projects to large scale construction projects (i.e. projects with original contract value (not including VAT) of more than RMB10.0 million), particularly municipal public construction projects, to expand our business and enhance our market position in the construction industry in Tianjin. During the Track Record Period, we recognized revenue of RMB203.2 million, RMB241.6 million and RMB265.3 million, from 11, 19 and 21 large scale projects, respectively, accounting for 73.9%, 83.9% and 83.3% of our total revenue of the same year, respectively. As of January 31, 2024, we had 12 ongoing large scale projects with a backlog value of RMB143.0 million, accounting for 89.5% of the total backlog value. Despite we adjusted our business focus since late 2020 from small-to-mid size construction projects to large scale construction projects, there was no material change in our profitability during the Track Record Period, and our gross profit margin maintained relatively stable at 26.1%, 25.2% and 25.1% respectively during the Track Record Period. On the other hand, the gross profit margin of our municipal public construction projects also remained relatively stable at 29.1%, 24.6% and 27.6% respectively during the Track Record Period. In terms of our liquidity, our undertaking of more large scale construction projects could lead to a larger fluctuation in the balance of our cash and cash equivalents since our progress of construction work varied among the projects at different point of time. We may experience significant amount of cash outflow at a specific point of time when the large scale projects are at the initial stage which make us incur significant amount of upfront cost, which may lead to a decrease in the amount of cash and cash equivalents at the relevant point of time. For details of our measures for managing our liquidity position, please refer to the section headed “Financial Information — Liquidity and capital resources” in this document. On the other hand, given a majority of our customers of the large scale projects we undertook during the Track Record Period were government authorities or state-owned enterprises, which usually have more internal procedures for certification and settlement, our undertaking of more large scale projects could lead to the slower conversion of contract assets to trade receivables and longer settlement time for the trade receivables. We have adopted internal control policies on monitoring the certification and settlement procedures of our contract assets and the settlement of our trade and bills receivables. For details of

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our internal control policies, please refer to the section headed “Financial Information — Description of selected items of the consolidated statements of financial position — Trade receivables and contract assets control policy” in this document.

Our total revenue increased from RMB274.9 million in 2021 to RMB319.4 million in 2023, with a CAGR of 7.8% from 2021 to 2023. Such increase was mainly due to the overall expansion of our construction business. During the Track Record Period, the average contract amount for our new projects increased from RMB4.5 million in 2021 to RMB12.4 million in 2023. Our gross profit increased from RMB71.7 million in 2021 to RMB80.3 million in 2023, with a CAGR of 5.8% from 2021 to 2023. We believe that the improvement in our business progress control, particularly with the adoption of Jiexiao System, will enable us to better control the use of materials, equipment and labor and reduce wastage on a continuous basis, and allow us to reduce overrun in the midst of our growing business volume.

We have used our self-developed Jiexiao System, a construction project management software, which has functions covering various phases of construction project management, spanning from processing internal approval of contracts upon commencement of projects to settlement upon completion of projects. Jiexiao system facilitates effective management of our projects with functions including cost control, resources tracking, personnel management and progress monitoring. For details of the Jiexiao System, please refer to the paragraph headed “— Intellectual Property — Our Jiexiao System” in this section.

With years of experience in the construction industry, we believe that we have continuously provided professional construction services to our customers by gaining in-depth understanding of the standards and requirements of various customers for different projects. According to the Frost & Sullivan Report, the total revenue of the construction industry in the PRC increased from approximately RMB21.2 trillion to approximately RMB27.3 trillion from 2018 to 2022 at a CAGR of approximately 6.5%. It is expected that in line with the growth and development of the total output value of the construction industry, the total revenue of the construction industry is expected to grow continuously, and is expected to reach approximately RMB36.1 trillion at a CAGR of approximately 5.7% from 2022 to 2027. Given the market prospects and future demand for the construction industry in the PRC, as a participant in the construction market, we believe that we will be able to benefit from the sustainable development of the industry.

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COMPETITIVE STRENGTHS

We believe that our success is derived from the following competitive strengths:

We are capable of providing comprehensive construction services with proven track record and are able to seize the market opportunities to achieve sizeable growth

Since our establishment, we have focused mainly on municipal public construction in Tianjin and have gained a foothold in the market in the past decade. According to the Frost & Sullivan Report, we ranked fourth among private companies engaged in municipal public construction in Tianjin in terms of revenue generated from municipal public construction works in 2022. We were acclaimed as a Leading Enterprise in the Strategic Emerging Industries in Tianjin* (天津市戰略性新興產業領軍企業), Specialized, Sophisticated, Unique and Innovative Small and Medium-sized Enterprises in Tianjin* (天津市「專精特新」中小企業), and Leading Nurturing Technological Enterprise in Tianjin* (天津市科技領軍培育企業) in recognition of our technological innovation and digital exploration in the field of construction.

Our performance experienced rapid growth as a result of our commitment to providing professional construction services to our customers and our continued efforts to enhance our market recognition. During the Track Record Period, we provided services to a total of 67 customers and undertook 145 construction projects; we were awarded 23, seven and 11 municipal public construction projects, respectively; we were awarded two, four and three foundation works projects, respectively; we were awarded 25, 13 and three building construction related projects, respectively; and we were awarded 11, seven and seven petrochemical engineering projects, respectively.

Our total revenue increased from RMB274.9 million in 2021 to RMB319.4 million in 2023, representing a CAGR of 7.8%. During the Track Record Period, we conducted customer survey for our completed projects and most of the feedback from our customers indicated that they were satisfied with our services in terms of project progress, project quality, fulfillment of contractual responsibilities, project management and personnel quality, and that they are willing to cooperate with us again in the future. During the Track Record Period, among our 67 customers, 24 of our customers contributed to our revenue for more than one year, amounting to RMB582.4 million of revenue in total, representing 66.1% of our total revenue.

During the Track Record Period, the majority of our customers were located in Tianjin. According to the Frost & Sullivan Report, infrastructure investment in Tianjin has continued to rise from approximately RMB0.3 trillion in 2018 to approximately RMB0.4 trillion in 2022, representing a CAGR of approximately 10.3%, while it is forecasted to grow at a CAGR of approximately 6.0% from 2022 to 2027. The market size of municipal public construction in Tianjin is forecasted to grow from approximately RMB45.9 billion in 2022 to approximately RMB71.2 billion in 2027, representing a CAGR of approximately 9.2%. For further details, please refer to the section headed “Industry Overview” in this document.

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As illustrated by the market data above, the municipal public construction market in Tianjin is expected to grow further in the coming years. According to the Frost & Sullivan Report, the Tianjin municipal public construction market is highly fragmented and there is no dominant player in the market. Given that the size of the market is considerably sizable as compared to that of our Group, our Group sees high growth potential in the municipal public construction industry in Tianjin. As such, construction companies with competitive edge and the ability to overcome relevant entry barriers in the area, such as our Group, would be able to achieve sizeable growth if they are able to seize the market opportunities. According to Frost & Sullivan, construction projects have become more complex and larger in scale with the increasing urbanization rate and the rapid development of the construction industry in the PRC, therefore, opportunities are created for construction companies and require higher standards of project management in terms of modeling, evaluation and control to achieve an overall balance of time, cost, quality and safety. Besides, the industry requires contractors to possess significant experience and practical capabilities to address technical challenges and complex projects, creating high professional and technical barriers. In order to maximize the capability of construction companies to undertake different types of construction works, construction companies are required to possess various kinds of expertise and qualifications. We possess a wide range of construction qualifications and licenses that allow us to provide comprehensive construction services and achieve substantial growth during the Track Record Period, which is evidenced by the increase in our revenue from RMB274.9 million for the year ended December 31, 2021 to RMB319.4 million for the year ended December 31, 2023, representing a CAGR of 7.8%.

In light of the above, we believe that the development potential of the relevant market in Tianjin will offer extensive market prospects for our business development. In addition, due to our continuous efforts in R&D and capabilities in the construction sector, we have received support from local government authority. On May 16, 2022, we entered into an investment cooperation agreement with the Tianjin Economic and Technological Development Area Administrative Committee* (天津經濟技術開發區管理委員會), pursuant to which the Tianjin Economic and Technological Development Area Administrative Committee* (天津經濟技術開發區管理委員會) conditionally agreed to provide us with support in various areas, including operation, technological innovation, subsidies for talents, taxation and marketing. The above-mentioned support policy will generally remain in force until November 30, 2027. For further details, please refer to “—Investment Cooperation Agreement” in this section.

Considering the above favorable factors, we believe that we are well-positioned to take advantage over these market drivers and further develop our business. We also believe that our diverse range of project experience and professional construction services have, and will be able to, put us in a favorable position in this growing industry and to out-compete our peers.

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We have implemented stringent project cost control throughout the project life-cycle, through application of our self-developed Jiexiao System

According to the Frost & Sullivan Report, the 14th Five-Year period is a critical period to accelerate the transformation and development of the construction industry. According to “14th Five-Year Construction Industry Development Plan” (《「十四五」建築業發展規劃》), the construction sector in the PRC is expected to realize comprehensive industrialization, with great improvements to the quality of buildings and its business-innovation capability by 2035. The government will promote the use of information technology in the construction sector by encouraging cooperation between construction companies, internet enterprises and research institutes.

To correspond to the policy directions set out by the government together with our Company’s continuing focus on internal control and cost management of our construction projects, we self-developed a comprehensive construction project management software equipped with various functions including cost monitoring, progress measuring and resources tracking. Through the Jiexiao System, we can conduct cost analysis, contract management, schedule control, quality inspections, etc., allowing us to streamline processes, optimize resource allocation, and enhance project coordination. For further details of our Jiexiao System, please refer to the paragraph headed “— Intellectual Property — Our Jiexiao System” in this section.

We believe that the Jiexiao System could (i) strengthen the control of project progress by recording important quantitative information of the contract, quantity list (工程量清單) and the execution process; (ii) allow the management team to monitor the project progress and usage of materials, equipment and labor on a continuous basis and reduce overrun and deviation from payment schedule and quantity list; and (iii) facilitate accurate measurement and reduce cost wastage, data tempering and human input error by automatic measurement with the assistance of IoT and RFID technologies. Thus, our Company can exercise stringent cost control by timely identifying any deviation from our cost evaluation. Any overspending will have to be approved by relevant authorized personnel on the Jiexiao System.

The Ministry of Industry and Information Technology of the PRC promulgated the “14th Five-Year Plan for the In-Depth Integration of Informatization and Industrialization” (《「十四五」信息化和工業化深度融合發展規劃》) in 2021 and the Tianjin Municipal Government also implemented the related policies. Corresponding to such policy directions, we integrated our software into management of our construction projects, and obtained the Integration of Informationization and Industrialization Management System Certificate (兩化融合管理體系評定證書) on January 21, 2022.

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We possess multiple kinds of construction qualifications and licenses allowing us to be a comprehensive construction service provider

According to the Frost & Sullivan Report, among the 2,547 and 3,351 construction enterprises in Tianjin in 2022 and 2023, respectively, there were only three and four construction companies which possessed qualifications in both petrochemical engineering works and highway construction works at the same time, respectively, out of which we were the only private construction company which is a private company. In addition to qualifications in petrochemical engineering works and highway construction works, we also possessed qualifications in municipal public construction works and building construction, enabling us to participate in a wider range of projects compared to construction companies possessing fewer qualifications. Our qualifications cover a majority of construction categories, which strengthen our capability to provide a diverse range of professional construction services to our customers. As of the Latest Practicable Date, our construction qualifications included two first-grade qualifications, 21 second-grade qualifications and two qualifications regardless of grade. Our qualifications cover six out of the 12 general contracting qualification categories in the construction contracting industry, as well as 14 out of the 36 professional construction contracting qualification categories. For further details, please refer to the paragraph headed “— Licenses, Qualifications, and Permits” in this section.

According to the Frost & Sullivan Report, contractors are required to hold licenses or qualifications relevant to the type of projects they undertake, while demonstrating professional skills and experience, to compete effectively in the construction industry. Meanwhile, when determining whether to approve the construction qualification, based on our past experience the authorities generally consider the number of staff equipped with appropriate qualifications, historical experiences in sizeable projects, in addition to capital requirement. Therefore, it generally takes time for construction companies to accumulate experience and resources before they can obtain such qualification, and we believe that qualification is one of the key entry barriers in the construction industry. We believe that the possession of these qualifications will place us in an advantageous position, in particular when securing projects that require construction service providers to hold multiple kinds of qualifications, such as the Tianjin Dingzheng Solvent Tank Overhaul Project* (天津頂正溶劑罐改造) requiring both building construction general contracting* (建築工程施工總承包) and petrochemical construction general contracting* (石油化工工程施工總承包) qualifications.

On the other hand, our array of qualifications allow us to take on a diverse range of works, enabling us to diversify our revenue sources and be more flexible in response to changing economic cycle and market conditions. We believe that our competitive advantages will continue to increase over our industry peers as the number and grade of our qualifications increase over time.

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We have developed a set of criteria for project selection which enables us to identify projects with satisfactory profitability

We place great emphasis on the selection of potential projects for bidding with the aim of maximizing profitability while maintaining an acceptable period of payment to ensure orderly and sustainable business operation. We prefer projects that are of high profitability and customers with sound payment records. Our project selection criteria consists of the following customers assessment and pre-tender assessment:

- *Customer assessment:* according to the Frost & Sullivan Report, construction companies in the PRC generally record significant amount of contract assets and trade and bills receivables, the recoverability of such are often related to the conditions of the customers. Therefore, we usually perform assessment on the credit standing of our potential customers at our project identification and selection stage. Prior to tendering for potential projects, we will generally obtain background information of the potential customers in relation to their size of operation, years of establishment, nature of business, registered capital, years of business cooperation and performance records from various sources, including the potential customers, information enquiry websites and our business partners. This assessment process is established to evaluate the operational and payment capabilities of the potential customers in order to identify the customers which have good payment record. We assign different credit ratings ranging from A to E to potential clients using a scoring system. If customers fall within the top two rating bands, we may consider tendering for the projects of such clients after taking into account other commercial factors.
- *Pre-tender assessment:* upon assessing the credit rating of the potential customers, in order to enable us to determine a more accurate estimated profit/cost, we formulate project feasibility studies, project cost assessments and tendering strategies which include project overview, technical requirements, quantity list, cost budgets, tender price limits and estimated tender prices. We prepare such assessment based on (i) the actual conditions of the potential project; (ii) the terms of the tender documents; (iii) the quotations provided by the relevant suppliers; and (iv) our prior experience in similar projects. Generally, we will not carry out marketing and tendering activities for projects with an expected profit margin below our pre-determined level, and we will prudently consider bidding projects that fall within our assessment criteria.

We believe that our project selection criteria is a vital tool to allow us to take on projects that will have a positive effect on our profit and ensure orderly business operations.

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We have quality and safety management system in place that corresponds to customer requirements

In the course of providing services to our customers, we have implemented internationally-recognized standards for quality management. Our quality system has been evaluated and certified as satisfying the requirement of GB/T19001–2016/ISO9001:2015 and GB/T50430–2017 quality management system certification. For further information on the quality standards we have adopted, please refer to the paragraph headed “— Quality Control and Management” in this section. We have also established an occupational health and safety management system, which has been certified to satisfy the requirements of GB/T 45001–2020/ISO 45001:2018 standard.

We were recognized as an Advanced Quality Management Company* (質量管理先進單位) by the Customer H for the Beijing Gas Tianjin Nangang LNG Emergency Reserve Project* (北京燃氣天津南港LNG應急儲備項目) in September 2021, being the first energy conversion and air quality improvement project that our Group participated in. We believe that such recognition from our customers is significant to our future endeavors in projects related to the petrochemical engineering works and new energy construction works.

We believe that our continuing success in business primarily counts on our capability to meet customer’s requirements, especially those related to quality and safety, which will bring us business opportunities and assist us to maintain our competitiveness in the market. We believe that our quality and safety management system can help us provide our customers with consistent and professional construction services in the long run and assist in retaining our customers.

Our strong R&D capabilities in the construction field enable us to have a competitive edge in technological innovation

We are committed to developing and adopting innovative construction techniques and technologies to improve the efficiency and quality of our construction projects, thereby enhancing our Group’s competitive strengths in the construction industry. We believe that our R&D capabilities have made significant contributions to our success. As of the Latest Practicable Date, our Group had 19 utility models and four invention patents relating to construction techniques which were mainly related to the building equipment, pipeline structures, municipal and public infrastructure facilities. For instance, we have developed a treatment method for roadbed hazard (一種路基危害的處理方法) to be used in the saline and alkaline land (鹽鹼地鹽漬土地區) to reduce road cracks and corrosion. For further details, please refer to the section headed “Statutory and General Information” in Appendix VII to this document.

We believe that modern infrastructure construction will place greater emphasis on the application of advanced techniques and technologies and impose higher quality requirements compared to traditional construction projects. Therefore, a higher level of our technology and innovation standards is crucial for seizing future market opportunities.

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As of the Latest Practicable Date, our R&D team had 42 employees including personnel with qualifications of mid-level and senior engineer, construction engineer or cost engineer, providing technical guidance for our R&D activities. We believe that we possess competitive advantage in terms of construction technology innovation compared to our competitors since optimized construction solutions and cost reductions resulting from technological innovation are important factors in winning tenders, maintaining and improving profitability and competitiveness. In addition, we have received a number of honors and certificates for our technological innovation and digital development in the field of construction, including the Leading Enterprise in the Strategic Emerging Industries in Tianjin* (天津市戰略性新興產業領軍企業), Specialized, Sophisticated, Unique and Innovative Small and Medium-sized Enterprises in Tianjin City* (天津市「專精特新」中小企業), and Leading Nurturing Technological Enterprises in Tianjin* (天津市科技領軍培育企業) and High and New Technology Enterprise* (高新技術企業).

We believe that our dedicated efforts in R&D, combined with our industry experience and expertise, will enable us to keenly observe and adapt to the changing market trends and customer demands, keep up with the evolving technological advancements in the construction industry so as to stand out among our peers and further solidify our industry reputation and market position.

We have an experienced management team and professional personnel

Our experienced and competent management team has a wealth of operational knowledge and in-depth understanding of the construction industry in the PRC, which is essential to the development of our business.

Our management team is led by our executive Director, Mr. Zhao Kuanghua, who joined our Group in 2018 and possesses over a decade of experience in the construction industry. With his extensive experience and strategic vision, we developed sustainable business strategies and established our overall operational model, which has contributed to our current success. Our key management members possess over a decade of management skills and/or operational experience in construction industry or their respective areas of expertise, enabling us to develop competitive project solutions and address project challenges and associated market risks, which is instrumental in building our reputation in the market and the success of our business. For further details, please refer to the section headed “Directors, Supervisors and Senior Management” in this document.

During our Group’s development, our management team has been supported by talented personnel with extensive industry expertise and knowledge to cope with the ever-changing trends in the industry. To ensure the professionalism of our staff, we provide our employees with a range of training activities, including technical skills training and leadership training, allowing them to develop technical and management knowledge and to familiarize them with our projects and enterprise culture. Our Directors believe that our trainings are adequate for our employees to carry out their respective tasks and will in turn motivate our employees to provide professional construction services and better serve our customers.

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With the experience and technical knowledge of our management team, our Directors are confident that our Group will remain competitive in the industry, and thus strengthening our market position in the construction industry in the PRC.

BUSINESS STRATEGIES

Our goal is to increase our market share in the construction market in Tianjin and other regions in the PRC, while expanding our project types at the same time to further strengthen our position in the industry. In order to achieve this goal, we intend to implement the following strategies:

Further consolidate our industry advantages and undertake more large scale projects

According to the Frost & Sullivan Report, in the future, according to the “Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China” (《國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》), the Tianjin Municipal Government is actively implementing urban renewal actions and promoting high quality urban transformation to enhance the operational quality of municipal infrastructure. Efforts are being made to create green urban areas and to complete the renovation of old urban communities built before the year-end of 2000 by 2025. In addition, as construction projects become more complex and larger in scale with the increasing urbanization rate and the rapid development of the construction industry in the PRC, opportunities are created for construction companies, which require higher standards of project management in terms of modeling, evaluation and control to achieve an overall balance of time, cost, quality and safety. In the future, similar to the growth and development of the total output value of the construction industry, the total revenue of the construction industry is expected to grow continuously, and is expected to reach RMB36.1 trillion, representing a CAGR of 5.7% from 2022 to 2027. Further, the Tianjin municipal government is advancing the development of Binhai New Area (濱海新區) to accelerate the improvement of infrastructure and public services. As a city with well-established infrastructure and high environmental quality, Tianjin is expected to witness rapid development from 2022 to 2027. Tianjin’s municipal public construction market is forecast to reach approximately RMB71.1 billion in 2027, representing a CAGR of approximately 9.1% from 2022.

Since late 2020, in order to capture the business opportunities arising from the substantial investment in infrastructure projects of larger size by the local government in Tianjin, we adjusted our business focus from small-to-mid size construction projects to large scale construction projects (i.e. projects with original contract value (not including VAT) of more than RMB10.0 million) to expand our business and enhance our market position in the construction industry in Tianjin. We believe that projects with original contract value (not including VAT) of more than RMB10.0 million is an appropriate threshold to determine whether a project is “large scale” because (i) the average original contract value of new projects obtained by our Group for the years ended December 31, 2021, 2022 and 2023 was RMB4.5 million, RMB8.0 million and RMB12.4 million respectively; (ii) the overall average original contract value of new projects obtained by our Group during the Track Record Period was RMB6.9 million; and (iii) only 25 out of the

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116 projects (i.e. 21.6%) obtained by our Group during the Track Record Period had an original contract value of more than RMB10.0 million. During the Track Record Period, we recognized revenue of RMB203.2 million, RMB241.6 million and RMB265.3 million, from 11, 19 and 21 large scale projects, respectively, accounting for 73.9%, 83.9% and 83.1% of our total revenue of the same year, respectively. As of January 31, 2024, we had 12 ongoing large scale projects with a backlog value of RMB143.0 million, accounting for 89.5% of the total backlog value.

In early 2023, the Group entered into non-legally binding cooperation framework agreements with two Independent Third Parties which are state-owned city development and construction groups based in Tianjin in relation to a large-scale urban renewal project (the “**Urban Renewal Cooperation Framework Agreement**”) and the potential urban infrastructure construction projects (the “**Urban Infrastructure Cooperation Framework Agreement**”). The salient terms of the cooperation framework agreements and the information on the parties are as follows:

Urban Renewal Cooperation Framework Agreement

Date of the Urban Renewal Cooperation Framework Agreement: February 28, 2023

Parties:

- (1) a state-owned enterprise established in the PRC with limited liability and a registered capital of approximately RMB5,000 million, which is based in Tianjin (“**Party A**”). Party A, being a city investment corporation (城投公司), is principally engaged in urban renewal and development in Tianjin including Tianjin Economic-Technological Development Area and its parent company is a large state-owned enterprise with an operating history of more than 30 years, that develops real estate, comprehensive urban renewal and development public utility, high-end manufacturing and finance in Binhai New Area, Tianjin under the supervision of State-owned Assets Supervision Committee of Tianjin Municipality. The parent company has a total asset of more than RMB400 billion, equity of more than RMB100 billion and revenue of more than RMB80 billion for the year ended December 31, 2022; and

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(2) the Company

The Group became acquainted with Party A through the Tianjiang Apartment Projects, with Party A being the project owner. Tianjiang Apartment Projects consists of 11 projects in building construction which we have provided a wide range of building renovation, remodeling and upgrading services, with a contract sum of RMB137.3 million in total in second half of 2022 and in 2023. The Group has also been awarded a soil backfilling project from Party A with a contract sum of approximately RMB43.7 million, in a separate location in Tianjin in July, 2023.

Party A is one of the project implementation entities. The project is led by one of the largest comprehensive construction groups and the largest railway and highway engineering contractors in China implemented together with a few other state-owned construction enterprise as a consortium, which Party A is one of the project implementation entities.

Nature of the Urban Renewal Cooperation Framework Agreement:

A large-scale urban renewal project at the Binhai New Area, Tianjin, with an estimated total investment size of approximately RMB46.2 billion covering, among other things, infrastructure, public service facility constructions, industrial land development and residential land development. The project has been included in the Binhai New Area Urban Renewal Dedicated Plan (濱海新區城市更新專項規劃) prepared by Binhai New Area Branch of the Municipal Planning and Natural Resources Bureau of Tianjin (天津市規劃和自然資源局濱海新區分局) as one of the urban renewal projects to be prioritized for advancement.

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Term of the Urban Renewal Cooperation Framework Agreement:	Effective since February 28, 2023 and has no specified end date. Separate specific agreements will be entered into for each project awarded to the Group.
Scope of cooperation:	The project is to be jointly-executed by a consortium of state-owned construction groups, which is led by one of the largest comprehensive construction groups which is the largest railway and highway engineering contractors in China, which Party A is one of the project implementation entities. The Group will be involved in the preliminary works and provide construction services to the urban renewal project, including design and arrangement for construction work, new material applications and project cost control. The Group may be participating in project(s) through tenders with an expected aggregate contract amount of up to RMB1.5 billion.

In January 2024, the project implementation entities, including Party A, entered into the “North China Ceramics Region Urban Renewal Project Development Agreement” (華北陶瓷地區城市更新項目開發協議), signaturing the kick-off of the subject large-scale urban renewal project of this agreement. Based on the best knowledge and understanding of our Directors, as of February 29, 2024, this project is in the design and planning phase and is developing plans for the removal of the current occupants in the project area. It is expected that the tendering of engineering and construction contracts in relation to this project, including but not limited to demolition of the area and subsequent infrastructure and building works, will start after the removal phase. As such, our Group has not submitted tendered for the said urban renewal projects yet. We will continue to liaise with Party A closely in relation to the progress of the project and submit tenders for the urban renewal projects as appropriate.

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Urban Infrastructure Cooperation Framework Agreement

Date of the Urban Infrastructure Cooperation Framework Agreement: January 10, 2023

Parties:

- (1) Customer L is a state-owned enterprise established in the PRC with limited liability and a registered capital of approximately RMB15,000 million, and an asset size of more than RMB80 billion which is based in Tianjin (“**Party B**”). It has a mission to develop the Tianjin Nangang Industrial Zone and serve enterprises duties. It is mainly engaged in property and engineering management, social and economic consulting services, machinery and equipment leasing. It focuses on the investment in land reclamation and land development, construction of municipal infrastructure and other urban service facilities in Tianjin; and
- (2) the Company.

The Company became acquainted with Customer L through Nangang Industrial District Traffic Facilities Construction Project (南港工業區交通設施工程) in 2021, the contract sum of which was RMB12.3 million. During the Track Record Period, the Group participated in two other projects located in Nangang Industrial Zone, that Customer L was the project owner and the Company undertook them as a subcontractor, namely (i) Nangang Industrial Zone Petrochemical Pipeline Project (Phase I) (南港工業區石化管廊項目一標段) in 2021 with a contract sum of RMB12.9 million; and (ii) Nangang Industrial Lighting Transportation Facilities (Phase 2) (南港工業照明交通設施(第二階段)) in 2023 with the contract sum of RMB1.8 million.

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Nature of the Urban Infrastructure Cooperation Framework Agreement:	Various construction projects in relation to urban infrastructure construction projects, supporting projects, road projects, water conservancy projects, pipe projects and greening projects, which shall take place in the Tianjin Nangang Industrial Zone in Tianjin.
Term of the Urban Infrastructure Cooperation Framework Agreement:	Effective from April 20, 2023 to April 20, 2029. Separate specific agreements will be entered into for each project awarded to the Group.
Scope of cooperation:	The Group may participate in projects through tenders with an expected aggregated contract amount of up to RMB1.0 billion.

Tianjin Nangang Industrial Zone (天津市南港工業區) is a national level petrochemical industrial zone set up specifically within Tianjin Economic-Technological Development Area. It has a planned area of 200 square kilometers and is set up to improve the downstream industrial chains of new chemical materials, fine chemicals, new energy batteries, clean energy, etc., with an aim to build a world-class new chemical materials industrial base with international competitiveness. In 2009, “Outline of the Beijing Tianjin Hebei Coordinated Development Plan” (《京津冀協同發展規劃綱要》) promulgated by Political Bureau of the CPC Central Committee in 2015 has positioned Tianjin Nangang Industrial Zone as a world-class petrochemical industrial base (世界一流石化產業基地). Subsequent national policies has designated Tianjin Nangang Industrial Zone as the National Strategic Energy Reserve Base (國家能源戰略儲備基地) and a National New Industrial Demonstration Base (Petrochemical Industry) (國家新型工業化示範基地). According to the official website of Customer L, the Tianjin Nangang Industrial Zone had been awarded “Top 10 Potential Chemical Industry Parks in China” (中國化工園區潛力10強). It is also developing into a hub for petrochemical new-materials industry, among other developments. Furthermore, according to the Tianjin Nangang Industrial Zone’s “14th Five-Year Plan” (南港工業區「十四五」規劃), it is expected that the production value of the petrochemical manufacturing facilities will reach RMB130 billion. With its strategic positioning and development initiatives, based on the best knowledge and understanding of our Directors, there are multiple construction projects in the area of municipal construction, foundation works, building related construction work and petrochemical engineering works that are in progress or will kickstart from time to time. We will continue to liaise with Customer L closely in relation to relevant and suitable opportunities and submit tenders for projects as appropriate.

The Directors believe that Party A and Customer L entered into the framework agreements with us due to our satisfactory performance in our previous projects with Party A and customer L and our capability, reputation, qualifications and experience in the construction industry, which would bring a positive contribution to the respective projects.

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We believe that the sizable demand for infrastructure construction will bring continuous growth in construction industry. As an active participant in the construction market in Tianjin with over a decade of experience, we expect to continue to expand our business scale by capitalizing on the opportunities presented by policies and strategies. Going forward, we will prioritize larger, longer-term and more influential projects while observing the overall profit margin, taking into account the characteristics and influence of each project, to achieve our strategic development goals. However, 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 outflows at the early stage of projects as we are 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 reach the later stage. During the Track Record Period, our Group generally utilized internal resources as well as advances from our Controlling Shareholders to finance such up-front costs.

We intend to use approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) or [REDACTED] of the [REDACTED] from the [REDACTED] to fund up-front costs required for potential projects that meet our development requirements. For further details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Focus our business development effort on construction segments supported by government policies

According to the Frost & Sullivan Report, the 14th Five-Year Plan (2021–2025) for National Economic and Social Development (《國民經濟和社會發展「十四五」規劃(2021–2025)》) has proposed to speed up the construction of infrastructure in China covering the sectors of transportation, water conservancy, energy facilities, etc. to further improve national basic public services level. Given the expected growth in these related markets and favorable policies, we intend to expand our construction business into high-potential areas such as petrochemicals, new energy, new urban infrastructure construction by fully leveraging our Group’s existing strengths, market position and industry experience.

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Other than the macroscopic National 14th Five-Year Plan, set out below are the province/city-specific favorable government policies in relation to the relevant construction segments:

- **Tianjin:** Tianjin Commission of Commerce issued the “Tianjin Gas Station Spatial Layout Plan (2021–2035)” (《天津市加油站空間佈局規劃(2021–2035年)》). It is projected that by 2035, the average daily sales volume for each gas station should reach around 13,000 liters, with the total number of gas stations ranging from 1,050 to 1,150. Simultaneously, based on the “Tianjin Provincial Highway Network Plan (2020–2035)” (《省級公路網規劃(2020–2035年)》) the goal by 2035 is to essentially complete a safe, convenient, efficient, green, and economical highway transportation system, forming a national and provincial highway transportation system. In September 2023, the Urban and Rural Construction Committee of Tianjin issued the “Urban Renewal Action Plan for Tianjin (2023–2027)” (《天津市城市更新行動計畫(2023–2027年)》), which outlined the optimization of regional coordinated development and enhanced support for industrial development, with an aim to enhance the urban functions and public services in Binhai New Area.

In 2023, the Tianjin Development and Reform Commission announced a list of key construction and reserve projects, consisting of 855 projects with a total investment of RMB1.9 trillion. Among the municipal-level key projects for 2023, there are 296 projects with a planned investment of RMB10 billion or more, including 52 projects with an investment of RMB100 billion or more. The plan emphasizes the infrastructure development in 2023, focusing on areas such as energy, transportation, urban construction, industrial parks, and urban renewal. The goal is to enhance the municipal infrastructure system and comprehensively improve the carrying capacity of industrial parks. The report also outlines the construction of high-speed railways, including the projects for the Binhai New Area rail transit lines Z2, Z4, and B1, and the construction of subway lines 4, 7, 8, 10, and 11. Further, Beijing-Tianjin-Tanggu Expressway expansion project with a total investment of RMB14.6 billion was approved in early 2023, and it is expected that the expansion project would advance the development of Tianjin Port and play a leading role in transportation upon completion.

In November 2023, the People’s Government of Tianjin issued “Several Measures to Promote the Growth and Development of the Private Economy” (《關於促進民營經濟發展壯大的若干措施》) aiming to further optimize the environment for the development of the private economy. These measures include increasing policy support for the private economy, strengthening legal protection for the development of the private economy, and establishing lists of major projects, industrial projects, and franchising projects suitable for private capital participation. The initiative involves selecting high-quality projects with a certain level of returns and relatively mature conditions, concentrating efforts on promoting them to private enterprises, supporting private enterprises’ participation in state-funded project construction, and establishing an emergency assistance mechanism for private enterprises.

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In 2022, the Housing and Urban-Rural Development Department of Tianjin releases annual notices such as the “Notice on Key Points of Quality and Safety Work in Housing and Urban-Rural Construction” (《住房城鄉建設品質安全工作要點的通知》) and the “Notice on Promoting Technology (Product) Projects in the Field of Housing and Urban-Rural Construction” (《住房城鄉建設領域推廣技術(產品)項目的通知》). The key points of quality and safety work in housing and urban-rural construction in Tianjin emphasized responsibility for production safety, strengthening safety control for major construction projects and managing the quality of construction materials. Efforts are also being made to establish a dual prevention mechanism focusing on risk control and the investigation of hidden dangers. In addition, according to the promotion of technology (product) projects in the field of housing and urban-rural construction, Tianjin selects initiatives in line with national, industry, and local guidelines and standards for engineering construction. These initiatives should be advanced, scientifically sound and suitable for widespread use in cities. This further promotes technological innovation in housing and urban-rural construction, accelerating the transformation and upgrading of the construction industry.

- **Guizhou:** In 2023, Guizhou Province has put forward the acceleration of major projects to drive high-quality development. The province has planned over 4,000 major engineering projects with an annual investment target exceeding RMB800.0 billion. In the first quarter of 2023, there is a commitment to considering industrial support and other infrastructure as crucial support, initiating 88 projects with a total investment of RMB31.3 billion. In July 2023, the Guizhou Provincial Development and Reform Commission released the “Implementation Plan for New Urbanization in Guizhou Province (2023–2025)” (《貴州省新型城鎮化實施方案(2023–2025年)》). The policy emphasizes the promotion of high-quality development in the Gui’an New Area. Specific policy documents have been formulated to further accelerate the high-quality development of the Gui’an New Area, supporting deepening reforms, innovation the improvement of transportation networks, and reinforcing land, energy, and funding assurance, with corresponding policy incentives. The policy also mentions advancing urban transformation, constructing livable cities, and improving municipal public facilities.

In 2023, the official website of the People’s Government of Guiyang disclosed responses to various proposals from the Political Consultative Conference (CPPCC). In the reply to the proposal titled “Solve traffic bottlenecks and Alleviate Congestion” (《破解交通瓶頸改善交通擁堵》) it was mentioned that in 2023, Guiyang City aims to open up 15 roads or railways that are not connected to other corresponding road networks. This initiative aims to achieve rapid connectivity between industries and meet the needs of urban economic and social development. In response to the proposal titled “Promoting Smooth Inbound and Outbound Open Channels to Drive High-Quality Development of the Provincial Capital with Transportation” (《關於暢通對內對外開放通道以交通引領助推強省會高品質發展的建議》) Guiyang City stated its intention to promote the speed upgrade and renovation of the Guiyang-Guangzhou high-speed railway,

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the construction of the new Chongqing-Guiyang high-speed railway, and the addition of a second line to the Guizhou-Guangxi railway. The city plans to reasonably allocate high-quality resources and better leverage the role of transportation in leading and driving development. The response also emphasized the importance of coordination and stated that Guiyang will accelerate the expansion of the Ring Expressway and other major transportation infrastructure projects, addressing traffic bottlenecks problems within the urban area and strengthening connections and cooperation with cities along the route.

The People’s Government of Guiyang published the “Implementation Plan for Accelerating the Development of Prefabricated Buildings” (《貴陽市加快發展裝配式建築實施方案》) in 2022. For new construction projects funded by social investment, the proportion of prefabricated building implementation from 2022 to 2025 shall be no less than 30%, 40%, 50%, and 60% respectively. Comprehensive implementation of fully decorated buildings will be carried out. Implement coordinated design and construction of decoration and civil engineering, promote the transformation of traditional decoration companies, provide one-stop services, and meet consumers’ personalized needs.

- **Jiangxi:** the Department of Housing and Urban Rural Development in Jiangxi province issued the “Implementation Plan for Consolidating and Enhancing the Safe Production Management of Housing and Municipal Public Construction Projects in Jiangxi Province” (《江西省房屋市政工程安全生產治理行動鞏固提升實施方案》) in 2023. The work objectives focus on identifying the safety hazards in housing and municipal public construction projects. The department aims to effectively preventing and mitigating various risks and hazards. Efforts will be made to enhancing regulatory efficiency and promoting the digital transformation of construction safety supervision.

In 2023, Jiangxi Province is prioritizing the advancement of 3,558 large and medium-sized construction projects. This represents an increase of 103 projects compared to 2022, marking an annual growth rate of 3.0% from 2022. The total investment for 2023 is RMB4.6 trillion, showing an increase of RMB777.5 billion compared to 2022, reflecting an annual growth rate of 20.5%. The projects primarily focus on the infrastructure sector, with a particular emphasis on implementing 854 large and medium-sized projects in transportation, energy, water conservancy, municipal infrastructure, etc., amounting to a total investment of RMB1,169.8 billion. Additionally, there are projects in the field of industrial upgrading, with a focus on machinery manufacturing, electronic information, and others. Beyond that, there are also initiatives in the public services and ecological environmental protection sectors.

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In the same year, Department of Housing and Urban Rural Development in Jiangxi province also released the “Three-Year Action Plan for Digital Housing and Urban-Rural Development” (《江西省「數位住建」建設三年行動計劃》). The policy plan aims to significantly enhance the application of digital technology capabilities in the housing and urban-rural development sector throughout the province by the end of 2023. By the end of 2025, the province intends to achieve a leading level of digital technology application capabilities in the housing and urban-rural development sector, ensuring “a unified platform, data sharing, and collaborative efficiency” across various industries. This will involve establishing a provincial housing and urban-rural development big data center, as well as the development of the City Information Model (CIM) foundational platform and Building Information Model (BIM) technology platform. Additionally, the plan aims to promote “digital+” research and application in various fields such as urban health assessment, urban safety, and smart construction.

According to the 2023 Nanchang Government Report, Nanchang City will continue to promote high-quality economic development and expand effective investment in 2023. It emphasizes strengthening investment attraction across the entire industrial chain and prioritizing the advancement of 650 major key projects in the city, with an annual planned investment of RMB225.0 billion. The report also underscores the acceleration of significant infrastructure construction, with continued efforts to advance major projects such as Hongzhou Bridge, Fuxing Bridge, Longxing Bridge, Nanchang East Station, etc. Also, the report outlines the commitment to further improve urban functional support, comprehensively advance the construction of a sponge city, and achieve a construction area exceeding 42.0% for sponge city development within the urban area. Additionally, there are plans to undertake the transformation of 303 old urban residential communities.

- **Shaanxi:** In early 2023, Shaanxi Province announced its annual key project plan, which includes 643 provincial key projects with a total investment of RMB2,035.6 billion. The annual investment is planned to be RMB481.8 billion. Within the significant infrastructure advancement projects, there are 41 ongoing projects and 29 new projects, including the construction of Metro Lines 8 and 10, the Dongzhuang Water Conservancy Hub, and power substation projects.

In the 2023 government report of Xi’an, it was proposed to adhere to the leadership of constructing the national central city, with a clear task of optimizing the urban spatial layout in 2023. Initiatives include commencing projects such as the northward extension of Beichen Avenue. Support will be provided for the innovative development of Xixian New Area, and efforts will be intensified to advance the planning, design, and road improvement in the eastern of the city. The report also emphasizes the acceleration of the construction of six subway lines, with three new subway lines to be opened, surpassing a total operational mileage of 300 kilometers. Additionally, in 2023, 26 new and expanded primary and secondary schools and kindergartens are planned for construction. Simultaneously, Shaanxi Province is gradually promoting the construction of

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the Xi’an metropolitan circle, which includes enhancing transportation connectivity, expediting comprehensive transformation and improvement projects such as the Century Avenue.

The local government of Shaanxi Province has issued a series of policies and regulations to encourage and promote the development of the construction industry. General Office of the People’s Government of Shaanxi Province published the “Implementation Suggestions for Promoting High-Quality Development in the Construction Industry” (《關於推動建築業高品質發展的實施意見》) in 2022. By 2025, there will be significant progress in the development of intelligent construction. Efforts will be made to continuously optimize the industry structure. The quality assurance system will be further enhanced. Simultaneously, efforts will be made to establish overseas development platforms for companies within the province and support construction company in undertaking foreign contracting projects.

In 2023, the People’s Government of Shaanxi Province published the “Implementation Opinions on Carrying Out the Outline for Building a Powerful Country with Quality” (《陝西省關於貫徹落實《品質強國建設綱要》的實施意見》). It aims to implement quality improvement projects for construction, carry out quality demonstration project creation activities, raise the quality level of construction materials, and strengthen the assurance of engineering quality. Actively promote general contracting for projects, improve technical standards for engineering consulting services such as supervision and cost estimation, and provide products that are functional, economically, and reliable. Enhance the integration and innovative application of new technologies such as big data and Building Information Modeling (BIM), promoting the upgrading of the construction industry towards industrialization, digitization, and intelligence.

Petrochemical engineering

With our first-grade qualification in petrochemical engineering construction general contracting* (石油化工工程施工總承包壹級資質) and other relevant construction qualifications, we possess the capability to develop and undertake a wide range of petrochemical engineering projects, such as public and industrial pipe construction, by fully exploring and seizing opportunities arising from favorable market conditions. During the Track Record Period, we undertook a total of 28 petrochemical engineering projects with a total revenue of RMB38.8 million, with contract amount ranging from RMB16,600 to RMB18.1 million. The Group has been participating in petrochemical engineering projects in Nanchang since 2020 and has further expanded its operations to other parts of Jiangxi Province.

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The possession of such first-grade qualification in petrochemical engineering construction would enable the Group to undertake all categories of petrochemical engineering construction projects, including “large scale petrochemical engineering projects”, “medium scale petrochemical engineering projects” and other petrochemical engineering projects as provided under the Qualification Standards of Construction Enterprises (《建築業企業資質標準》). During the Track Record Period, the Group has participated in tenders for and has successfully obtained certain petrochemical engineering projects which require first-grade qualifications in petrochemical engineering construction, such as the Fengxi New City Natural Gas High-pressure Gas Supply Pipeline Project (Phase II) (灃西新城天然氣高壓供氣管道工程二標段) in Shaanxi Province and the Tianjin Nangang LNG Emergency Reserve Project (天津南港LNG應急儲備項目) in Tianjin. Going forward, the Group believes that it will be able to obtain different categories of petrochemical engineering construction projects from large petrochemical corporations by leveraging its first-grade qualification in petrochemical engineering construction. As the Group possesses the knowledge and skills, the personnel with the required qualifications and experience, and has proven track record in petrochemical engineering construction, the Directors consider that the Group has higher chances in securing different categories of petrochemical engineering construction projects and achieve revenue growth. Besides, the possession of first-grade qualifications including petrochemical engineering construction enhances the reputation and credibility of the Group which would in turn allow the Group to take part in more multiphase, larger scale and high-profile projects in those areas which may require the contractor to possess various qualifications at the same time to cater for needs of the development.

New energy engineering

According to the Frost & Sullivan Report, the “14th Five-Year Plan on Renewable Energy Development” (《「十四五」可再生能源發展規劃》), jointly issued by nine ministries, including the NDRC and the National Energy Administration, proposes to coordinate the promotion of green hydrogen terminal supply facilities and capacity construction and increase the proportion of green hydrogen used in the transportation sector. With the continuous introduction of policies encouraging hydrogen energy development by local governments and the increasing penetration rate of hydrogen fuel vehicles in the transportation sector, it is expected that the construction of hydrogen energy stations in the PRC will grow rapidly. Leveraging our experience in participating in the construction of hydrogen energy stations during the Track Record Period, we will actively participate in the construction of related projects for the application of renewable energy in the transportation sector.

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New urban infrastructure construction

During the Track Record Period, we participated in multiple intelligent building construction projects and smart city related projects, thereby accumulating extensive experience in industrial expansion and project operation. According to Frost & Sullivan, intelligent building is a term commonly used in the construction industry. It refers to an optimal integration of a building’s structure, systems, services, and management using modern information technology and other related technological methods to meet the needs of users, and aims to provide a humanized building environment that is safe, comfortable, and convenient. According to the Frost & Sullivan Report, the “14th Five-Year Urban Infrastructure Construction Plan” (《「十四五」全國城市基礎設施建設規劃》) proposes to promote the systematic construction of urban infrastructure, improve the operational efficiency of urban infrastructure comprehensively, create joint contribution and shared benefits environment, and promote the formation of a new pattern of coordinated development between urban and rural areas. The plan also sets the percentage of investment in urban infrastructure construction to the total fixed asset investment in the society at no less than 8%, which is higher than the approximately 6.7% as stipulated in the “13th Five-Year Plan”. Therefore, we believe that there will still be considerable market potential in the construction sector during the 14th Five-Year Period. Leveraging our Group’s experience, we believe that we can actively integrate into national strategies while maintaining our current market position, seize regional development opportunities and advance our advantageous position.

We intend to use approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) or approximately [REDACTED] from the [REDACTED] of the [REDACTED] to acquire and invest in other construction companies that focus on petrochemical engineering, new energy engineering or new urban infrastructure construction, which hold the relevant licenses or qualifications to undertake such works. For further details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Expand our business in other regions of the PRC

During the Track Record Period and up to the Latest Practicable Date, we are headquartered in Tianjin and primarily based our operation in Tianjin. Notwithstanding that the majority of our projects were carried out in, and a considerable part of revenue was generated from, Tianjin during the Track Record Period, we also bid and were awarded projects outside Tianjin in cities such as Nanchang, Xi’an and Guiyang during the Track Record Period. Our revenue generated from our construction projects in regions outside Tianjin accounted for 7.1%, 2.6% and 13.4% of our total revenue generated from construction projects for the years ended December 31, 2021, 2022 and 2023, respectively. Based on our past experiences in undertaking construction projects in regions outside Tianjin, our Directors believe that it would be favorable and feasible for our Company to capture the local business opportunities to further expand our footprint and establish business presence in regions outside Tianjin.

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According to Frost & Sullivan, (i) the output value of construction industry in Shaanxi province reached approximately RMB1,006.8 billion in 2022 and ranked fourth in terms of output value of construction industry among all provinces in China, and is expected to reach approximately RMB1,376.2 billion in 2027 at a CAGR of 6.5%; (ii) the output value of construction industry in Jiangxi province witnessed a rapid increase from approximately RMB699.3 billion in 2018 to approximately RMB1,069.5 billion in 2022 at a CAGR of 11.2% and is expected to increase to approximately RMB1,552.5 billion in 2027 at a CAGR of 7.7%; and (iii) the output value of construction industry in Guizhou province increased from approximately RMB333.0 billion in 2018 to approximately RMB426.0 billion in 2022 at a CAGR of 6.4% and is expected to reach approximately RMB543.2 billion in 2027 at a CAGR of 5.0%. For further details, please refer to the section headed “Industry Overview” in this document.

Based on the above, we intend to establish branch offices or representative offices in Xi’an, Nanchang and Guiyang in the near future to facilitate our communication with customers or potential customers in Shaanxi province, Jiangxi province and Guizhou province with an aim of better understanding the service needs of our customers, obtaining more construction projects in these regions, and providing timely and responsive services to local customers.

We intend to use approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) or approximately [REDACTED] from the [REDACTED] of the [REDACTED] to establish local branch offices in regions outside Tianjin and expand our business presence in more cities in the PRC. For further details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Further enhance our R&D capabilities

We believe that our efforts in R&D will not only enhance our capability to develop new technologies and software but also improve our service quality, construction efficiency and market competitiveness, which would ultimately contribute to the expansion of our business scale and the improvement of our operating results. During the Track Record Period, we continuously invested in our construction project management software to enhance our technology capabilities and streamline our construction projects. In the future, we will further invest in R&D infrastructure to strengthen our technology advantages.

We plan to recruit more experienced R&D personnel with relevant track record in both software development and construction industry with the aim to accelerate the transformation of scientific research results.

Furthermore, we will seek to collaborate with reputable domestic universities to conduct research to keep abreast of technology innovation in the industry, so as to timely enhance our ability to acquire new construction technologies and improve our Group’s existing digital management software. We will also invest in various equipment and software necessary to conduct such research.

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Our increased investment in R&D capabilities and technological innovation will enable us to enhance our construction capability and technological advantages, and allow us to prospectively and timely respond to the ever-changing needs of our customers, and ultimately lead to the quality of our services. In light of this, we intend to allocate approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) or approximately [REDACTED] of the [REDACTED] from the [REDACTED] to enhance our R&D capabilities, including (i) purchasing hardware and equipment to upgrade and improve our Jiexiao System; (ii) recruiting competent and competitive professionals to lead our R&D activities; and (iii) purchasing software for upgrading and improving functionality of our Jiexiao System.

OUR BUSINESS MODEL

The services we provide can be broadly divided into four business types in terms of their nature, namely (i) municipal public construction works; (ii) foundation works; (iii) building construction related works; and (iv) petrochemical engineering works. We have also unified and centralized management of our Group’s construction projects by applying our self-developed management software, thereby helping to enhance the cost efficiency of our Group.

The following table sets forth a breakdown of revenue by types of construction services for the periods indicated:

	Year ended December 31,					
	2021		2022		2023	
	Revenue RMB'000	% of total revenue %	Revenue RMB'000	% of total revenue %	Revenue RMB'000	% of total revenue %
Municipal public construction works	144,712	52.6	86,469	30.0	186,201	58.3
— Traffic facilities construction	50,048	18.2	3,683	1.3	43,980	13.8
— Road construction	94,664	34.4	82,786	28.7	142,221	44.5
Foundation works	89,153	32.4	20,476	7.1	83,265	26.1
— Foundation construction	84,373	30.7	20,287	7.0	38,027	11.9
— Earthwork	4,780	1.7	189	0.1	45,238	14.2
Building construction related works	19,236	7.0	171,286	59.5	41,155	12.9
Petrochemical engineering works	21,703	8.0	8,918	3.1	8,195	2.5
Other⁽¹⁾	140	*	811	0.3	621	0.2
Total	<u>274,944</u>	<u>100.0</u>	<u>287,960</u>	<u>100.0</u>	<u>319,437</u>	<u>100.0</u>

* less than 0.1

Note:

- (1) Our other revenue included service income generated from the provision of software services such as usage of the Jiexiao System. During the Track Record Period, we provided software services in relation to the Jiexiao System to external parties such as our suppliers and other market users while charging them with platform subscription fee and other services fee. For details of the Jiexiao System, please refer to “— Intellectual Property — Our Jiexiao System” in this section.

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We have been focusing mainly on municipal public construction works since our establishment and the increase of our revenue contribution from building construction related works for the year ended December 31, 2022 was mainly because we undertook 10 out of 11 building construction related projects in relation to the overall renovation and remodeling of the Tianjin municipal government subsidized apartments (the “**Tianjiang Apartment Projects (天江公寓項目)**”) in the second half of 2022. We became aware of the Tianjiang Apartment Projects when the relevant government authority published the registration of the Tianjiang Apartment Projects in early August of 2022, and were being notified to participate in the tendering for such projects from late August of 2022 onwards. We were awarded with the Tianjiang Apartment Projects in the second half of 2022 by way of tender. Our PRC Legal Adviser is of the view that, based on relevant bid and tender materials as well as other relevant documents reviewed, the award of the Tianjiang Apartment Projects to our Group was in compliance with the Bid Invitation and Bidding Law of the PRC (中華人民共和國招標投標法) and other relevant tender laws and regulations. The projects were classified as subsidized housing and health station emergency projects by the municipal government in response to COVID-19 at the time and we were required to complete the projects within a tight contract schedule. The Group therefore focused on and deployed most of its resources on the Tianjiang Apartment Projects (天江公寓項目) and undertook fewer projects of other construction types in 2022, leading to a significant increase in the revenue generated from building construction related works. After the substantial completion of construction works for Tianjiang Apartment Projects in late 2022, for the year ended December 31, 2023, our revenue generated from municipal public construction works accounted for 58.3% of our total revenue and was our largest segment in the period.

As we are a construction group offering comprehensive construction services and possesses the relevant qualifications in general contracting qualifications in municipal public construction works, building construction works, petrochemical engineering works and highway construction works, we are able to accommodate the market demand at different times and can undertake construction projects in all its four segments. On the basis of continuing its focus on municipal public construction, we will try to seize all available business opportunities and participate in projects within our capacity. It is expected that we will continue to maintain this business strategy going forward.

During the Track Record Period, we performed Tianjiang Apartment Projects (天江公寓項目) for three customers (being Xintai Zhihui (Tianjin) Technology Company Limited* (鑫泰智慧(天津)科技有限公司) (“**Xintai Zhihui**”), Customer C and Customer Z), which consisted of 11 building construction related projects. Among those 11 projects, three were material procurement projects and were related to our provision of construction services to these customers. We entered into those material procurement contracts based on our customers’ requests. Xintai Zhihui is a private enterprise established in the PRC with limited liability and a registered capital of approximately RMB76 million. It is mainly engaged in construction design, building renovation and decoration. Customer Z is a private enterprise established in the PRC with limited liability and a registered capital of approximately RMB102 million. It is mainly engaged in building engineering construction, electric power engineering construction and landscaping engineering construction.

BUSINESS

Customer C is one of our top five customers during the Track Record Period. For further details of Customer C, please refer to “Customers, Sales and Marketing — Customers” in this section.

The revenue recognized for provision of material procurement services to Xintai Zhihui, Customer Z and Customer C amounted to RMB24.9 million, RMB3.8 million and RMB0.1 million, respectively, for the year ended December 31, 2022 and RMB6.1 million, RMB1.4 million and RMB2.8 million, respectively, for the year ended December 31, 2023. As we only commenced those three material procurement projects in 2022, no revenue was recognized from the material procurement projects for the year ended December 31, 2021.

The revenue recognized for the construction services from Xintai Zhihui, Customer Z and Customer C amounted to nil, nil and RMB3.1 million respectively, for the year ended December 31, 2021; RMB20.7 million, RMB3.2 million and RMB94.4 million respectively, for the year ended December 31, 2022; and RMB0.5 million, RMB0.2 million and RMB63.8 million respectively, for the year ended December 31, 2023.

The following table sets forth the breakdown of our revenue generated from our provision of construction services by geographic location for the periods indicated:

	Year ended December 31,					
	2021		2022		2023	
	Revenue <i>RMB'000</i>	% of revenue generated from construction projects ⁽¹⁾ %	Revenue <i>RMB'000</i>	% of revenue generated from construction projects ⁽¹⁾ %	Revenue <i>RMB'000</i>	% of revenue generated from construction projects ⁽¹⁾ %
Tianjin	255,236	92.9	279,685	97.4	276,156	86.6
Shaanxi	1,586	0.6	195	0.1	19,662	6.2
Guizhou	—	—	1,007	0.3	6,112	1.9
Jiangxi	5,143	1.9	6,262	2.2	2,823	0.9
Shandong	5,916	2.1	—	—	—	—
Liaoning	5,000	1.8	—	—	—	—
Anhui	1,923	0.7	—	—	—	—
Hebei	—	—	—	—	14,063	4.4
Total	274,804	100.0	287,149	100.0	318,816	100.0

Note:

- (1) Our total revenue generated from construction projects included revenue generated from municipal public construction works, foundation works, building construction related works and petrochemical engineering works during the Track Record Period.

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The following table sets forth a breakdown of our revenue and gross profit of construction services by nature of our projects for the periods indicated:

	Year ended December 31,											
	2021				2022				2023			
	Revenue RMB'000	% of revenue generated from construction projects ⁽¹⁾	Gross profit margin %	% of gross profit generated from construction projects ⁽¹⁾	Revenue RMB'000	% of revenue generated from construction projects ⁽¹⁾	Gross profit margin %	% of gross profit generated from construction projects ⁽¹⁾	Revenue RMB'000	% of revenue generated from construction projects ⁽¹⁾	Gross profit margin %	% of gross profit generated from construction projects ⁽¹⁾
Public	208,472	75.9	27.5	80.1	230,528	80.3	26.2	84.2	187,463	58.8	24.5	57.6
Private	66,332	24.1	21.4	19.9	56,620	19.7	20.1	15.8	131,353	41.2	25.7	42.4
Total	274,804	100.0	26.0	100	287,148	100.0	25.0	100	318,816	100.0	25.0	100.0

Note:

(1) Our total revenue generated from construction projects included revenue generated from municipal public construction works, foundation works, building construction related works and petrochemical engineering works during the Track Record Period.

During the Track Record Period, our revenue contribution from public projects decreased from 75.9% for the year ended December 31, 2021 to 58.8% for the year ended December 31, 2023. Our Directors are of the view that the shift of revenue contribution was due to the nature of our industry, which our projects were primarily obtained through tendering and were awarded on a one-time basis. Given that the expertise and knowhow required for public and private projects are similar, and we possess a wide range of construction qualifications and licenses that allow us to provide comprehensive construction services, we try to seize all available business opportunities and participate in projects within our capacity regardless of the nature of the projects. We will continue to maintain this business strategy going forward.

BUSINESS

During the Track Record Period, we undertook projects as a main contractor or a subcontractor in our construction services projects. The following table sets forth the revenue and gross profit breakdown by our role of our projects during the Track Record Period:

	Year ended December 31,											
	2021				2022				2023			
	Revenue RMB'000	% of revenue generated from construction projects ⁽¹⁾ %	Gross Profit RMB'000	% of gross profit generated from construction projects ⁽¹⁾ %	Revenue RMB'000	% of revenue generated from construction projects ⁽¹⁾ %	Gross Profit RMB'000	% of gross profit generated from construction projects ⁽¹⁾ %	Revenue RMB'000	% of revenue generated from construction projects ⁽¹⁾ %	Gross Profit RMB'000	% of gross profit generated from construction projects ⁽¹⁾ %
Main Contractor	160,267	58.3	42,550	26.5	93,121	32.4	19,518	21.0	183,397	57.5	50,341	27.4
Subcontractor	114,557	41.7	29,016	25.3	194,027	67.6	52,266	26.9	135,419	42.5	29,344	21.7
Total	274,804	100.0	71,566	26.0	287,148	100.0	71,784	25.0	318,816	100.0	79,685	25.0

Note:

- (1) Our total revenue generated from construction projects included revenue generated from municipal public construction works, foundation works, building construction related work and petrochemical engineering works during the Track Record Period.

BUSINESS

Municipal public construction works

During the Track Record Period, the majority of our revenue was derived from the municipal public construction works. Our municipal public construction works mainly include road construction and traffic facilities construction. The customers of our municipal public construction works are mainly government authorities and state-owned enterprises. During the Track Record Period, we were awarded 23, seven and 11 municipal public construction projects, respectively. As of December 31, 2023, we had 13 ongoing municipal public construction projects.

Foundation works

We provide foundation works services, which mainly included foundation construction and earthworks. We have first-grade qualification in foundation construction professional contracting* (地基基礎工程專業承包一級資質). Our customers for foundation works are mainly state-owned enterprises and private enterprises. During the Track Record Period, we were awarded two, four and three foundation works projects, respectively. As of December 31, 2023, we had four ongoing foundation works projects.

Building construction related works

We provide building construction related works services, mainly including building renovation and decoration and intelligent building construction. Our customers for building construction related works are mainly government authorities, state-owned enterprises and private enterprises. During the Track Record Period, we were awarded 25, 13 and three building construction related projects, respectively. As of December 31, 2023, we had eight ongoing building construction related projects.

Petrochemical engineering works

We provide petrochemical engineering works services^{Note}, which refer to construction works involving petrochemical processes or petrochemical plants, and we mainly undertook filling station upgrading and renovation, pipe installation and oil tank overhaul projects during the Track Record Period. We have the first-grade qualification in petrochemical engineering construction general contracting* (石油化工工程施工總承包壹級資質). Our customers for petrochemical engineering works are mainly state-owned enterprises. During the Track Record Period, we were newly awarded 11, seven and seven petrochemical engineering projects, respectively. As of December 31, 2023, we had two ongoing petrochemical engineering projects.

Note: According to the Qualification Standards of Construction Enterprises (《建築業企業資質標準》) for construction industry enterprises, petrochemical engineering refers to main projects such as oil and gas field surface, oil and gas storage and transportation (pipelines, storage warehouses, etc.), petrochemical, chemical, coal chemical, and relevant production auxiliary projects.

BUSINESS

The following table sets forth details of the movements of the number of ongoing construction projects and completed construction projects of our Group by project type during the Track Record Period:

	Municipal public construction works		Foundation works		Building construction related works		Petrochemical engineering works		Total	
	Number of contracts attributed	Contract amount ⁽²⁾	Number of contracts attributed	Contract amount ⁽²⁾	Number of contracts attributed	Contract amount ⁽²⁾	Number of contracts attributed	Contract amount ⁽²⁾	Number of contracts attributed	Contract amount ⁽²⁾
		RMB'000		RMB'000		RMB'000		RMB'000		RMB'000
For the year ended December 31, 2021										
Opening ongoing construction projects	17	87,843	3	66,610	6	8,988	3	3,813	29	167,254
Add: Newly contracted construction projects	23	170,215	2	56,472	25	29,804	11	17,618	61	274,109
Less: Completed construction projects ⁽¹⁾	28	77,886	1	47,782	25	13,047	8	13,798	62	152,513
Closing ongoing construction projects	12	180,172	4	75,300	6	25,745	6	7,633	28	288,850
For the year ended December 31, 2022										
Opening ongoing construction projects	12	180,172	4	75,300	6	25,745	6	7,633	28	288,850
Add: Newly contracted construction projects	7	34,890	4	18,563	13	169,104	7	24,359	31	246,916
Less: Completed construction projects ⁽¹⁾	7	114,422	3	59,549	10	80,734	9	8,825	29	263,530
Closing ongoing construction projects	12	100,640	5	34,314	9	114,115	4	23,167	30	272,236
For the year ended December 31, 2023										
Opening ongoing construction projects	12	100,640	5	34,314	9	114,115	4	23,167	30	272,236
Add: Newly contracted construction projects	11	193,046	3	87,065	3	13,197	7	3,177	24	296,485
Less: Completed construction projects ⁽¹⁾	10	188,016	4	64,624	4	49,427	9	4,426	27	306,492
Closing ongoing construction projects	13	105,670	4	56,755	8	77,885	2	21,918	27	262,229

Notes:

1. Completion date was based on (i) the date of the project completion inspection report issued by our customers or their authorized persons; or (ii) the date when the contract value has been recognized in full as revenue. “Completed construction projects” refer to projects which the construction works are fully completed during such period, the amount being deducted in the above table represents the contract value of such projects.
2. The contract amount does not include VAT and variation orders.

BUSINESS

Completed construction projects

As of December 31, 2023, we completed 118 construction projects with a total contract amount (excluding variation orders) of RMB722.5 million during the Track Record Period. The following table sets forth information on the top 10 construction projects completed by our Group as of December 31, 2023 (based on the total revenue recognized during the Track Record Period):

Ranking	Project name	Customer	Project type	Project description	Project location	Commencement date	Completion date ⁽¹⁾	Approximate project period	Contract amount ⁽²⁾	Revenue recognized prior to the Track Record Period	Revenue recognized for the year ended December 31, 2021	Revenue recognized for the year ended December 31, 2022	Revenue recognized for the year ended December 31, 2023	Total revenue recognized during the Track Record Period
									RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Hengsheng Flood Control Bulk Yard Project (恒勝防汛堆棧工程)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	May 2021	November 2022	19 months	90,985	—	491,78	41,807	—	90,985
2	Tianjin Wangzi East Project (Phase II) (天津市王子東項目二標段)	Tianjin Hezhong Trading Company Limited* (天津市和眾貿易有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	August 2023	November 2023	4 months	55,714	—	—	—	55,714	55,714
3	Tianjin Nangang Foundation Pre-treatment Project (天津南港基礎處理項目)	Customer E	Foundation works	Foundation construction work	Binhai New Area, Tianjin	March 2021	September 2021	7 months	47,769	—	47,769	—	—	47,769
4	Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project (天津濱海新區醫藥產業園建設專案土方回填工程)	Customer B	Foundation works	Earthworks	Binhai New Area, Tianjin	August 2023	December 2023	4 months	43,733	—	—	—	43,733	43,733
5	Tianjin Wangzi East Project (Phase I) (天津市王子東項目一標段)	Tianjin Hezhong Trading Company Limited* (天津市和眾貿易有限公司)	Municipal public construction works	Road construction	Binhai New Area, Tianjin	April 2023	July 2023	4 months	39,339	—	—	—	39,339	39,339
6	Tianjin Nangang LNG Emergency Reserve Project (天津南港LNG應急儲備項目)	Customer H	Municipal public construction works	Water supply and drainage	Binhai New Area, Tianjin	June 2021	April 2023	23 months	35,355	—	161,07	18,251	997	35,355
7	Wuyi Yangguang Piling Project (五一陽光樁基項目)	Customer F	Foundation works	Pile foundation works	Wuqiang District, Tianjin	November 2018	January 2022	39 months	38,258	3,482	34,728	48	—	34,776

BUSINESS

Ranking	Project name	Customer	Project type	Project description	Project location	Commencement date	Completion date ⁽¹⁾	Approximate project period	Contract amount ⁽²⁾	Revenue recognized prior to the Track Record Period	Revenue recognized for the year ended December 31, 2021	Revenue recognized for the year ended December 31, 2022	Revenue recognized for the year ended December 31, 2023	Total revenue recognized during the Track Record Period
									RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
8	Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement – Yu Jia Cheng (天江公寓維修電機材料採購 – 裕嘉程)	Xintai Zhihui	Building construction related works	Electrical and mechanical equipment procurement	Binhai New Area, Tianjin	September 2022	December 2023	16 months	30,976	—	24,904	6,072	30,976	
9	Construction of Temporary Parking Lot at Wangzi East Area No. 10 (10號王子東臨時停車場工程)	Tianjin Hezhong Trading Company Limited* (天津市和眾工贸有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	December 2023	December 2023	1 month	27,757	—	—	27,757	27,757	
10	Decoration and Renovation Professional Subcontracting Project of Tianjiang Apartment Affordable Rental Housing Improvement and Renovation Project – Jianfa (天江公寓裝修專業分包 – 建發)	Customer C	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	September 2022	November 2023	15 months	22,090	—	16,815	5,275	22,090	

Notes:

- Completion date was based on (i) the date of the project completion inspection report issued by our customers or their authorized persons; or (ii) the date when revenue is recognized in full for the contract amount as amended from time to time.
- The contract amount does not include VAT.

BUSINESS

Ongoing construction projects

As of December 31, 2023, we had 27 ongoing construction projects with a total contract amount (excluding variation orders) of RMB262.2 million. The following table sets forth information regarding the top 10 ongoing construction projects undertaken by our Group as of December 31, 2023 (based on the total revenue recognized during the Track Record Period):

Ranking	Project name	Customer	Project type	Project description	Project location	Commencement date	Expected Completion Date ⁽¹⁾	Approximate project period	Contract amount ⁽²⁾ RMB'000	Revenue recognized prior to the Track Record Period RMB'000	Revenue recognized for the year ended December 31, 2021 RMB'000	Revenue recognized for the year ended December 31, 2022 RMB'000	Revenue recognized for the year ended December 31, 2023 RMB'000	Total revenue recognized during the Track Record Period RMB'000	Revenue expected to be recognized for the year ending December 31, 2024 ⁽³⁾ RMB'000
1	Outdoor Professional Subcontracting Project of Tianjing Apartment Project (大江公寓室外工程專業分包)	Customer C	Building construction related works	Pipe construction works	Binhai New Area, Tianjin	September 2022	January 2024	17 months	31,363	—	—	18,194	13,110	31,304	59
2	Professional Subcontracting of Pile Foundation Works for Tianjin Shuren Secondary and Higher Specialized School Project (天津市靜人中等、高等專科學校基礎工程專業分包)	Customer C	Foundation works	Pile foundation works	Beodi District, Tianjin	October 2023	December 2024	15 months	32,668	—	—	—	27,576	27,576	4,792
3	Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區研發城建設工程二期)	Customer D	Municipal public construction works	Traffic facilities construction	Xiqing District and Binhai New Area, Tianjin	June 2021	December 2024	43 months	30,244	—	11,835	1,323	11,083	24,242	6,002
4	Tianjing Apartment Decoration Professional Subcontracting — Binhai Construction (大江公寓裝飾專業分包 — 濱海建設)	Customer C	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	November 2022	February 2024	16 months	17,040	—	—	15,867	1,153	17,002	38
5	Infrastructure Construction Project of Nandagang Coastal Industrial Park — South Erjing Road (南大港濱海產業園基礎設施建設項目 — 二期路南段)	Cangzhou Bohai New District South Dagang Industrial Park Construction, Transportation and Environmental Protection Management Center (滄州濱海新區南大港產業園建設交通環線管理中心)	Municipal public construction works	Traffic facilities construction	Cangzhou, Hebei	August 2023	July 2024	12 months	24,166	—	—	—	12,757	12,757	11,409
6	Tianjin Apartment Low Voltage Professional Construction Contracting — Jianta (大江公寓專業分包 — 建務)	Customer C	Building construction related works	Intelligent building construction	Binhai New Area, Tianjin	September 2022	January 2024	17 months	11,940	—	—	11,065	863	11,928	12
7	Xanqiang Jayuan Comprehensive Environmental Improvement Project (新咸家園小區環境綜合整治工程)	Customer C	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	February 2022	March 2024	26 months	16,650	—	—	9,320	—	9,320	7,310

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Ranking	Project name	Customer	Project type	Project description	Project location	Commencement date	Expected Completion Date ⁽¹⁾	Approximate project period	Contract amount ⁽²⁾	Revenue recognized prior to the Track		Revenue recognized for the year ended		Revenue expected to be recognized for the year ending December 31, 2024 ⁽³⁾
										Record Period	2021	2022	2023	
8	Tianjin Port Free Trade Zone Berth 1C Rear Yard Project (天津港保税區C13泊位后方堆棧工程)	Customer N	Building construction related works	Building and ancillary facilities construction	Bihai New Area, Tianjin	October 2023	April 2024	7 months	9,633	—	—	6,676	2,957	
9	Tianjin Subway Line 11 Earthworks Project (天津地鐵11號線土石工程項目)	Customer K	Foundation works	Earthworks	Dongli District, Tianjin	March 2020	March 2024	49 months	14,591	6,941	182	3,595	2,055	
10	New City Natural Gas High-pressure Gas Supply Pipeline Project (Phase II) (禮新新城天然氣高壓燃氣管道工程二階段)	Customer O	Petrochemical engineering works	Natural gas high pressure gas supply pipeline construction	Xiangyang, Shaanxi	May 2023	December 2024	20 months	8,131	—	—	4,884	3,247	

Notes:

1. Expected completion date was based on the respective contract or progress schedule amended from time to time.
2. The contract amount does not include VAT.
3. The amount is only an estimate and is subject to change due to actual progress and completion date of the projects.

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Major construction projects

The following table sets forth our top 10 construction projects by revenue contribution during the Track Record Period:

For the year ended December 31, 2021

Ranking	Project name	Customer	Project type	Project description	Project location	Total revenue recognized for the year <i>RMB'000</i>	% of total revenue for the year %
1	Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	49,178	17.9
2	Tianjin Nangang Foundation Pre-treatment Project (天津南港地基預處理項目)	Customer E	Foundation works	Foundation construction works	Binhai New Area, Tianjin	47,769	17.4
3	Wuyi Yangguang Piling Project (五一陽光樁基項目)	Customer F	Foundation works	Pile foundation works	Wuqing District, Tianjin	34,728	12.6
4	Hangu East Expansion Project (漢沽東擴區項目)	Customer G	Municipal public construction works	Traffic facilities construction	Binhai New Area, Tianjin	18,728	6.8
5	Tianjin Nangang LNG Emergency Reserve Project (天津南港LNG應急儲備項目)	Customer H	Municipal public construction works	Water supply and drainage	Binhai New Area, Tianjin	16,107	5.9
6	Nangang Industrial District Traffic Facilities Construction Project (南港工業區交通設施工程)	Customer L	Municipal public construction works	Traffic facilities construction	Binhai New Area, Tianjin	12,253	4.5

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BUSINESS

Ranking	Project name	Customer	Project type	Project description	Project location	Total revenue recognized for the year <i>RMB'000</i>	% of total revenue for the year %
7	Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期)	Customer D	Municipal public construction works	Traffic facilities construction	Xiqing District and Binhai New Area, Tianjin	11,835	4.3
8	Huaze Weiye New Factory Construction Project (華澤偉業新建廠房項目)	Tianjin Huaze Weiye Technology Company Limited* (天津市華澤偉業科技有限公司)	Building construction related works	Industry construction	Xiqing District, Tianjin	7,556	2.8
9	Rizhao Station 3# Tank Overhaul Project (日照站3#罐大修項目)	Customer M	Petrochemical engineering works	Oil tank overhaul	Lanshan District, Rizhao City, Shandong Province	5,916	2.2
10	Zecheng Garden Pipe Network and Pump Room Installation Project (澤城花園管網及泵房安裝工程)	Tianjin Binlong Geothermal Energy Company Limited* (天津濱隆地熱能源有限公司)	Municipal public construction works	Heat supply pipe work	Binhai New Area, Tianjin	5,107	1.9

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BUSINESS

For the year ended December 31, 2022

Ranking	Project name	Customer	Project type	Project description	Project location	Total revenue recognized for the year <i>RMB'000</i>	% of total revenue for the year %
1	Hengsheng Flood Control Bulk Yard Project (恒盛防汛散貨堆場項目)	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	41,807	14.5
2	Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程)	Xintai Zhihui	Building construction related works	Electrical and mechanical equipment procurement	Binhai New Area, Tianjin	24,904	8.7
3	Xintai Mechanical and Electrical Labor Subcontracting for Tianjiang Apartment Project — Jianfa (天江公寓鑫泰機電勞務分包 — 建發)	Xintai Zhihui	Building construction related works	Electricity and equipment installation	Binhai New Area, Tianjin	20,673	7.2
4	Tianjin Nangang LNG Emergency Reserve Project (天津南港LNG應急儲備項目)	Customer H	Municipal public construction works	Water supply and drainage works	Binhai New Area, Tianjin	18,251	6.3
5	Outdoor Professional Subcontracting Project of Tianjiang Apartment Project (天江公寓室外工程專業分包)	Customer C	Building construction related works	Pipe construction works	Binhai New Area, Tianjin	18,194	6.3

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BUSINESS

Ranking	Project name	Customer	Project type	Project description	Project location	Total revenue recognized for the year <i>RMB'000</i>	% of total revenue for the year %
6	Decoration and Renovation Professional Subcontracting Project of Tianjiang Apartment Affordable Rental Housing Improvement and Renovation Project — Jianfa (天江公寓裝修專業分包 — 建發)	Customer C	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	16,815	5.8
7	Tianjiang Apartment Decoration Professional Subcontracting — Binhai Construction (天江公寓裝修專業分包 — 濱海建設)	Customer C	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	15,867	5.5
8	Tianjiang Apartment Housing Renovation Project (天江公寓房屋裝修項目)	Customer C	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	15,128	5.3
9	Infrastructure Project of Huanggang Vocational Education Industrial Park in Binhai New Area (Phase I) (濱海新區黃港職教產業園區基礎設施工程(一期))	Customer I	Municipal public construction works	Road construction works	Binhai New Area, Tianjin	15,097	5.2
10	Ya'anli Housing Renovation Project (雅安里房屋裝修工程)	Customer J	Building construction related works	Building decoration and renovation	Binhai New Area, Tianjin	14,760	5.1

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BUSINESS

For the year ended December 31, 2023

Ranking	Project name	Customer	Project type	Project description	Project Location	Total revenue recognized for the period	% of total revenue for the period
						RMB'000	%
1	Tianjin Wangzi East Project (Phase II) (天津市汪子東項目二標段)	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	55,714	17.4
2	Tianjin Binhai New Area Pharmaceutical Industrial Park Construction Project Soil Backfilling Project (天津市濱海新區醫藥產業園建設專案土方回填工程)	Customer B	Foundation works	Earthworks	Binhai New Area, Tianjin	43,733	13.7
3	Tianjin Wangzi East Project (Phase I) (天津市汪子東項目一標段)	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	39,340	12.3
4	Professional Subcontracting of Pile Foundation Works for Tianjin Shuren Secondary and Higher Specialized School Project (天津市樹人中等、高等專科學校樁基礎工程專業分包)	Customer C	Foundation works	Pile foundation works	Baodi District, Tianjin	27,876	8.7
5	Construction of Temporary Parking Lot at Wangzi East Area No. 10 (10號汪子東區臨時停車場工程)	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司)	Municipal public construction works	Road surface works	Binhai New Area, Tianjin	27,757	8.7
6	Yujing Road Heating Network Project (禦井路熱網工程)	Xi'an Heating Group Company Limited* (西安市熱力集團有限責任公司)	Municipal public construction works	Traffic facilities construction	Xi'an, Shaanxi	14,778	4.6

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BUSINESS

Ranking	Project name	Customer	Project type	Project description	Project Location	Total revenue recognized for the period	% of total revenue for the period
						RMB'000	%
7	Outdoor Professional Subcontracting Project of Tianjiang Apartment Project (天江公寓室外工程專業分包)	Customer C	Building construction related works	Pipe construction works	Binhai New Area, Tianjin	13,110	4.1
8	Infrastructure Construction Project of Nandaigang Coastal Industrial Park — South Erjing Road (南大港濱海產業園區基礎設施建設項目 — 二經路南路)	Cangzhou Bohai New District South Dagang Industrial Park Construction, Transportation and Environmental Protection Management Center (滄州渤海新區南大港產業園區建設交通環保管理中心)	Municipal public construction works	Traffic facilities construction	Cangzhou, Hebei	12,757	4.0
9	Engineering and Social Infrastructure Construction Projects in High-Tech Area (Phase II) (高新區兩類設施建設工程二期)	Customer D	Municipal public construction works	Traffic facilities construction	Binhai New Area and Xiqing District, Tianjin	11,083	3.5
10	Tianjiang Apartment Xintai Mechanical and Electrical Material Procurement — Yu Jia Cheng (天江公寓鑫泰機電材料採購 — 裕嘉程)	Xintai Zhihui	Building construction related works	Electrical and mechanical equipment procurement	Binhai New Area, Tianjin	6,072	1.9

BUSINESS

Backlog and new contract amounts

Backlog represents an estimate of the remaining contract amounts for our construction projects for each of the three years during the Track Record Period. New contract amounts represent the total contract amounts for construction projects undertaken by us during the specified years. The following table sets forth the movement in contract amounts of backlog of projects undertaken by us during the Track Record Period:

	<u>Municipal public construction works</u> <i>RMB'000</i>	<u>Foundation engineering works</u> <i>RMB'000</i>	<u>Building construction related works</u> <i>RMB'000</i>	<u>Petrochemical engineering</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
For the year ended					
December 31, 2021					
Opening contract amount of backlog*	49,139	43,305	5,336	3,707	101,487
Add: Newly contracted projects	170,215	56,472	29,804	17,618	274,109
Add: Adjustment/variation orders	13,793	(12)	(27)	2,755	16,509
Less: Revenue recognized	144,712	89,153	19,236	21,703	274,804
Closing contract amount of backlog*	88,435	10,612	15,877	2,377	117,301
For the year ended					
December 31, 2022					
Opening contract amount of backlog*	88,435	10,612	15,877	2,377	117,301
Add: Newly contracted projects	34,890	18,563	169,104	24,359	246,916
Add: Adjustment/variation order	7,412	—	4,437	701	12,550
Less: Revenue recognized	86,469	20,476	171,286	8,918	287,149
Closing contract amount of backlog*	44,268	8,699	18,132	18,519	89,618

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	Municipal public construction works <i>RMB'000</i>	Foundation engineering works <i>RMB'000</i>	Building construction related works <i>RMB'000</i>	Petrochemical engineering <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended					
December 31, 2023					
Opening contract amount of backlog*	44,268	8,699	18,132	18,519	89,618
Add: Newly contracted projects	193,046	87,065	13,197	3,177	296,485
Add: Adjustment/variation order	5,318	(1,628)	22,076	(9,859)	15,907
Less: Revenue recognized	186,201	83,265	41,155	8,195	318,816
Closing contract amount of backlog*	56,431	10,871	12,250	3,642	83,194
For the one month ended					
January 31, 2024					
Opening contract amount of backlog*	56,431	10,871	12,250	3,642	83,194
Add: Newly contracted projects	16,351	31,309	—	30,862	78,522
Add: Adjustment/variation order	—	—	379	—	379
Less: Revenue recognized	877	205	1,305	—	2,387
Closing contract amount of backlog*	71,905	41,975	11,324	34,504	159,708

* Represent the remaining performance obligations expected to be satisfied

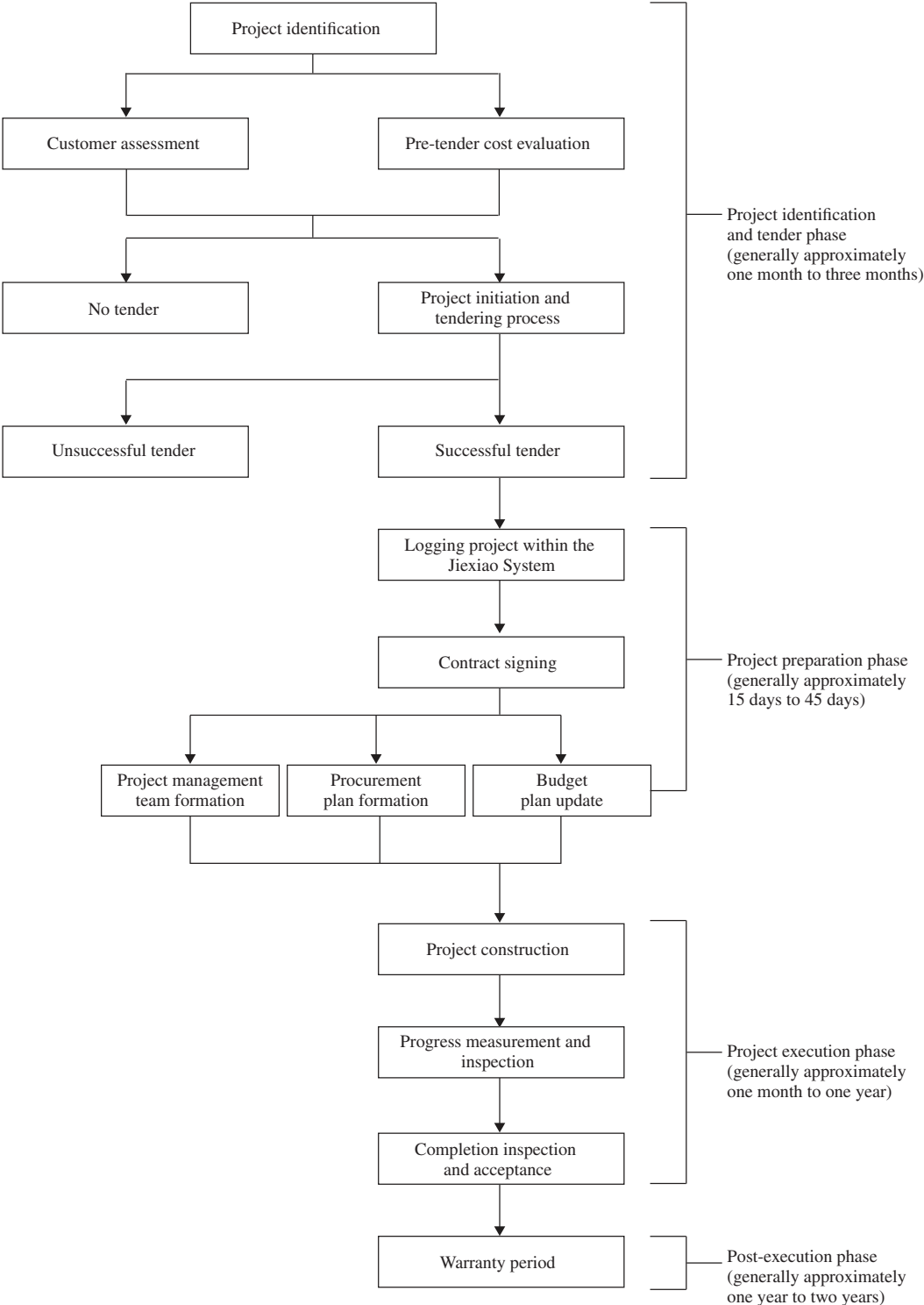
As of January 31, 2024, we had 29 ongoing projects with a backlog value of RMB159.7 million, comprising (i) 27 public projects with an aggregate backlog value of RMB156.4 million; and (ii) two private projects with an aggregate backlog value of RMB3.3 million.

We received relatively substantial amount of adjustment/variation orders in our building construction related works for the year ended December 31, 2023 primarily due to the Tianjiang Apartment Projects (天江公寓項目) were at the completion stage in early 2023.

BUSINESS

OPERATION FLOW

The following diagram illustrates the main operation flow of our business:



BUSINESS

Project identification and tender phase

Project identification and selection

We acquire new construction projects primarily by way of tender. Our marketing department is responsible for gathering market information from public sources and following up the business status of our existing customers, for the purpose of exploring new business opportunities. For further details on our sales and marketing activities, please refer to the paragraph headed “— Sales and Marketing” in this section.

Prior to submission of tender, we conduct customer assessment and pre-tender assessment based on our Group’s project selection criteria. The factors we consider in our customer assessment primarily include customer’s size of operations, business operations and payment capacities in order to gain a better understanding of the business and financial situation of the customer and to perform credit rating assessment. We usually prioritize clients from high to low credit ratings to minimize our risk of exposure to the recoverability of our trade and bills receivables.

If the customer of the potential project passes our customer assessment, we will prepare tender documents and conduct project feasibility studies and perform pre-tender assessments for the identified projects. Based on the assessment results, we determine whether to participate in the tendering for a specific project. We normally conduct assessment on different customers and set up limit of gross profit margin of different projects when we are deciding whether to submit tender for the relevant customers. If the project selection criteria are met, we would proceed with the tender process upon internal approval.

Project initiation and tendering

In general, after identification and selection of potential projects, the potential projects will be further matched with our funding, resources and manpower, etc. Our proposed bid project would be approved by the authorized person through our Jiexiao System, and the name and number of the initial project will be established in Jiexiao System to link and associate with future management and cost correlation. The particulars and requirements of the underlying potential project will be assigned to our different business departments for review and analysis, among which, our project management team is responsible for arranging site visits to assess the conditions of the project sites and devise appropriate construction plans accordingly; our commercial contract department and procurement department are responsible for pre-tender cost evaluation; and our marketing department is responsible for the preparation of tender documents and participating in the tendering process.

In order to ensure compliance with the relevant PRC laws and regulations during the tender phase, we have established and implemented internal measures and management control systems, including implementation of policies in relation to the conduct of tendering staff, tender money and seal management, confidentiality and anti-corruption management, and provided regular training to relevant staff to ensure that we comply with the relevant laws and regulations.

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Depending on the tender requirement of the potential projects, we may be required to pay a refundable tender deposit to potential customers or tender organizers at the time of tender submissions, which would generally be refunded to us upon (i) signing of the construction contracts, if our tender is successful; or (ii) within five days from the date of the announcement of the tender results, if our tender is unsuccessful. For the years ended December 31, 2021, 2022 and 2023, we submitted 243, 124 and 110 tenders for construction projects, with tender success rates of approximately 25.1%, 25.0% and 22.7%, respectively.

Project Preparation Phase

Logging projects within Jiexiao System

After a successful bid is confirmed, we input the information of a project, including successful bidding prices and the person-in-charge, into the Jiexiao System, and each project recorded in the Jiexiao System would be assigned a unique project name and reference number. Thus, the processes and information in relation to such particular project, including budgeting, confirmation of costs incurred, issue of invoices, application for payment shall be linked and associated with such project under the Jiexiao System by the project name and reference number. Therefore, by using of the Jiexiao System, not only the input of labor, raw material and equipment and machinery on the project site can be presented in the form of data, but it also facilitate us to assure the financial performance of the project. During the Track Record Period, the Group has no loss-making projects.

Contract signing

We generally enter into agreements with our customers in accordance with the requirements of the tender on a project-by-project basis. If we successfully bid on a construction project, upon the receipt of a letter of award, we would enter into a construction contract with our customers. Our commercial contract department is responsible for negotiating the terms and conditions of such contract with our customers, and such contract will be subject to our internal review process before signing. We may also be required to pay a refundable performance guarantee deposit to our customers upon signing of the construction contracts, which would be refunded upon project completion.

Project preparation

Upon the execution of the project contract, we would commence the preparation of the raw materials, equipment and machinery, labor and other resources required for the project by (i) forming a management team who shall devise the implementation plan and progress plan for the project; (ii) selecting suppliers of raw materials, labor, equipment and machinery or other resources required for the project and conducting procurement activities as well as adjusting the budget; and (iii) uploading the contracts and budget to the Jiexiao System.

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The project management team primarily comprise a project manager, a technical manager, safety and quality manager and other technical or administrative personnel. The project management team is responsible for coordination and management at the project site, progress management, quality control and inspection, management of raw materials and equipment, management of personnel, safety and environment protections, and other general administrative work related to the construction project.

For each construction project we undertake, we would formulate the procurement plan based on the implementation plan and progress plan. Generally, the project manager needs to sign a responsibility letter which outlines his corresponding responsibility and the prescribed goals to be achieved by him/her for the construction project. By adopting such requirement of responsibility letter, we believe we can better control the progress and quality of our works.

Raw materials for our construction projects include concrete, steel and other construction materials. The equipment and machinery required for our performance of construction works at project sites usually include cranes, excavators, loaders and bulldozers. Other than the project management team members, the construction workers deployed in our projects are sourced from third-party agents. Depending on our capabilities, scale and complexity of the projects, we may also subcontract those construction processes that require professional expertise such as electrical and thermal works. For further details, please refer to the paragraph headed “— Raw Materials”, “— Equipment and Machinery”, and “Subcontracting Suppliers” in this section. In this phase, we would obtain and compare quotations from multiple suppliers. Once we confirm the prices, we would enter into contracts with the relevant suppliers and devise the budget plan for the project accordingly, which would be uploaded to the Jiexiao System. Such budget plan may be adjusted from time to time in later phases of the project.

Project execution phase

Project construction

Prior to the commencement of construction, our project manager would formulate an execution plan in accordance with the terms of the contracts, designs, and drawings provided by our customers. The construction milestones would also be set and we would then estimate the required time for each phase. Generally, our project management team would commence execution of construction plan once we obtain the necessary approval from our customers. During the course of project execution, we maintain close interaction with different parties involved, such as our customers, construction inspectors, workers and suppliers to ensure that the quality is up to standard and the schedule of the project is adhered to.

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In the course of project execution, our project management team is responsible for the management of the daily operation at our project sites by, among other things, (i) attending regular meetings with our customers and the construction inspectors, during which we would report the construction progress and discuss any change in the execution plan, and our customers and the construction inspectors would state their comments and requirements; (ii) monitoring the progress and quality of the construction works at the project sites; (iii) supervising the delivery and/or inspection of raw materials, equipment and machinery and labor and uploading the relevant information to our Jiexiao System to confirm the accuracy and authenticity of actual cost incurred; (iv) maintaining the documentation for the construction projects, submit the report of progress measurement and completion inspection and submit request for the progress payment and settlement to our customers; and (v) monitoring the safety and environment protection of the project sites.

In order to ensure compliance with the relevant PRC laws and regulations during the execution phase, we have established and implemented internal control measures and management control systems, such as quality management system, safety management system, occupational health and safety management system, and environmental protection management system for construction. We have established an occupational health and safety management system, which has been certified to satisfy the requirements of GB/T 45001–2020/ISO 45001:2018 standard. Besides, our quality system has been evaluated and certified as satisfying the requirement of GB/T19001–2016/ISO9001: 2015 and GB/T50430–2017 quality management system certification. For further information on the quality standards we have adopted, please refer to the paragraph headed “— Quality Control and Management” in this section. Whilst our engineering management department is responsible for monitoring the overall compliance of our project execution, our project management team performs on-site inspections at construction sites to ensure our construction projects are executed in compliance with our internal management systems and the relevant laws and regulations.

Our management team utilizes the Jiexiao System during the project execution phase to review contracts and monitor costs incurred in our construction projects. The limit of the cost would be set up for different parts of the project. Our management team could ascertain the amounts and prices of raw materials received, the usage of equipment and the allocation of labor on a daily basis. Our staff would take photographs of the delivery and usage of raw materials and equipment and machinery as well as the attendance of labor and upload them to the Jiexiao System as the proof of the actual costs incurred in the course of project execution which shall be subsequently used as the basis for calculating the amounts to be settled with our customers and suppliers. Unless being approved by our customers or our management team, the relevant cost incurred could not exceed the limit we previously set up.

BUSINESS

Progress measurement

In the project execution phase, we regularly assess the progress of our construction projects and calculate the amounts payable by our customers accordingly. Generally, we send the report in relation to the amount of construction works, payment application and relevant documents to the inspectors engaged by our customers on a monthly basis, which sets out the amount of construction works completed pursuant to the relevant contracts entered into with our customers. If the inspectors have any objection to our report, then we shall review our report and discuss with our customers and their inspectors with a view to reaching consensus on the actual amount of construction works completed. Once the amount of construction works completed is confirmed and certified by our customers, they shall make the payment to us for our completed works accordingly.

After receiving the progress certificate to confirm the progress measurement or the progress payment amount from our customers, we will submit the progress payment application and other relevant materials to the inspectors.

Completion inspection and acceptance

Throughout the execution of our construction projects, our project management team would, from time to time, conduct inspection periodically at our project sites to ensure that the progress and quality of our construction works satisfy the standards and requirement as agreed between our customers and us. Upon the completion of construction works, we would conduct completion inspection of the construction works and send the inspection report to the construction inspectors engaged by our customers, who would then conduct their own inspection of our construction works and report to customers after review of the completion inspection report. If the construction inspectors are of the view that our construction works have not yet fulfilled our customers’ requirement, we would then conduct the construction works required by the inspectors, and carry out inspection again upon the completion of such works.

Once our customers have accepted that the construction works undertaken by us have been completed, we would send a request to the customers to initiate the settlement audit process. The date on which we submitted the completion inspection report shall be the date of commencement of the warranty period. In general, all outstanding payment (other than a portion of the retention fee which generally does not exceed 3% of the final settlement amount) shall be payable by the customers to us upon completion of the settlement audit process.

Post-execution phase

After completion of the project, we usually provide warranty in relation to our construction. Depending on the type of construction, the warranty period generally has a term of one to two years, during which we would make further corrections or repairs to the works as required by our customers. Typically, at the end of the warranty period, our customers would remit the remaining retention fee to us after it is confirmed that we have fulfilled our quality assurance obligations under the contract.

BUSINESS

CUSTOMERS, SALES AND MARKETING

Sales and marketing

Our marketing department is responsible for identifying project opportunities, exploring markets, following up the status of potential projects, pre-tender preparation and participating tender process and other marketing activities. Our marketing department primarily sources the market information from the announcement on construction projects published by the government, the internet and other public sources, as well as the information shared by our existing customers. Based on the market information we obtained from time to time, our marketing department carries out the following marketing activities to promote our business:

- (i) we maintain contact with tendering agencies, engineering design companies and inspection companies (監理公司) in order to obtain accurate and updated market information;
- (ii) we participate in industry-related meetings and conferences organized by government authorities to gain more understanding of the market and strengthen our relationship with customers;
- (iii) we have joined certain regional construction industry associations. Through participating in activities held by these associations, we can expand our business network and develop business relationships with new customers and suppliers;
- (iv) we put effort in maintaining our relationships with our existing customers to ensure that we can maintain long-term and stable cooperation relationships with them; and
- (v) we promote our services through our corporate websites and social media platforms, such as WeChat official account.

Our directors believe that the marketing activities carried out through the various channels above can enable us to capture more business opportunities, improve our corporate image and solidify our reputation in the industry.

We are of the view that it is crucial for our marketing staff to possess expertise in construction, so that they can better understand how construction projects are conducted, which enables them to prepare tenders that can better suit the needs of our Group as well as satisfying the requirement of our customers. Currently, some of our marketing staff are first-grade or second-grade registered architects, and we have requested our marketing staff to attend meetings related to execution of construction works to develop understanding of construction works.

During the Track Record Period, we obtained a large majority of our projects through tendering, accounting for more than 95% of our total revenue generated from construction projects.

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For the years ended December 31, 2021, 2022 and 2023, we submitted 243, 124 and 110 tenders, respectively, with tender success rates of approximately 25.1%, 25.0% and 22.7% respectively. The following table sets forth data on our tenders to potential customers during the Track Record Period:

	Year ended December 31,		
	2021	2022	2023
Number of submitted tenders	243	124	110
Government authorities and state-owned enterprises	235	115	94
Private enterprises	8	9	16
Number of projects awarded	61	31	25
Government authorities and state-owned enterprises	58	26	15
Private enterprises	3	5	10
Tender success rate (%)⁽¹⁾	25.1	25.0	22.7
Government authorities and state-owned enterprises	24.7	22.6	16.0
Private enterprises	37.5	55.6	62.5

Note:

- (1) The tender success rate for a given financial year is calculated based on the number of projects awarded for tenders submitted in that financial year (whether awarded in the same financial year or thereafter).

Customers

Our customers mainly include government authorities, state-owned enterprises and private enterprises which are primarily located in Tianjin. We have a diversified customer base, covering industries such as infrastructure, real estate, petrochemicals engineering, and logistics and warehousing.

For the years ended December 31, 2021, 2022 and 2023, we had 48, 29 and 23 customers, respectively, of which 39, 21 and 16 were government authorities and state-owned enterprises, and the remaining customers were private enterprises including, among others, construction services company, logistics services company and property developer. During the Track Record Period, our revenue from construction works was mainly derived from government authorities and state-owned enterprises, which in total amounted to RMB175.4 million, RMB176.5 million and RMB180.6 million, representing 63.8%, 61.5% and 56.7% of our total revenue for the same periods, respectively.

BUSINESS

During the Track Record Period, our project team leader maintained relationship with customers by conducting visits from time to time to collect their feedback and learn about their business opportunities. Due to the nature of our industry, our business is project-based. Also, our projects awarded by major customers were primarily through tendering and such contracts were awarded on a one-time basis, therefore the composition of our top five customers varied from period to period and their identities were generally different for each of the years during the Track Record Period. For the years ended December 31, 2021, 2022 and 2023, revenue attributable to our top five customers was RMB174.5 million, RMB222.1 million and RMB260.7 million, representing 63.5%, 77.0% and 81.6% of our total revenue for the same year, respectively, while revenue attributable to our largest customer for the same periods was RMB55.8 million, RMB94.5 million and RMB122.8 million, accounting for 20.3%, 32.8% and 38.4% of our total revenue, respectively.

During the Track Record Period, we obtained a large majority of our projects through tendering, accounting for more than 95% of our total revenue generated from construction projects. For the remaining projects, we obtained them through negotiation with our customers (which involves price inquiry and price comparison by our customers). As such, we have no control over the tender outcome and thus the eventual project and customer mix, and the project size relative to each other. During the Track Record Period, we provided construction services to 67 customers and undertook 145 construction projects. Our relatively concentrated customer base was mainly attributable to our undertaking of more large scale projects during the Track Record Period, of which, we allocated the majority of our resources, capacity and available manpower to such projects at the relevant time. In addition, we have been tendering for and undertaking more large scale projects during the Track Record Period which led to an increase in the contribution of revenue from our top five customers. However, our top five customers are generally different for each of the years during the Track Record Period and we do not rely on any of our major customers. According to Frost & Sullivan, due to the project-based nature of the construction industry, it is not uncommon for construction contractors in PRC to have a relatively concentrated revenue spread from a few large projects in a given year.

BUSINESS

The following table sets forth our top five customers by revenue contribution for each year during the Track Record Period:

For the year ended December 31, 2021

Ranking	Customers	Year of establishment	Year of commencing business relationship with our Group	Payment term	Payment method	Revenue <i>RMB'000</i>	% of total revenue for the year %
1	Customer E ⁽²⁾	1983	2021	Up to 30 days	Bank transfer	55,800	20.3
2	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司) ⁽³⁾	2008	2021	Up to 30 days	Bank transfer	49,178	17.9
3	Customer F ⁽⁴⁾	2009	2018	Up to 30 days	Bank transfer	34,728	12.6
4	Customer G ⁽⁵⁾	2001	2021	Up to 30 days	Bank transfer	18,728	6.8
5	Customer H ⁽⁶⁾	1992	2021	Up to 30 days	Bank transfer	16,107	5.9
					Top five customers	174,541	63.5
					All other customers	100,403	36.5
					Total revenue	<u>274,944</u>	<u>100.0</u>

For the year ended December 31, 2022

Ranking	Customers	Year of establishment	Year of commencing business relationship with our Group	Payment term	Payment method	Revenue <i>RMB'000</i>	% of total revenue for the year %
1	Customer C ⁽¹⁾	2007	2016	Up to 30 days	Bank transfer	94,505	32.8
2	Xintai Zhihui ⁽⁷⁾	1994	2022	Up to 30 days	Bank transfer	45,577	15.8
3	Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司) ⁽³⁾	2008	2021	Up to 30 days	Bank transfer	41,807	14.5
4	Customer I ⁽⁸⁾	2001	2022	Up to 28 days	Bank transfer	21,943	7.6
5	Customer H ⁽⁶⁾	1992	2021	Up to 30 days	Bank transfer	18,251	6.3
					Top five customers	222,083	77.0
					All other customers	65,877	23.0
					Total revenue	<u>287,960</u>	<u>100.0</u>

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BUSINESS

For the year ended December 31, 2023

Ranking	Customers	Year of establishment	Year of commencing business relationship with our Group	Payment term	Payment method	Revenue <i>RMB'000</i>	% of total revenue for the period %
1	Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司) ⁽⁹⁾	2002	2023	Up to 30 days	Bank transfer	122,811	38.4
2	Customer C ⁽¹⁾	2007	2016	Up to 30 days	Bank transfer	66,600	20.8
3	Customer B ⁽¹¹⁾	1990	2023	Up to 30 days	Bank transfer	43,733	13.7
4	Xi'an Heating Group Company Limited* (西安市熱力集團有限責任公司) ⁽¹⁰⁾	1997	2020	Up to 30 days	Bank transfer	14,778	4.6
5	Cangzhou Bohai New District South Dagang Industrial Park Construction, Transportation and Environmental Protection Management Center (滄州渤海新區南大港產業園區建設交通環保管理中心) ⁽¹²⁾	2019	2023	Up to 14 days	Bank transfer	12,757	4.1
					Top five customers	260,679	81.6
					All other customers	<u>58,758</u>	<u>18.4</u>
					Total revenue	<u>319,437</u>	<u>100.0</u>

Notes:

1. A group of companies based in the PRC and the holding company of which is Customer C, a state-owned enterprise established in the PRC with limited liability and a registered capital of RMB30,000 million, which is based in Beijing. It is mainly engaged in construction, installation and consultation of domestic public and civil housing, investment and construction of infrastructure projects and domestic real estate investment and development. During the Track Record Period, we entered into transactions with four, three and three of its subsidiaries, respectively.

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2. A group of companies based in the PRC and the holding company of which is Customer E, a state-owned enterprise established in the PRC with limited liability and a registered capital of approximately RMB326,547.2 million, which is based in Beijing. It is mainly engaged in oil and gas exploration, petrochemical products production and sales, and construction and installation of petroleum and petrochemical projects. During the Track Record Period, we entered into transactions with 16, nine and eight of its subsidiaries or their respective branch companies, respectively.
3. Tianjin Hengsheng Municipal Engineering Company Limited* (天津市恒盛市政工程有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB8 million, which is based in Tianjin. It is mainly engaged in earthwork construction, municipal public construction and sales of construction related materials.
4. Customer F is a private enterprise established in the PRC with limited liability and a registered capital of RMB140 million, which is based in Tianjin. It is mainly engaged in real estate development, lease, commercial housing sales and property services.
5. Customer G is a state-owned enterprise established in the PRC with limited liability and a registered capital of RMB1,800 million, which is based in Tianjin. It is mainly engaged in the investment operation and management of state-owned property, real estate development and sales and greening project construction.
6. Customer H is a state-owned enterprise established in the PRC with limited liability and a registered capital of approximately RMB1,480.2 million, which is based in Beijing. It is mainly engaged in construction works and design, petroleum and natural gas engineering construction, electric power engineering projects and other construction related activities.
7. Xintai Zhihui is a private enterprise established in the PRC with limited liability and a registered capital of approximately RMB76 million, which is based in Tianjin. It is mainly engaged in construction design, building renovation and decoration, residential interior decoration, building intelligent system design and electrical installation services.
8. Customer I is a state-owned enterprise established in the PRC with limited liability and a registered capital of RMB5,080 million, which is based in Beijing. It is mainly engaged in construction works, real estate development and investment management and road cargo transportation.

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9. Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of approximately RMB5 million, which is based in Tianjin. It is mainly engaged in import and export of goods and technology, general cargo warehousing services, refined oil warehousing and machinery and equipment leasing. We provided road construction services mainly involving pavement of road surfaces to Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司) for its bulk cargo yards during the Track Record Period. We obtained such road construction project from Tianjin Hezhong Trading Company Limited* (天津市和眾工貿有限公司) through tender.
10. Xi'an Heating Group Company Limited* (西安市熱力集團有限責任公司) is a state-owned enterprise established in the PRC with limited liability and a registered capital of approximately RMB825 million, which is based in Xi'an. It is mainly engaged in production and supply of electricity and heat, thermal engineering design, construction and installation, technical consulting services.
11. Customer B is a private enterprise established in the PRC with limited liability and a registered capital of RMB100.0 million, which is based in Tianjin. It is principally engaged in the design, construction, supervision and surveying of construction projects, cultural relics protection projects and geological disaster control projects.
12. Cangzhou Bohai New District South Dagang Industrial Park Construction, Transportation and Environmental Protection Management Center* (滄州渤海新區南大港產業園區建設交通環保管理中心) is a public institution established in the PRC with a start-up capital of RMB914.99 million, which is based in Cangzhou, Hebei Province. It is principally responsible for planning, infrastructure construction, transportation, land resources and environmental protection.

To the best knowledge of our Directors, all of our top five customers for the years ended December 31, 2021, 2022 and 2023 are Independent Third Parties. None of our Directors or their close associates, or Shareholders (who to our Directors' knowledge own more than 5% of the issued share capital of the Company) had any interest in any of our top five customers during the Track Record Period.

Construction contracts

We typically enter into construction contracts with our customers on a project-by-project basis before the commencement of work. Such contracts generally set out the terms and conditions, including the contract term, pricing and price adjustment mechanism, payment terms and warranty periods. The terms of each contract entered into by our Group and its customers may vary significantly depending on a number of factors, including the duration, nature and complexity of the particular project. Such contracts may include the requirement to procure certain materials for the construction projects. We may also enter into supplementary contracts with our customers from time to time due to changes in project circumstances.

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The following table provides a summary of the typical key terms and conditions of our construction contracts with customers:

Contract term	Usually ranges from one month to one year depending on the complexity of the project.
Pricing and price adjustment	<p>Construction fee is usually charged based on fixed unit price or a fixed contract sum. The final construction fee of a fixed unit price contract is based on the agreed unit price and the actual quantity of work performed. The fixed contract sum is determined when entering into the contract and can only be adjusted under certain circumstances as specified in the contract, such as additional services requested by the customer or changes in specifications under a variation certificate.</p> <p>In the event that there are any significant changes to the scope of work during the course of the project (e.g., change in workload, extension of time, or requirement for additional work), we would enter into a supplemental agreement with the customer to record the price adjustment.</p>
Payment term	<p>We generally adopt the progress payment method in construction contracts. Generally our contracts do not bear the advance payment term. On a case-by-case basis, we may negotiate for an advance payment arrangement with our customers. Therefore, the overall result is that nil to 30% of the contract amount may be payable to us by our customers prior to the commencement of work depending on the results of negotiation with our customers.</p> <p>During the project implementation, payments are generally made either (i) in monthly progress payments; or (ii) upon achievement of certain major milestones under the contract. We would submit monthly progress reports to our customers showing the works we have performed with the request for progress payment. Progress payments would normally be calculated based on the percentage of the total certified value of the works performed, which generally ranges from 70% to 85%.</p> <p>Upon completion of the project, we are normally entitled to 97% of the contract sum. Our customers would retain approximately 3% of the final settlement amount as retention fee, which will be paid to us at the end of the warranty period.</p>

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Contract variation	A variation certificate would be issued by our customers where the construction design or construction scope is changed. Unless otherwise specified in the construction contract, the price for the variation certificate will be separately agreed between our customers and us.
Warranty period	We may be required to provide a warranty period ranging from one year to two years. During the warranty period, our Group shall be responsible for any remedial works that may be incurred as a result of defective works or materials.
Breach of contract	<p>Generally, if we (i) fail to meet the quality standards of the contract; (ii) change project scope or project management team members without approval; (iii) cause project delay without any reasonable justification; (iv) cause severe personal injury; and (v) cause any accident or quality incident on our part’s default resulting in damages to our customer, we may be deemed to be in breach of the contract.</p> <p>We may be required to pay a fixed amount of damages to compensate for our customers’ losses.</p>
Termination events	In general, the contract would be terminated upon expiration of the warranty period and the retention fee being settled. Our customers are entitled to terminate the contract upon occurrence of project delay which is not being rectified, or our substantial breach of the contract, or by mutual agreement between our customers and us.

Pricing Policy

Our quotation price at the tender or negotiation stage is based on a number of factors. We usually adopt the cost plus premium approach to determine our fee quotation, taking into account factors such as: (i) estimated costs of raw materials, equipment and labor; (ii) scope and complexity of works; (iii) delivery schedule; (iv) expected profitability; (v) the prices that may be offered by other bidders; and (vi) information or indices published in the market or by the government. We would also consider the general project profitability and strategic cooperation with the customer within the price cap mentioned in the tender from time to time.

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During the Track Record Period, the contract amount of our (i) municipal public construction works projects ranged from RMB0.1 million to RMB91.0 million; (ii) foundation works projects ranged from RMB1.5 million to RMB49.5 million; (iii) building construction related works projects ranged from RMB39,000 to RMB26.8 million; and (iv) petrochemical engineering works projects ranged from RMB16,600 to RMB18.1 million.

In general, since our project period spans from one month to one year, under certain circumstances, there may be unanticipated price fluctuations or price changes during the project period, as a result of which the actual cost of the project undertaken may be higher than our estimated costs. For construction contracts that allow us to make adjustments and revise our estimated project costs in response to changing circumstances, such cost increases may be passed on to the customer; otherwise any cost increases may have to be borne by us. During the Track Record Period, we did not pass on any cost increase to our customers because (i) there were no material differences between the estimated costs and the actual costs of our projects since we did not experience material cost fluctuations and we have established effective internal control measures to ensure that the total cost of each construction project is estimated accurately; and (ii) we would like to maintain good relationship with our customers and to maintain our competitiveness. In addition, we will also base our procurement on the actual needs of the project schedule, estimate the amount of labor and raw materials required during the project preparation phase, consider possible future changes in the price of raw materials, and closely monitor the use of raw materials during the project to minimize waste.

Credit policy and credit management

Payment terms and credit policies for customers are negotiated on a project-by-project basis and the time required to complete the process varies significantly from one customer to another. Our Group generally allows customers to settle payments up to 30 days from the date of issuance of progress certificates. We actively monitor and review the payment terms of our customers on a regular basis. Under our internal control policy, we are required to implement the verification procedures for all customers that enter into transactions on the credit terms and to maintain strict control over uncollected trade receivables.

For further details of our trade receivables and bills receivable, and the calculation method of our turnover days of our trade and bills receivables, please refer to the section headed “Financial Information — Trade and Bills Receivables” in this document. Our management regularly reviews our overdue balances.

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SEASONALITY

During the Track Record Period, our construction business was predominantly carried out in Tianjin, which would be affected by seasonal factors. We generally achieved higher revenue in the second half of the year than in the first half of the year as construction activities are generally comparatively latent during the Lunar New Year, and the winter weather conditions could adversely affect construction operations. For details, please refer to the section headed “Risk Factors — Our business operations are subject to adverse weather conditions, severe air pollution, natural disasters and other seasonality” in this document.

SUPPLIERS

Our suppliers are business entities that are primarily engaged in the provision of construction materials, lease of equipment and machinery, labor subcontracting and subcontracting of professional construction services in the PRC. For the years ended December 31, 2021, 2022 and 2023, we made purchases from 318, 273 and 224 suppliers, respectively. We maintain a multi-supplier policy and seek price quotations from at least three suppliers for the purchase of major raw materials and equipment to avoid undue reliance on any single supplier. In addition, we tend to purchase construction materials such as cement and steel from local suppliers. In preparing the budget for each project, we would take into account factors such as potential price fluctuations of raw materials, as well as any anticipated increases in costs, and pass on such increases to our customers wherever practicable. In order to minimize the impact of possible fluctuations in costs and raw material prices during the course of a project, we usually enter into a long-term contract with our suppliers in fixed unit price with market price taken into consideration at the time of procurement and establish a price adjustment mechanism from time to time based on actual negotiations. Unless otherwise specified in the contract, the fixed unit price could not be changed.

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For the years ended December 31, 2021, 2022 and 2023, the total cost of sales involving our top five suppliers was RMB48.3 million, RMB47.3 million and RMB64.8 million, representing 23.8%, 22.0% and 27.0% of our total cost of sales for the same years, respectively. During the same years, the total cost of sales involving our largest supplier amounted to RMB11.3 million, RMB14.5 million and RMB14.9 million, representing 5.6%, 6.7% and 6.2% of our total cost of sales for the same years, respectively. The following table sets forth our top five suppliers for each year during the Track Record Period:

For the year ended December 31, 2021

Ranking	Suppliers	Major materials or services supplied/provided	Year of commencing business relationship with our Group	Payment term	Payment method	Purchase amount <i>RMB'000</i>	% of total cost of sales for the year %
1	Tianjin Chengyu Construction Company Limited* (天津誠宇建築工程有限公司)(“Tianjin Chengyu”) ⁽¹⁾	Professional subcontracting	2020	up to 30 days	Bank transfer	11,334	5.6
2	Tianjin Chengteng Building Materials Trading Company Limited* (天津晟騰建材商貿有限公司) ⁽²⁾	Raw materials	2021	up to 30 days	Bank transfer	11,208	5.5
3	Supplier A ⁽³⁾	Raw materials	2020	N/A ⁽¹³⁾	Bank transfer	10,097	5.0
4	Tianjin Yunze Building Construction Company Limited* (天津雲澤建築工程有限公司) ⁽⁴⁾	Professional subcontracting and labor services	2021	N/A ⁽¹³⁾	Bank transfer	8,829	4.3
5	Supplier B ⁽⁵⁾	Professional subcontracting	2021	N/A ⁽¹³⁾	Bank transfer	6,850	3.4
					Top 5 suppliers	48,318	23.8
					All other suppliers	154,920	76.2
					Total cost of sales	203,238	100.0

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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For the year ended December 31, 2022

Ranking	Suppliers	Major materials or services supplied/provided	Year of commencing business relationship with our Group	Payment term	Payment method	Purchase amount <i>RMB'000</i>	% of total cost of sales for the year %
1	Tianjin Jinyuan Building Construction Company Limited* (天津錦源建築工程有限公司) ⁽⁶⁾	Professional subcontracting	2022	N/A ⁽¹³⁾	Bank transfer	14,478	6.7
2	Tianjin Huisheng Trading Company Limited* (天津惠昇商貿有限公司) ⁽⁷⁾	Raw materials	2022	up to 10 days	Bank transfer	9,282	4.3
3	Supplier C ⁽⁸⁾	Labor services	2022	N/A ⁽¹³⁾	Bank transfer	9,012	4.2
4	Tianjin Zhengbiao Jinda Cable Group Company Limited* (天津正標準達線纜集團有限公司) ⁽⁹⁾	Raw materials	2022	up to 30 days	Bank transfer	8,504	3.9
5	Supplier D ⁽¹⁰⁾	Raw materials	2022	up to 20 days	Bank transfer	6,009	2.8
					Top five suppliers	47,285	22.0
					All other suppliers	168,080	78.0
					Total cost of sales	215,365	100.0

For the year ended December 31, 2023

Ranking	Suppliers	Major materials or services supplied/provided	Year of commencing business relationship with our Group	Payment term	Payment method	Purchase amount <i>RMB'000</i>	% of total cost of sales for the period %
1	Tianjin Aierwei Trading Company Limited* (天津艾爾微商貿有限公司) ⁽¹¹⁾	Raw materials	2022	up to 30 days	Bank transfer	14,901	6.2
2	Tianjin Huisheng Trading Company Limited* (天津惠昇商貿有限公司) ⁽⁷⁾	Raw materials	2022	up to 30 days	Bank transfer	13,892	5.8
3	Tianjin Jinmen Yushang Engineering Construction Company Limited* (天津津門豫商建築工程有限公司) ⁽¹²⁾	Professional subcontracting	2020	N/A ⁽¹³⁾	Bank transfer	13,208	5.5
4	Tianjin Jinyuan Building Construction Company Limited* (天津錦源建築工程有限公司) ⁽⁶⁾	Professional subcontracting	2022	N/A ⁽¹³⁾	Bank transfer	12,673	5.3
5	Tianjin Yunze Building Construction Company Limited* (天津雲澤建築工程有限公司) ⁽⁴⁾	Professional subcontracting	2021	N/A ⁽¹³⁾	Bank transfer	10,104	4.2
					Top five suppliers	64,778	27.0
					All other suppliers	174,353	73.0
					Total cost of sales	239,131	100.0

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Notes:

1. Tianjin Chengyu is a private enterprise established in the PRC with limited liability and a registered capital of RMB30 million, which is based in Tianjin. It is principally engaged in building construction, fire protection, waterproofing and anti-corrosion insulation engineering services, steel structure engineering and building decoration and decoration engineering.
2. Tianjin Chengteng Building Materials Trading Company Limited* (天津晟騰建材商貿有限公司) (formerly known as Tianjin Feiher Technology Development Company Limited* (天津飛赫科技發展有限公司)) is a private enterprise established in the PRC with limited liability and a registered capital of RMB8 million, which is based in Tianjin. It is principally engaged in construction material sales, sales of mechanical parts and components, leasing of machinery and equipment and sales of electronic products.
3. Supplier A is a private enterprise established in the PRC with limited liability and a registered capital of RMB44.1 million, which is based in Tianjin. It is principally engaged in concrete processing and sales, wholesale and retail of building materials, machinery and equipment leasing and special transportation of goods.
4. Tianjin Yunze Building Construction Company Limited* (天津雲澤建築工程有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB30 million, which is based in Tianjin. It is principally engaged in municipal road engineering design and construction, firefighting engineering and waterproofing, building intelligent system design, special equipment installation and anti-corrosion insulation engineering services.
5. Supplier B is a private enterprise established in the PRC with limited liability and a registered capital of RMB50 million, which is based in Tianjin. It is principally engaged in building construction, low voltage engineering, municipal public works, environmental protection engineering and earthwork engineering.
6. Tianjin Jinyuan Building Construction Company Limited* (天津錦源建築工程有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB12 million, which is based in Tianjin. It is principally engaged in curtain wall construction, environmental protection works, fire protection, waterproofing and anti-corrosion insulation engineering services, landscaping projects and municipal projects.
7. Tianjin Huisheng Trading Company Limited* (天津惠昇商貿有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB10 million, which is based in Tianjin. It is principally engaged in construction material sales and sales and trading in basic commodities.
8. A group of companies based in the PRC and the holding company of which is Supplier C, a private enterprise established in the PRC with limited liability and a registered capital of RMB10 million, which is based in Tianjin. It is principally engaged in labor services, technology development, technical consultation and project management services.
9. Tianjin Zhengbiao Jinda Cable Group Company Limited* (天津正標津達線纜集團有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB420 million, which is based in Tianjin. It is principally engaged in wire and cable manufacturing, road cargo transportation, power transmission business and electrical equipment manufacturing.
10. Supplier D is a private enterprise established in the PRC with limited liability and a registered capital of RMB5 million, which is based in Tianjin. It is principally engaged in construction material sales and road freight transportation, security equipment and electronic product sales.

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11. Tianjin Aierwei Trading Company Limited* (天津艾爾微商貿有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB2.0 million, which is based in Tianjin. It is principally engaged in wholesale and retail trading.
12. Tianjin Jinmen Yushang Engineering Construction Company Limited* (天津津門豫商建築工程有限公司) is a private enterprise established in the PRC with limited liability and a registered capital of RMB50 million, which is based in Tianjin. It is principally engaged in civil construction engineering, earthwork engineering, steel structure engineering and pipeline engineering, waterproofing and insulation engineering and indoor and outdoor decoration engineering.
13. We are required to make payments according to the payment schedule agreed by the parties.

To the best of our Directors, all of our top five suppliers for the years ended December 31, 2021, 2022 and 2023 are Independent Third Parties. None of our Directors or their close associates, or Shareholders (who to our Directors’ knowledge own more than 5% of the issued share capital of the Company) had any interest in any of the top five suppliers during the Track Record Period.

Raw materials

Costs of materials consumed constitutes a substantial portion of our cost of sales. Materials used for our construction projects include concrete, steel and other construction materials, all of which are sourced from PRC suppliers. Our project management teams are responsible for developing procurement plans and budgets based on their respective project specifications, with the exception of raw materials procured by professional construction subcontractors for specific projects. For the years ended December 31, 2021, 2022 and 2023, the cost of raw materials consumed by us was RMB97.5 million, RMB89.2 million and RMB68.8 million, representing 48.0%, 41.4% and 28.8% of our total cost of sales for the same years, respectively.

We have in place strict supplier selection criteria and a supplier management system, which include their track record, reputation, necessary licenses held, and price and quality of products and services. The quantity and timing for ordering raw materials are individually assessed by the project management team based on the progress and specific requirements of each project. To ensure that our services meet the specifications required by our customers, we implement strict quality control procedures for raw materials. For more information, please refer to the paragraph headed “— Raw Materials Inspection” in this section.

Certain construction contracts entered into by our Group with its customers contain price adjustment mechanism, whereby we may be able to pass on a portion of such price increase to our customers. For details, please refer to the paragraph headed “— Pricing Policy” in this section.

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Key terms of typical purchase agreements with raw materials suppliers

In general, we will issue purchase orders of raw materials after we are awarded a construction contract, and our suppliers would issue us the delivery order or invoice containing a description of our orders, quantities and prices. The key terms and conditions of typical purchase agreements of major raw materials are summarized as below:

Pricing	The total price of raw materials is determined by the unit price and the quantity delivered, wherein the unit price is negotiated with our supplier with reference to the prevailing market prices.
Delivery, inspection and acceptance	<p>The supplier delivers raw materials to our designated location, such as a construction site. Upon delivery, our employees will check the quality and quantity of raw materials according to our specifications and standards.</p> <p>In general, risk of wear and tear from delivery is borne by the supplier.</p>
Payment terms	<p>We usually pay our suppliers on a monthly basis.</p> <p>Occasionally, up to 50% of the contract sum is required as an advance payment.</p>
Liquidated damages	In general, where (i) delivery of raw materials is delayed; (ii) failure to provide the quality certificate; (iii) variety, model, specification of the raw material being inconformity with the contract provision; or (iv) the quality standards of raw materials are not met, our supplier shall be liable for liquidated damages and compensate us for the losses incurred (if any).

Inventory management

Our purchase of raw materials are made on a project-by-project basis and after the corresponding construction contracts are awarded. In general, raw materials we procured are delivered directly from our suppliers to the relevant construction sites and are used in relevant projects shortly after delivery, in order to minimize wastage and avoid stockpiling of inventories. Accordingly, we maintained a low level of inventories during the Track Record Period. We believe that raw materials we require are readily available in the PRC. Our Directors confirm that during the Track Record Period, except for the delay of delivery of materials due to the outbreak of the COVID-19, we have not experienced any significant delays or shortages in the supply of raw materials which would impact our operation and we do not anticipate significant difficulties in obtaining alternative sources of supply, if necessary. For details of the risks associated with the supply of raw materials, please refer to the section headed “Risk Factors — Our operating results may be significantly affected by changes in the prices and availability of raw materials” in this document.

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Equipment and machinery

We use a variety of equipment and machinery, such as cranes, excavators, loaders and bulldozers, to carry out construction works. The equipment and machinery we used in our operation were leased from leasing service suppliers to meet the needs of our construction projects. For the leased equipment and machinery, our suppliers are responsible for the repair or replacement during the leasing period. For the years ended December 31, 2021, 2022 and 2023, the machinery usage cost was RMB10.4 million, RMB19.5 million and RMB31.2 million, representing 5.1%, 9.0% and 13.0% of our total cost of sales for the same years, respectively.

We determine the type, quantity and duration of equipment and machinery required for each project by taking into account the size and type of the project and the expected costs, and we prepare periodic demand plans. We select our equipment and machinery rental service providers based on a number of factors, including but not limited to, geographic location, cost, services, and specifications of the equipment and machinery. Our equipment and machinery rental service providers are generally responsible for delivering the equipment and machinery to the designated construction site and maintaining the equipment and machinery during the respective lease period.

During the Track Record Period, we did not experience difficulties in using adequate equipment and machinery.

Subcontracting

During the Track Record Period, we engaged subcontractors to provide (i) labor services; and (ii) ancillary construction services on a project-by-project basis. We follow strict criteria in selecting subcontractors and we maintain a list of qualified subcontractors who can provide us with suitable subcontracting services at an acceptable price when required. Our subcontractors are Independent Third Parties. For the years ended December 31, 2021, 2022 and 2023, the total subcontracting fees we paid to our appointed subcontractors were approximately RMB85.3 million, RMB101.1 million and RMB118.0 million, respectively, representing approximately 42.0%, 46.9% and 49.4% of our total cost of sales for the same years/period, respectively. For further information, please refer to the section headed “Financial Information — Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales” in this document.

We believe that by engaging subcontractors, our Group can (i) allocate its valuable resources and focus on its core business requirements, including project bidding, contract management, cost control, quality control, occupational health and safety management and project progress monitoring; (ii) minimize administrative procedures which would otherwise apply to hiring full-time employees, such as recruitment, training and payroll administration; (iii) minimize legal risks and obligations associated with employment; (iv) minimize the risk of labor shortages; (v) improve productivity and cost effectiveness; and (vi) efficiently utilize professional workers for their construction expertise and experience.

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We categorize our subcontractors by the services type they can provide, and maintain more than 15 subcontractors in each category. Subcontractors which participate in the bidding process should pass our internal evaluation and then become our qualified subcontractors. We consider various factors when selecting subcontractors for collaboration, including but not limited to track record and experience, financial position, past performance, years of collaboration with our Group, licenses and qualifications held, technical capabilities, labor resources, price and safety record. Through the bidding procedure, we are able to choose satisfactory suppliers by taking into account a variety of factors to guarantee the quality and schedule of the projects. Subcontracting arrangements are made on a project-by-project basis, and the duration of each subcontracting agreement generally depends on the timetable, scope of work and other requirements of the particular project.

According to the relevant PRC laws and regulations, subcontractors are generally prohibited from further assigning their contracted work to other subcontractors, i.e. transferring the whole of their contracted work to other subcontractors (轉包). Nevertheless, among the subcontracting services that our Group utilizes from time to time, according to the relevant PRC laws and regulations and subject to the terms of the subcontracting contracts, professional subcontractors are allowed to subcontract certain labor services to other labor subcontractors, whilst labor subcontractors are prohibited from further subcontracting their services to other subcontractors.

Furthermore, our subcontractors are required to follow strict safety guidelines and policies, and take steps to avoid safety or other incidents in the course of providing services. In case our subcontractors fail to strictly comply with the safety or quality guidelines of the subcontractors, we may terminate our collaboration with them and/or claim damages against them. As we are ultimately accountable to our customers for the performance of our subcontractors under the contract or under applicable laws, we strictly manage and supervise the quality, schedule, health, safety and environmental records of our subcontractors.

We require our subcontractors to strictly comply with the relevant safety laws and regulations. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not incur any material damages, penalties or other liabilities arising from the contractual violations or misconduct of our subcontractors.

Labor subcontracting

Our Group enters into labor subcontracting agreements with our labor subcontractors. During the Track Record Period, the expenses of labor subcontracting services amounted to RMB50.8 million, RMB62.1 million and RMB35.6 million, representing 25.0%, 28.8% and 14.9% of the total cost of sales, respectively.

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The major terms and conditions of a typical subcontracting agreement with our labor subcontractor are outlined below:

Responsibilities	Our labor subcontractors are responsible for the provision of manpower and the overall management of its personnel and services under the supervision of the project management team and in accordance with our requirements and decisions. Our labor subcontractors are also responsible for its labor force’s payroll and payment of social insurance, housing provident fund and tax obligations.
Quality and safety	<p>Our labor subcontractors are primarily responsible for complying with quality and safety standards and managing workers.</p> <p>If the quality of the work does not meet the quality standards required by us, the relevant regulations or the local government authorities, our labor subcontractors shall bear the responsibility for reworks and the associated costs.</p>
Subcontracting fees and pricing	Subcontracting fee is usually charged based on a fixed unit price with reference to market prices at the time when the labor subcontracting agreement is entered into. Labor subcontracting fee is calculated by reference to the actual works performed by our labor subcontractors.
Payment terms	<p>Our Group is generally required to make progress payments to our labor subcontractors periodically or upon our acceptance of their works.</p> <p>Upon the completion of their works, we would pay 97% of the settlement amount and retain 3% of the settlement amount as retention fee.</p>
Warranty period and retention fee	Under certain circumstances, our labor subcontracting agreement may require our labor subcontractors to provide a warranty period of up to two years for the quality of the subcontracted works, and the retention fee is normally 3% of the settlement amount.
Termination clause	We reserve the right to terminate the labor subcontracting agreement if the labor subcontractors fail to complete the project schedule or meet quality requirements.

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Professional subcontracting

If necessary, we may engage professional subcontractors to provide certain ancillary construction services that require a certain level of expertise (including electricity system construction, fire protection and waterproofing works). We engage professional subcontractors for ancillary construction works on a project-by-project basis, and our professional subcontractors will be responsible for completing certain ancillary construction works under the contract.

For the years ended December 31, 2021, 2022 and 2023, the total subcontracting fees paid to our professional subcontractors amounted to approximately RMB34.6 million, RMB39.1 million and RMB82.4 million, respectively, representing approximately 17.0% and 18.2% and 34.5% of our total cost of sales for the same periods, respectively.

The major terms of our typical professional subcontracting agreements are outlined below:

Responsibilities	The professional subcontractors are generally responsible for the workers, materials and equipment required for the construction and are required to follow our project schedule.
Quality and safety	<p>The professional subcontractors are primarily responsible for managing and monitoring their compliance with our quality and safety requirement. In general, the majority of our professional subcontracting agreements stipulate that our professional subcontractors are responsible for safety incidents that occur during construction.</p> <p>The professional subcontractors are subject to the supervision and management of our project management team throughout the construction period. We are entitled to conduct on-site inspections to ensure the professional subcontractors’ compliance with the relevant safety and environmental protection requirements.</p> <p>Upon completion of the construction works, we would conduct completion inspection at the construction sites. If the quality of work does not meet our quality standards, relevant regulations, industry or local government authorities, our professional subcontractors shall bear the responsibility for reworks and the associated costs.</p>
Equipment and raw materials	The professional subcontractors are usually required to provide equipment and procure necessary raw materials, and the related costs are included in the subcontracting fees.

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Subcontracting fees and pricing	Our professional subcontracting agreements are generally prepared on a fixed unit price basis, and unit prices are generally determined based on market prices for labor, materials and equipment required. Professional subcontracting fees are calculated with reference to the actual works performed by the professional subcontractors.
Payment terms	Our Group shall normally make progress payment to the professional subcontractors following our inspection and acceptance of the completed work and we usually agree to pay 70% of the progress settlement amount and pay to the professional subcontractor up to 97% of the contract sum after the works has been completed, and 3% of the final settlement will be retained by us as retention fee and will be paid to the professional subcontractors upon expiry of the warranty period.
Warranty period	We may require the professional subcontractor to provide a warranty period of one year to two years after completion and acceptance of the works. During the warranty period, the professional subcontractor shall be responsible for carrying out remedial works that may be incurred due to defects in the works.
Termination clause	<p>Generally, a contract would be terminated when the warranty period expires and the subcontracting fees are paid.</p> <p>We reserve the right to terminate the professional subcontracting agreement if the professional subcontractor fails to complete the project schedule or meet quality requirements.</p>

Customers who are also our suppliers

During the Track Record Period, (i) Xintai Zhihui, one of our top five customers for the year ended December 31, 2022, was also our supplier; and (ii) Tianjin Chengyu, one of our top five suppliers for the year ended December 31, 2021, was also our customer. To the best of our Directors’ knowledge and belief, both Xintai Zhihui and Tianjin Chengyu and their respective ultimate beneficial owners are Independent Third Parties.

Our business with Xintai Zhihui

Xintai Zhihui was a Tianjin-based enterprise established in 1994 and is principally engaged in construction design, building renovation and decoration.

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Xintai Zhihui was one of our top five customers for the year ended December 31, 2022. During the Track Record Period, we were awarded with two projects by Xintai Zhihui through tendering in 2022 for the provision of construction services.

For the years ended December 31, 2021, 2022 and 2023, the revenue generated from Xintai Zhihui was nil, RMB45.6 million and RMB6.6 million, respectively, and the gross profit was nil, RMB12.9 million and RMB0.5 million, respectively, with an average gross profit margin of 25.9%, which was comparable to the overall gross profit margin of our other projects awarded by other customers (excluding Xintai Zhihui) during the Track Record Period of 25.4%.

Our Directors believe that through tendering process, the projects with Xintai Zhihui were awarded to us following due process and consideration, based on the genuine business needs and in the ordinary course of business of Xintai Zhihui.

During the Track Record Period, while Xintai Zhihui was one of our top five customers in 2022, we also engaged Xintai Zhihui in 2022 as a supplier to provide primarily building renovation and decoration services. We engaged Xintai Zhihui for the provision of professional construction contracting services after taking into account the satisfactory price and the qualification it possesses. For the years ended December 31, 2021, 2022 and 2023, our subcontracting costs to Xintai Zhihui amounted to nil, RMB2.0 million and nil, respectively, representing nil, 0.9% and nil of our total costs of sales for the same periods, respectively.

Our Directors confirm that the terms of our construction contracts and subcontracting agreement with Xintai Zhihui were negotiated on arm’s length basis and on normal commercial terms. Our provision of construction services to Xintai Zhihui and the provision of professional subcontracting services by Xintai Zhihui to us were not related to each other or otherwise interconditional.

Settlement method with Xintai Zhihui

We granted Xintai Zhihui with 30 days of credit period to settle payments from the date of issuance of progress certificates, whilst Xintai Zhihui granted us up to 30 days of credit period from the date of our acceptance of the services or raw materials provided by Xintai Zhihui. Our Directors confirm that these payment terms are generally consistent with the payment terms of the other suppliers of our Group.

Reasons for Xintai Zhihui being our customer

The two projects we undertook from Xintai Zhihui in 2022 were part of the Tianjiang Apartment Projects (天江公寓項目) which consisted of 11 individual building construction related projects. Tianjiang Apartment Projects were undertaken by three construction contractors including Xintai Zhihui and our Company. Taking into account the need for overall coordination for large scale construction projects, our historical cooperation relationship with Xintai Zhihui, and our reputation in the industry in Tianjin, Xintai Zhihui engaged us to conduct these construction projects.

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Our business relationship with Xintai Zhihui is in line with the industry practice

Our Directors confirm, with the support of the views of Frost & Sullivan, that the business relationship between Xintai Zhihui and us are generally consistent with the industry practice.

According to the Frost & Sullivan Report, contractors who are professional in providing certain areas of construction works may tender for projects where a wide array of services is required. In circumstances where a contractor does not have the necessary resources, equipment, manpower, capacity or expertise to carry out a certain sector of construction works, it is not uncommon for the contractor to invite other contractors who are in possession of the relevant qualification to carry out the works required.

Our business with Tianjin Chengyu

Tianjin Chengyu is an enterprise established in Tianjin and is principally engaged in building construction, fire protection, waterproofing and anti-corrosion insulation construction services.

During the Track Record Period, Tianjin Chengyu was engaged by us as a supplier for the provision of professional construction subcontracting services and labor subcontracting services for certain projects, and was one of our top five suppliers for the year ended December 31, 2021. For the years ended December 31, 2021, 2022 and 2023, our subcontracting costs to Tianjin Chengyu amounted to RMB11.3 million, nil and nil, respectively, representing 5.6%, nil and nil of our total costs of sales for the same periods, respectively.

During the Track Record Period, we provided our software services to Tianjin Chengyu for the year ended December 31, 2021. For the years ended December 31, 2021, 2022 and 2023, our revenue generated from Tianjin Chengyu amounted to RMB81,698, nil and nil, accounting for 0.03%, nil and nil of our total revenue for the same periods, respectively.

Settlement method with Tianjin Chengyu

Tianjin Chengyu would pay the subscription fee within one year upon entering into the software service contract, whilst the credit period that Tianjin Chengyu granted us was up to 30 days. Our Directors confirm that such payment terms are generally consistent with those between our Group and our other customers.

Reasons for Tianjin Chengyu being our customer

In December 2021, by taking into account its needs and in recognition of our Jiexiao System, Tianjin Chengyu engaged us for provision of software services for its operational purpose. During the Track Record Period, save for Tianjin Chengyu, we derived revenue from the provision of software services to 41 other suppliers with an aggregate amount of RMB140,000, RMB0.8 million and RMB0.6 million, respectively.

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To the best knowledge, information and belief of our Directors, save as disclosed above, none of our customers was also our suppliers, or *vice versa*, during the Track Record Period.

COVID-19 OUTBREAK

The outbreak of COVID-19 in China in the first quarter of 2020 have led to the imposition of various pandemic mitigation measures by the PRC Government, including lockdown, suspension of construction work, travel bans and strict social distancing and quarantine measures. There was a resurgence of COVID-19 cases in certain major cities in China throughout 2022. According to the Frost & Sullivan Report, preventive and control measures for COVID-19 were imposed in Tianjin for a total of 299 days in 2022. We did not suffer suspension for our major construction projects in 2022, such as Tianjiang Apartment Projects (天江公寓項目), due to the implementation of close-circuit management measures at the construction site. We encountered minor delays in the construction progress in some of our projects in 2022, but it did not affect our revenue for the year. However, the certification, settlement audit and payment settlement process of certain projects of our Group experienced delays due to suspension of business operations or remote working arrangement of our certain customers, which partly led to an increase in our contract assets and trade and bills receivables during the Track Record Period. The certification progress of some of our projects were delayed from the fourth quarter of 2022 to the first half of 2023, leading to a delay in the conversion of contract assets to trade receivables in the amount of RMB87.2 million as of December 31, 2022. As of the Latest Practicable Date, RMB74.5 million out of such RMB87.2 million were subsequently converted to trade receivables. In late 2022, China began to relax its policy in relation to the COVID-19 and most of the travel restrictions and quarantine requirements were lifted in December 2022.

During the COVID-19 outbreak, both government policies on public health and the customer’s requirements for project schedule became more stringent, and we implemented COVID-19 preventive measures in office and at our construction sites in order to comply with such requirements, including distribution of COVID-19 preventive kits to employees and construction workers such as masks and thermometers, regularly disinfecting our office and construction sites and adopting centralized office or remote office measures during specific periods to prevent personnel infection. In order to enhance the health and safety awareness of our employees, we provided online training courses and assessments to our employees according to their job and duty requirements. We were able to protect our safety while providing professional services without material interruption to our business operations due to our enhanced staff training especially on environmental hygiene. We incurred administrative expenses in relation to purchasing COVID-19 preventive supplies in a total amount of approximately RMB0.1 million during the Track Record Period.

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Despite our Group experienced lengthened certification, settlement audit and payment settlement process of certain projects as described above during the COVID-19 outbreak, our Directors are of the view that the COVID-19 outbreak did not and do not expect to have material adverse financial and operational impact on our Group. Our Directors believe that with the lifting of the COVID-19 restrictive measures in 2023, coupling with the continuous growth of the construction market in the PRC, the residual impact of the COVID-19 outbreak will gradually eliminate. Our Directors are optimistic about the pace of the certification and payment settlement process of our customers as well as the improvement in our Group’s balance of contract assets and trade and bills receivables.

We will continue to actively follow-up with our relevant customers to update the status of their payment approval process and urge for their settlement of our outstanding trade and bills receivables.

QUALITY CONTROL AND MANAGEMENT

We are committed to providing professional construction services to our customers. Our Group continued to possess the ISO 9001 quality management system certification during the Track Record Period. The project management team is responsible for monitoring and managing the quality of work on construction projects. For construction projects, it is critical to the reputation and success of our Group that quality construction works services are provided in a timely and safe fashion. Therefore, we have implemented stringent quality control procedures and maintained relevant reports and records covering different phases of the construction project, including but not limited to the selection of suppliers, procurement of raw materials, project execution and project inspection.

To ensure customer satisfaction with our projects, it is our standard practice to further collect and retain customer feedback on our services following completion of the project contract, and to continuously improve our performance accordingly. During the Track Record Period, the completed construction projects of our Group have all passed quality and safety inspections.

Raw materials inspection

We carefully inspect raw materials provided by our suppliers to ensure that they meet our project requirements, technical specifications and applicable national and/or industry quality standards. Our Group will normally check the product certificates and/or quality inspection reports of the relevant raw materials with our customers and their independent supervisors, and take samples and test certain raw materials to ensure their quality before using them in our construction projects. Raw materials that are defective or fail to meet our requirements, specifications or standards will be returned to the supplier.

Subcontractors

We require our subcontractors to strictly adhere to our quality control measures and practice our quality standards or equivalent as agreed in the project contract during the performance of the construction project. For further details, please refer to the paragraph headed “— Subcontracting” in this section.

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Internal records

We have established project management and control procedures, and conduct the construction works in accordance with these procedures to ensure that we comply with the requirements of the construction contracts and the applicable PRC legal requirements. Our project management team is required to maintain reports and records of the construction progress, inspection results, quality and issues for our internal record or, if necessary, submission to the certified laboratory or government.

Customer feedback

In order to maintain and improve the quality of our services and enhance customer satisfaction, we seek and receive feedback from our customers regarding our performance during the ordinary course of business. Usually, we collect customers’ comments on completed projects by means of customer return visits, and record and file such comments. Customer feedback are usually related to the quality of our works. Our established internal policies and procedures aim to respond to and record feedback from our customers, and we also follow up with customers to review our responses. Our customer satisfaction survey collects our customers’ feedback on several aspects of our services, including but not limited to our project progress, project quality, fulfillment of contractual responsibilities, project management and personnel quality. These internal policies and procedures apply to all of our construction works projects. Upon receipt of feedback from a customer, the project team will, depending on the feedback and project status, improve the quality of the project, primarily by on-site rectification, repair and rework until the customer is satisfied. Most of our customers gave us feedback which indicated their future cooperation intentions with our Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

ESG management

Our Group recognizes potential impacts of environmental, social and governance (ESG) matters on our Group’s business, by proactively identifying and confirming our Group’s responsibilities in such respect, while committing ourselves to complying with the reporting requirements of the Hong Kong Stock Exchange in relation to ESG following our [REDACTED].

In fulfilling our ESG responsibilities, our Board is jointly and collectively responsible for (i) overseeing the formulation and reporting of ESG strategies, objectives and internal monitoring measures; (ii) assessing and defining ESG-related risks; and (iii) monitoring the progress of ESG-related performance indicators and targets. Our Group establishes the environmental management steering group, which is headed by the president of our Group with the vice president as the deputy head, and comprises key responsible officers from our Group’s safety and environmental protection department, engineering management department and other departments. This steering group is mainly responsible for reviewing and approving the environmental protection management system and long-term planning, while carrying out the rectification and monitoring of hidden dangers of hazardous sources, as well as the assessment of environmental protection work. To

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constantly improve our ESG performance, we appoint professional ESG consultants to assist us in making necessary improvements, and plan to set up an ESG leading group after the [REDACTED], which is responsible for the overall assessment of ESG-related risks, the formulation and implementation of ESG vision, strategies and objectives, and regular reporting to the Board on our ESG performance and the effectiveness of ESG policies.

Our Group has developed key ESG-related policies and institutional documents, which cover engineering quality and safety, use of energy and resources, environmental impact management, production safety, labor practices, occupational health management, employee development and training, supply chain management, anti-corruption, among other areas, to ensure that our ESG-related practices are carried out in a standardized and effective manner in all aspects. Our Group’s Quality, Occupational Health and Safety and Environmental Management Manual is formulated to guide the establishment, implementation, maintenance and review of our Group’s quality, occupational health and safety, and environmental management systems. Our Group has passed the ISO9000 quality management system, ISO14000 environmental management system and ISO45001 occupational safety and health management system certification after audit by a third-party organization.

ESG risk assessment and management

We actively identify and manage ESG risks to achieve our business objectives and ensure stable development. Our Group has established and implemented the control procedures for response to risks and opportunities, which detail the identification approaches, means, and assessment methods in response to risks and opportunities, the measures formulated to address risks and opportunities, and the operational procedures for evaluating the effectiveness of such measures, while urging each department to analyze the risks and opportunities and determine the corresponding management measures based on its activities, products, service processes, etc.

Our Group’s ESG risks mainly refer to: (i) natural environmental risks, including: the impact of engineering geology and hydrogeology; the impact of climate change (e.g. high temperature, severe cold, rain, snow, wind, and lightning); the impact of natural disasters (e.g. earthquake, tsunami, and hurricane); (ii) social and environmental risks, including: the relationship with the communities around the project site, the protection of the rights and interests of workers, among other things, which may have an impact on construction works, and in some serious cases may result in direct work suspension and schedule risks; and (iii) business ethics risks, including: failure of employees, suppliers or contractors to comply with business ethics requirements (e.g. corruption and dishonesty incidents), which will result in the loss of our business interests and seriously damage our corporate image. The above ESG risks may affect our operating performance and reduce our competitiveness that appeals to [REDACTED]. Our business opportunities may also be adversely affected. For instance, when bidding for a contract, we may be disadvantaged by damaged reputation and poor credibility. In order to uphold our sustainability values, our Group has incorporated ESG considerations into our Group’s business.

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To effectively respond to and mitigate the above risks, we have adopted several measures to address risks and opportunities to strengthen the identification, monitoring and control of the above ESG risks, including setting key performance indicators (“KPIs”) and targets for the main ESG risk categories. These specifically include:

- Natural environmental risks We intend to record the number of construction projects delayed due to adverse weather conditions, severe air pollution and natural disasters and the number of days of delay during the project operation hours to assess their impact on the progress of the construction projects and enhance the precautions and emergency response to extreme weather. We plan to incorporate “days of suspension of works due to inclement weather” into the work progress monitoring system and achieve 100% statistical coverage of this indicator for works in progress by 2024. During the Track Record Period, we considered weather factors before formulating project plans, such as observing weather forecasts and confirming the weather conditions for operations before commencement of construction works that are susceptible to adverse weather conditions. This target is expected to be achieved as we further enhance our information technology system and refine our management policies and procedures. We will moderately increase the investment in personnel and equipment for climate-related monitoring and record keeping to achieve the abovementioned target, which we believe can reduce the impact of extreme weather on our operations.

- Social and environmental risks We are committed to establishing equal and mutually beneficial cooperative relationships with subcontractors and subcontracted workers, making payments to appointed subcontractors in accordance with the agreed payment terms and schedules, and supervising subcontractors to pay wages to subcontracted workers in full and on time. We plan to maintain “zero dispute” with our subcontractors on payment matters in 2024. As of the Latest Practicable Date, our Group was not involved in any ongoing/pending material claims or disputes relating to payment with our subcontractors. Achieving this target will enable us to establish more stable cooperation relationships with our subcontractors. To achieve this target, we will closely monitor the payment schedules and payment progress with subcontractors, review subcontractor wage payment schedules, etc..

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Business ethics risks Our Group strictly prohibits employees from accepting or soliciting bribes in any form or manner or requests for bribes from customers and stakeholders, and we encourage and reward the monitoring, stopping, and reporting of acts of corruption. We plan to incorporate integrity-related clauses in all procurement contracts by 2024 and achieve the target of 100% coverage of integrity training for our employees. We enhanced our anti-bribery policies and measures and started to request our major suppliers to provide anti-bribery undertakings to us since early 2023. Since the enhancement of such policies and measures, all of our major suppliers have provided anti-bribery undertakings or similar commitment in favor of our Group.

ESG goal management

We focus on key ESG issues related to the industry and have established management policies in the areas of quality, occupational health and safety, and environment as our strategic focus direction for ESG matters, and have set relevant strategies, action plans and key objectives for our Group. Our Group’s quality, occupational health and safety, and environmental policies include the people-oriented practices, safety assurance, prevention-oriented strategies, environmental protection, customer-focused policies, and constant excellence. Our Group has set the quality, environment and safety targets, including: passing rate of 98% or more in one self-inspection of the project; customer satisfaction rate of 90% or more; 100% compliance with noise emission standards; and achieving a record of zero casualties and zero fire accidents. For the year ended December 31, 2023, we were able to achieve the above quality and environmental safety targets.

Environmental protection

We are subject to a number of environmental protection laws and regulations in the PRC, including the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Water Pollution Prevention and Control Law of the PRC (中華人民共和國水污染防治法), the Noise Pollution Prevention and Control Law of the PRC (中華人民共和國噪聲污染防治法) and the Solid Waste Pollution Prevention and Control Law of the PRC (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.

We are committed to reducing the environmental impact of our daily operations under an environmentally friendly business approach in order to achieve long-term sustainable development. For environmental pollution sources such as exhaust gas (dust), waste water, solid waste and noise generated during production and daily operations at construction sites, our Group has fully identified environmental pollution sources and key control measures, and has formulated regulatory documents such as “Engineering Environmental Management System”, “Waste Gas, Waste Water and Solid Waste Management System”, “Energy Resource Management System” and “Pollutant Control Procedures”.

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Furthermore, we actively adopt professional environmental protection measures to ensure compliance with GB/T 24001–2016/ISO14001:2015 standards and relevant PRC laws and regulations.

As confirmed by our PRC Legal Adviser, during the Track Record Period, our Group was not subject to any material penalties, claims, legal proceedings arising from environmental laws or regulations.

Environmental management at construction sites

Our Group’s operations at construction sites are subject to certain environmental regulations under the PRC laws, mainly in relation to air pollution prevention and control, noise prevention and control and waste disposal. Our Group focuses on prior prevention rather than end-of-pipe treatment, and requires significant environmental elements and environmental impacts to be taken into full consideration before production and operation activities formally start. We believe that this will help identify specific environmental impacts arising from specific aspects of production and operation, and comprehensive analysis are then performed to tackle the environmental compliance risks that may arise in business processes, and to determine the compliance obligations to be undertaken. Furthermore, risk response measures and solutions will be identified, and a list of risk response measures will be formulated, implemented, and carried out.

During the construction process, our Group strictly implements the “three concurrencies” (三同時) system for construction projects, whereby implementing the concurrent design, concurrent construction and concurrent commissioning of environmental facilities alongside with the main construction entity. The key initiatives taken by our Group at construction sites include: (i) subcontractors are required to conduct in-depth studies on environmental protection regulations and specifications to ensure that the construction process complies with national and local environmental protection requirements; (ii) subcontractors and project managers shall formulate a construction environmental responsibility matrix to clarify their respective responsibilities and obligations in terms of construction environmental protection, with project managers being responsible for environmental protection at construction sites with the support from certain environmental protection management staff; and (iii) project managers regularly organize environmental protection training sessions, and provide remedial training sessions or seminars on the unaddressed or omitted matters.

Major pollution sources Major treatment measures

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|------------------|---|
| Noise management | <ul style="list-style-type: none">• Set the noise limits for construction site, specifying daytime and night-time noise limits for earthwork, piling, structure, decoration and other projects.
• Control the noise at the construction site, adopt measures such as enclosure and screen blocking to mitigate noise diffusion and control the noise generated at the construction site from the source. |
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Major pollution sources

Major treatment measures

- Strictly control the operating hours when carrying out construction in residential areas, avoid working from 22:00 to 6:00 the next day, compulsory notification to the surrounding people in advance in case that it is necessary to perform construction work at night, and filing with the environmental protection bureau where the construction site is located.
 - Consciously improve the process flow and working procedures in various production activities to reduce the noise generated by various equipment due to prolonged operation.
 - Strengthen the monitoring of environmental noise at the construction site, and adjust relevant factors exceeding noise standard on construction sites in a timely fashion if their measurement results exceed the standards as set out in the “Noise limits for Construction Site” (《施工場界噪聲限值》).
- Atmospheric pollution management
- Optimize traffic management at construction sites, sweep and sprinkle construction roads to reduce vehicle exhaust pollution.
 - Tightly cover particulate powdery materials such as cement and white ash in the warehouse to prevent dust.
 - Clean up dust pollutants in the construction site in a timely manner, control dust with dust monitoring equipment on site to detect dust indicators in real time and adjust timely in case of exceeding the standard.
 - Prohibit the burning of asphalt, linoleum, plastic, garbage or other substances that can produce toxic and harmful soot and odors within the operation area.
- Wastewater management
- Establish sedimentation tanks and grease traps in the construction area and living area based on the number of construction personnel and site conditions, and assign a person to cleaning them to prevent the overflow of sewage.

BUSINESS

Major pollution sources

Major treatment measures

Solid waste management

- Formulate the complete construction water management measures before the official commencement of the project, and set up temporary drainage systems based on project conditions to discharge wastewater generated into the corresponding municipal pipeline.
- Prohibit the discharge of harmful wastewater directly at the construction site and divert and utilize the wastewater.
- Develop a waste list, which classifies waste into recyclable waste and non-recyclable waste, and clearly defines the material of each type of waste, as well as the corresponding storage, recycling and disposal measures.
- Dispose of construction waste in accordance with national and local regulations, strictly implement waste sorting measures, and take measures such as solid waste reduction, reuse, and recycling to minimize the generation of construction waste.
- Recycle and store used fluorescent tubes, used dry batteries and other hazardous waste (if any on site) in a unified manner, and then hand over the same to a professional third party for disposal after reaching a certain amount.
- Recycle and incinerate the oily solid waste (if any) generated in construction and production in a designated boiler room for disposal.

Use of energy and resources

Our Group consumes electricity, fuel and water in its daily operations, construction and processing processes and is subject to relevant provisions of the Law of the People’s Republic of China on Energy Conservation (中華人民共和國節約能源法) and the Water Law of the People’s Republic of China (中華人民共和國水法). Our Group has formulated the Energy and Resources Management System (能源資源管理制度) to allocate and utilize energy and resources effectively in order to reduce the consumption of electricity, fuel and water at construction sites and in office activities.

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Our Group has established a comprehensive energy and resource management system, which specifies that the president is responsible for the overall management of energy planning, usage, statistics, supervision and measurement, and collaborates with professional departments to carry out statistics and monitoring of energy consumption, formulate energy-saving technology solutions, and carry out research and development and promotion of energy-saving technologies. Our Group sets annual energy objective and indicators and formulates energy-saving work plans and measures according to the energy consumption per unit of output value.

Energy and resource category	Major energy-saving measures
Construction materials	<ul style="list-style-type: none">● Establish material consumption record, and formulate material control methods and consumption reduction measures. ● Carry out recycling of waste materials effectively by improving the system of material procurement, inspection, receipt and recycling, while ensuring the availability of materials.
Electricity consumption for production	<ul style="list-style-type: none">● Reasonably allocate and use electrical energy, measure electricity consumption according to regulations, and make statistical records of electricity consumption. ● Only switch on electric machinery and equipment as needed, and prohibit empty running for a long period. ● Select, reasonably install and use as needed, energy-saving lighting products at the construction site.
Oil consumption for production	<ul style="list-style-type: none">● Only switch on machinery and equipment whenever it is used, and prohibit empty running for a long period, and establish a corresponding record to assign special personnel to manage. ● Make regular inspection of machinery and equipment, and repair and maintain machinery and equipment in time if running, overflowing, dripping, or leakage is identified. ● Regularly carry out energy cost statistics based on the operation time and energy consumption of machinery and equipment, and rectify any abnormal energy consumption in time if the cause is identified.

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Energy and resource category	Major energy-saving measures
Water consumption for production	<ul style="list-style-type: none"> ● Adopt advanced water-saving construction technology in construction; and adopt effective water-saving measures for on-site agitation and irrigation. ● Design and arrange the water supply pipe network at the construction site according to the water consumption and adopt effective measures to reduce the leakage of the pipe network and water-using appliances. ● Use water recycling devices for washing machinery, equipment and vehicle at the construction site. ● Adopt water-saving appliances for domestic water in the office and living areas of the construction site, install water metering devices and adopt targeted water-saving measures.

The breakdown of our Group’s major energy consumption and GHG emission during the Track Record Period is as follows:

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
Electricity consumption (megawatt hour (MWh))	774.9	903.4	613.6
Natural gas (kilostere)	2.0	4.0	2.0
Gasoline (tons)	31.8	27.8	16.7
Comprehensive energy consumption (tons of standard coal)	144.7	157.3	102.6
Comprehensive energy consumption intensity (tons of standard coal/per RMB million of revenue)	0.53	0.55	0.32
Greenhouse gas emissions (tons of carbon dioxide equivalent)	572.7	643.5	428.8
Scope 1 Greenhouse gas emissions (tons of carbon dioxide equivalent)	99.9	92.3	54.4
Scope 2 Greenhouse gas emissions (tons of carbon dioxide equivalent)	472.8	551.2	374.3
Greenhouse gas emission intensity (tons of carbon dioxide equivalent/per RMB million of revenue)	2.1	2.2	1.4

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Note: Due to the nature of our business, and subject to seasonal factors, we usually incur more energy and carbon emissions in the second half of the year than the first half of the year.

As compared with 2021, Our Group’s energy consumption generally followed an increasing trend in 2022 as described above. This was mainly due to the increase in the scale of the construction projects undertaken by us and was generally in line with our business development. Our Group’s energy consumption decreased in 2023 as compared to 2022, which was due to the Group carried out a photovoltaic power generation project in 2023 and upgraded our gasoline vehicles to electric vehicles partially. As compared to 2022, our comprehensive energy consumption intensity and greenhouse gas emission intensity for 2023 were generally on a downward trend. We aim to continue the downward trend in the coming years and we plan to control our greenhouse gas emissions intensity to no more than 2.0 tons of carbon dioxide equivalent/per RMB million of revenue by 2025.

The GHG emission data in the table above covers both Scope 1 and Scope 2 emissions resulted from our operations. According to the GHG Protocol, we have scope 3 emissions in our value chain arising from purchased goods and services, upstream transportation and distribution, business travel, employee commuting, and other categories of activities. We are aware of the significance of reducing our Scope 3 emissions, which we plan to commence relevant data collection and calculation in accordance with the Guidance on Climate Disclosures and expand the disclosure of Scope 3 emissions over time in the future.

Climate-related risks and potential impacts

To promote sustainable development and taking into account the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), our Group has identified certain climate change risks, including physical and transition risks that could adversely affect our business, operating results and financial condition by studying government policies and benchmarking practices against our peers. Our Group incorporates such risks into its risk management system, optimizes its business layout in a scientific manner, and takes action to enhance its resilience to climate risks in an integrated manner.

Climate risk category	Climate risk factors	Risk description	Impact level	Potential impact
Acute physical risk	Extreme weather events	The increased frequency of catastrophic weather such as typhoons, rainstorms, snowstorms, and droughts may lead to interruptions in the Company’s operations, extension of construction period, and may cause secondary disasters, resulting in personal safety, environmental pollution and other incidents.	High	Increase in operating costs Asset impairment and depreciation

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Climate risk category	Climate risk factors	Risk description	Impact level	Potential impact
Long-term physical risk	Chronic natural disasters	Chronic natural disasters such as changes in rainfall and increases in average temperatures will gradually affect coastal and inland areas. Climate change in the medium to long term may affect the Company’s business continuity and business cost expenditures, such as increased operating expenses or costs related to increased demand for cooling or replacing damaged assets.	Low	Increase in operating costs Asset impairment and depreciation
Transition risk	Energy control requirements	In the context of the transformation of energy structure in China, we may face power outages and power restriction measures, which may lead to the interruption of the Company’s operations in the short to medium term, or increased investment in energy facility renovation and higher operation and maintenance costs, thus resulting in production interruptions or longer construction period.	Medium	Increase in operating costs
	Shift in market demand	As the concept of green building and green construction becomes popular in the society, the contracting parties may incorporate green building into the contracting requirements or construction standards. If our Group’s greening and low carbonization in engineering construction fails to meet the market expectation, the Company’s market expansion will be affected.	Low	Declining demand for products and services Decrease in sales revenue

In addition to the aforementioned climate risk factors, climate change may also bring emerging business opportunities for our Group’s business development such as green building, including but not limited to: (i) in the context of the global response to climate change and the promotion of achieving carbon neutrality targets, government is actively formulating policies and plans to promote the development of green buildings and business opportunities related to green buildings or the energy-saving and green renovation of existing buildings; (ii) changes in market and customer preferences may bring more business opportunities for construction engineering enterprises that have green building technologies and apply environmental protection measures in the construction of their buildings; and

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(iii) construction engineering enterprises will be able to accelerate their green transformation process, build a good reputation and social reputation and gain recognition from [REDACTED] by implementing building electrification projects, promoting new green construction methods and facilitating the application of green building materials.

Occupational health and safety

Our Group is subject to the Law of the People’s Republic of China on Work Safety (中華人民共和國安全生產法), Law of the People’s Republic of China on Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法), Fire Prevention Law of the People’s Republic of China (中華人民共和國消防法), Emergency Response Law of the People’s Republic of China (中華人民共和國突發事件應對法) and other PRC laws regarding labor, safety and work-related incidents, as well as the Administrative Regulations on the Work Safety of Construction Projects (建設工程安全生產管理條例), Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents (生產安全事故報告和調查處理條例), Regulations on Emergency Response to Work Safety Accidents (生產安全事故應急條例) and other PRC regulations. During the Track Record Period, our Group has not experienced any major accidents involving personal injury or property damage and has not been subject to any administrative penalties or claims for compensation for violations of laws and regulations relating to work safety and occupational health.

Occupational health and safety management system

Under the full implementation of the safety policy of “safety first, prevention foremost”, our Group implements various safety management measures to ensure the normal production and operation of projects, and actively strives to achieve “zero record” of casualties. In order to reduce potential safety risks, our Group has established a comprehensive occupational health and safety production management system by formulating the Safety Management System (安全管理制度), the Emergency Plan for Work Safety Accidents (安全生產事故應急預案), the Safety Operation Procedures for Construction (工程施工安全操作規程) and other rules and regulations related to work safety and occupational health. Our Group regularly identifies rules and regulations related to work safety and occupational health, updates environmental and occupational health and safety objectives and indicators and their management plan, and reviews environmental and occupational health and safety objectives and indicators.

Our Group has established a safety production committee with the president as the chairperson and the manager of the safety and environmental protection department as the deputy chairman, whose members include the head of the engineering management department and the head of each project department. Our Group has also established a safety officer team for organizing and implementing safety education on construction sites, organizing regular and irregular safety inspections for each team, and investigating and handling accidents on construction sites.

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In the meantime, our Group fully implements the project production safety responsibility system, in which the project manager takes full responsibility for the safety production of the project department, and holds monthly safety production meetings to analyze and study the safety production situation and keeps meeting minutes; the project technical personnel bears overall responsibility for all technical issues in construction production, leads the promotion, education and training of safety technology, and puts forward suggestions for improvement in terms of technology and measures for safety hazards.

Safety risk classification and control

Our Group has prepared a “Safety Risk Classification Control and Clearing List”, which identifies a full range of operational activities and hazard sources involved in machinery and equipment, public management, road and drainage construction, and office living areas at the construction site. The accidents that may be caused by related risks include: falling from height, object strikes, collapse, mechanical injuries, vehicle injuries, fire and electric shock.

The main safety measures taken by our Group to address potential safety risks during construction include:

Potential safety risks	Safety precautions
Falling from height	<ul style="list-style-type: none">● Provide special education and safety disclosure to the relevant personnel, and conduct regular safety training and assessment. ● Develop a security management system and conduct regular safety inspections. ● Affix maintenance rails and safety warning signs in the workplace. ● Require all personnel to wear helmets at construction sites; and require workers working at height to wear safety belts.
Object strikes	<ul style="list-style-type: none">● Provide special education and safety disclosure to the relevant personnel, and conduct regular safety training and assessment. ● Prohibit excessive material accumulation (no more than 1.5 meters), and try to accumulate the materials in an open space with few people. ● Firmly set up scaffolding, upon which no materials and tools are stored.

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Potential safety risks	Safety precautions
Collapse	<ul style="list-style-type: none">● Provide special education and safety disclosure to relevant personnel, and conduct regular safety training and assessment. ● Standardize slope placement, do not exceed the load limit at the edge of the ditch (no piling of materials within 1 meter of the pit), and monitor the changes of the slope. ● Engage specialists to organize the demolition work and coordinate with each other.
Mechanical injuries	<ul style="list-style-type: none">● Provide special education and safety disclosure to the relevant personnel, and conduct regular safety training and assessment. ● Develop safe operating procedures for vehicles at construction sites, prohibit construction vehicles from running with failure, overloading, etc.. ● Operate all kinds of earthwork machinery without failure, keep a safety distance from the edge of the pit, and require the operators of such machinery to be equipped with certificates. ● Operate all kinds of machinery without failure, equip complete protective cover, prohibit illegal operation and misoperation, and assign a person to look after it when repairing.

Safety inspection and accident reporting

Our Group conducts regular inspection and evaluation on the construction sites to understand the status of safe production and timely identify unsafe behaviors and accident hazards, truthfully reflects the places and degrees of hidden danger, qualitatively and quantitatively analyzes the causes, timely formulates rectification measures and plans, and organizes rectification within a limited time. In particular: company-level inspection is organized by the engineering management department once a month, with the participation of the safety and environmental protection department; project-level inspection once a week, with the participation of technical leaders, safety officers and construction workers; and daily safety inspection is conducted by the project team.

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Our Group has formulated the Emergency Plan for Work Safety Accidents (安全生產事故應急預案), and established an emergency plan system for various types of accidents, including comprehensive emergency plan, special emergency plan and on-site disposal plan. Emergency actions are carried out according to the controllability, severity, and scope of impact of work safety accidents, and reported in a timely manner based on the accident level. Our Group requires that all types of safety accidents shall be recorded in detail, reported in a timely manner, and all personnel shall be organized to analyze the causes and put forward preventive measures. In the process of accident investigation, we shall objectively, impartially, accurately and timely find out the cause of the accident, the process of the accident, the recovery, the loss of the accident, the liability for the accident, post-accident compensation, etc., then issue an accident report and put forward preventive measures and accident liability treatment.

Safety education training

Our Group requires all new employees in the project department (including outsourced workers, contract workers, temporary workers and management personnel) to receive “three-level” (company, project department and project team) of safety education and be allowed to work only after passing the education. Each project department unifies the establishment and management of individual employee’s “safety education record cards”, which are organized and filed by construction teams and project teams. Our Group requires all construction workers to study the safety operation procedures and relevant safety system two to three times a year. In addition to general safety education, personnel engaged in electrical, tower crane, construction elevator, welding, vehicle driving, etc. is also required to conduct special training and shall not engage in operation until passing the examination and obtaining the operation certificate, which is subject to review every two years.

In order to further implement the main responsibility of work safety and strengthen safety precautions, our Group organized a series of activities in relation to the theme of “Work Safety Month” in June 2022, with the theme of “Complying with the Work Safety Law and Being the First Responsible Person (遵守安全生產法當好第一責任人)”, focusing on fire safety knowledge training and fire emergency drills. At the same time, our Group also actively cooperated with main contractors to conduct various work safety trainings to effectively promote construction personnel to enhance their safety awareness at operation level.



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The breakdown of our Group’s occupational health and safety records for the Track Record Period is as follows:

	<u>For the year ended December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
Number of work-related fatalities	—	—	—
Rate of work-related fatalities (%)	—	—	—
Number of work-related injuries	—	2	—
Lost days due to work-related injuries (days)	—	30	—

Note: The statistics in this table covers the Group only and does not include that of our suppliers or subcontractors.

During the years ended December 31, 2021, 2022 and 2023, our Group had nil, two and nil workplace accidents, respectively. The two workplace accidents that occurred in 2022 resulted in a loss of total 30 working days for the two injured employees.

After the occurrence of the aforementioned accidents, our Group applied to the local social insurance administrative department for a work injury assessment and applied for work injury insurance compensation. The relevant employees were allowed to take paid sick leave. According to the work injury assessment, neither of the work-related accidents was categorized as a disability grading or affected the labor capacity of the employees in terms of their severity, and the two employees returned to normal work after 15 days of recuperation. According to the relevant written decisions of work-related injury made by the Human Resources and Social Security Bureau of the Tianjin Economic-Technological Development Area, the abovementioned two injuries were work-related injuries, therefore, compensations were made to the injured employees by the social insurance fund. The two injuries were mainly caused by the inadvertence of the employees and no fault of our Group was involved.

During the Track Record Period and up to the Latest Practicable Date, our Group has not received any rectification notices from or has been subject to any administrative penalties imposed by the relevant governmental authorities in relation to the two work-related injuries, and has not been subject to any claims or penalties in relation to any workplace accidents.

The two work-related accidents were minor injuries and did not meet the minimum standards set by the relevant national authorities for recognizing work safety accidents. Based on the above, the Directors are of the view, and our PRC Legal Adviser concurs, that the two work-related injuries did not constitute violation of the applicable PRC laws and regulations by our Group. Apart from the loss of working days for the injured employees, there was no significant negative impact on our Group in other aspects. As of the Latest Practicable Date, our Group was not aware of any adverse credit record in respect of work safety against us and had not experienced any restriction on tendering or suspension of tendering activities due to our record of workplace accidents.

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Our Group’s occupational health and safety management system includes a reporting and recording system for construction site safety incidents. Our Group will immediately activate the safety production contingency plan system and report the incident at each level in accordance with the requirements of the relevant regulations, in case a safety injury occurs within the boundaries of our Group’s construction sites. We also require our subcontractors to comply with the relevant occupational health and safety requirements. For details, please refer to the paragraph headed “— Environmental, Social And Governance Matters — Occupational health and safety — Contractor safety management” in this section.

Contractor safety management

Our Group has formulated the “Subcontractor Control Procedures (分包方控制程序)” to ensure that subcontractors meet the stipulated requirements in terms of construction quality, occupational health and safety and environmental protection. In terms of safety, our Group conducts the review and filing of business licenses, corporate qualifications, safety production permits and safety production qualifications of relevant personnel for subcontractors who undertake subcontracting projects, and requires subcontractors to conduct targeted pre-shift safety disclosures to construction workers according to the different characteristics of daily work tasks, and submit the disclosure records to the project department for filing by the 25th of each month. The commercial contract department of our Group is responsible for organizing relevant departments to inspect and evaluate the performance of subcontractors.

Protection of labor rights and interests

Our Group strictly prohibits child labor and forced labor and enters into labor relations with employees on a voluntary and equal basis. Recruitment of employees is conducted through regular recruitment websites and age restrictions are imposed on interview candidates in the recruiting requirement. Candidates cannot enter the interview process of our Group if they are under 18 years old. At the same time, our Group attaches importance to the employee conduct management and strictly prohibits verbal abuse of colleagues or each other and retaliation against subordinate employees, and encourages employees to expose or complain about inappropriate behavior. In terms of performance and remuneration, our Group conducts monthly and annual appraisals of employees based on the Performance Management System (績效管理制度) and the Measures for the Assessment of the Completion of Work Tasks (工作任務完成情況考核辦法), and the appraisal results will directly affect the amount of the employee’s performance-based wages and future salary adjustments.

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Employee’s benefits and care

Our Group sets out in detail the working hours, holidays, remuneration and benefits, job duties and performance, and employee conduct management measures in the Employee Handbook. All employees work five days per week and are provided with welfare leaves such as marriage leave, maternity/paternity leave, paid annual leave and medical treatment period for sickness or non-work-related injuries, in addition to statutory holidays. Meanwhile, our Group also carries out a variety of employee care activities, including: (i) annual meeting, monthly birthday parties and staff reunion activities; (ii) basketball game, photo contest, badminton match, essay competition and other recreational and sports activities; and (iii) additional leave for female employees and employees with children under 14 years of age on Women’s Day and Children’s Day, respectively.

Employee training and development

Our Group provides necessary induction training and timely on-the-job training for its employees based on its business needs to help them to be competent for professional and technical skills work and daily project work management. Our Group encourages its employees to become multi-talented and to achieve diversified growth through professional skills advancement training, cross-field skills training, and middle and senior management skills training.

Our Group will implement a new performance management system and promotion system in 2023, with the aim of providing employees with clearer performance incentive programs and career planning and promotion routes, and offering more promotion opportunities to employees with excellent performance. In particular, performance management is carried out based on the data from our Jiexiao System, which provides an objective evaluation of employees’ achievement of tasks and the timeliness of work approval process, generating corresponding performance scores, thus achieving a balanced performance management for employees.



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Integrity and business ethics

Our Group is committed to creating a fair, just and open business management environment. In its Anti-Fraud and Whistleblowing System (反舞弊與舉報制度), our Group has clearly defined the definition and conduct of fraud, and clarified that the Board is responsible for supervising the management to establish a Group-wide anti-fraud cultural environment and to establish a sound internal control system including fraud prevention. Our Group requires all employees to comply with our Group’s code of conduct, code of ethics and the laws and regulations applicable to the country and industry. In the event of any fraud, it should be reported to our Group through proper channels. Our Group has set up handling hotlines and e-mails responsible for receiving fraud reports and complaints with senders’ names or anonymous reports from employees and external third parties, preparing written records accordingly and reporting to the management or the Board in a timely manner. Any illegal discrimination or retaliation against whistleblowers or hostile measures against employees involved in investigations are prohibited.

Our Group strictly prohibits employees from accepting or soliciting bribes from customers and stakeholders in any form or in any way. At the same time, we encourage and reward the supervision, suppression and reporting of any corruption. It is required that during our evaluation and bidding process for selecting subcontractors, potential bidders shall not be restricted or excluded, or discriminated against, under unreasonable circumstances. During the Track Record Period, neither our Group nor our employees were found to be involved in corruption in any proceedings.

Public welfare and contribution to communities

Our Group is committed to being a socially and environmentally responsible corporate citizen that contributes actively to the local community. During the Track Record Period, our Group’s community contribution activities mainly included:

- Donations and educational support activities: Our Group made a donation to the Happiness Primary School (幸福小學) in Baishui Town, Kongtong District, Pingliang City, Gansu Province, to support the school’s 2021 “June 1 Children’s Day Art and Culture Show (六一兒童節文藝匯演)”, through which the students were provided with a platform to showcase and exercise their talents.
- Support for pandemic prevention and control: During the outbreak of COVID-19, our Group strictly followed local pandemic prevention and control policies, cooperated with local community in pandemic prevention and control arrangements, and encouraged employees to participate in volunteer services within their capabilities such as pandemic prevention posts and maintenance of order during nucleic acid testing. Our Group was recognized by the local street working committee and office.
- Participation in community winter snow removal: During the winter season of 2021–2022, when there were heavy snowfalls, our Group dispatched employees and professional vehicles to participate in snow and ice removal, supporting the smooth flow of urban roads and the safe travel of the public.

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INSURANCE

We purchase insurance as required by PRC laws and regulations and based on an assessment of our operational needs and industry practices. We are subject to the PRC social insurance system and are required to make contributions to social insurance for our employees, including basic pension, basic medical, unemployment, work injury and maternity insurance for our employees. We procure project insurance directly from qualified insurance companies, which mainly includes production safety liability insurance, all construction risks and accident insurance. We adopt the normal industry practice for performance-related insurance (i.e., performance bond), using the guarantee letters issued by the insurance companies to cover the related liabilities while reducing the cash flow burden.

Our Directors believe that our existing insurance coverage is in line with industry norm and is sufficient for our present operations. For more details, please refer to “Risk Factors — Our insurance policies may not be adequate to cover all risks of loss associated with our business operations” in this document. We have not encountered any significant insurance disputes during the Track Record Period.

INTELLECTUAL PROPERTY

We rely on patents, copyrights, trademarks and domain name registrations to establish and protect our intellectual property rights. As of the Latest Practicable Date, we have registered 23 patents, 17 software copyrights, 35 trademarks and seven domain names in the PRC, three trademarks in Hong Kong, and have two patents pending registration in the PRC. For further details of our material intellectual property rights, please refer to the paragraph headed “Statutory and General Information — B. Further information about our business — 2. Intellectual Property Rights” in Appendix VII to this document.

During the Track Record Period and up to the Latest Practicable Date, our Group was not involved in any material claims or disputes relating to infringement of intellectual property rights. The Directors are not aware of any third party using our intellectual property rights and believe that our business has not faced any significant potential impact due to infringement of intellectual property rights.

R&D

As a construction group offering comprehensive construction services, our R&D activities focus on technological innovation and the development of digital management systems that are critical to our business. As of the Latest Practicable Date, our R&D team consisted of 42 employees including personnel with qualifications of mid-level and senior engineer, construction engineer or cost engineer, who possess extensive experience and in-depth understanding of our business requirements to provide technical guidance to our R&D activities and enhance the overall research capability of our Group to keep up with market trends.

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Our R&D investments and technological achievements

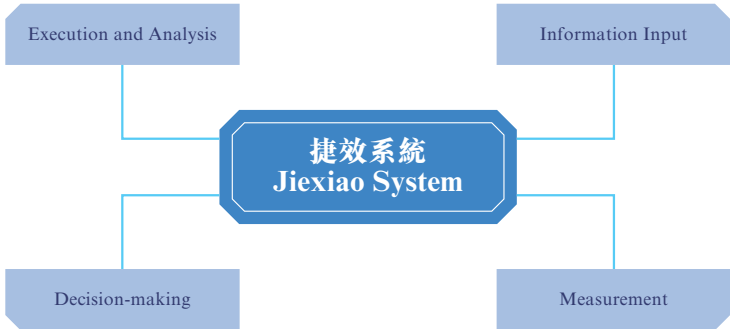
For the years ended December 31, 2021, 2022 and 2023, we invested RMB11.0 million, RMB10.2 million and RMB8.3 million, respectively, in research and development expenses during the respective periods. In order to maintain our market competitiveness and position, we strive to develop construction technologies and adopt best industry practices. As of the Latest Practicable Date, our Group had 19 utility model patents and four invention patents relating to construction technologies, which are mainly related to the research of construction technologies for building equipment, pipe structures, municipalities and public facilities.

As a result of our R&D capabilities, initiatives and achievements, we have been recognized as a “High and New Technology Enterprise” since 2019 and continued to enjoy a preferential corporate income tax rate of 15%. We renewed this certificate in December 2022 and are entitled to a preferential income tax rate of 15% for the three years from 2022 to 2024. The “High and New Technology Enterprise” status is subject to review by the relevant PRC authorities every three years. If we are unable to review the “High and New Technology Enterprise” status upon expiration, we will be subject to a uniform corporate income tax rate of 25% from the year of expiration, which in turn will result in an increase in our income tax.

Our Jiexiao System

We are committed to the application of information technology to enhance our competitiveness, improve our service quality, reduce our reliance on labor and decrease the costs and expenses incurred. We self-developed Jiexiao System for our business and daily operations, which has been extensively used in our project management during the Track Record Period. As various data in relation to our construction projects is input into the system, our management team can utilize different functions of the Jiexiao System to, among other things, closely monitor and measure the progress of and cost incurred in our construction projects.

The diagram below illustrates the major functions of the Jiexiao System:



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The Jiexiao System encompasses a variety of functions which can be categorized into: (i) information input; (ii) measurement; (iii) execution and analysis; and (iv) decision-making. The details of each of these four types of functions are set forth below:

(i) Information input

We input various information into the Jiexiao System throughout the course of our construction projects, including information in relation to our construction projects, contracts, customers and suppliers. By inputting such basic information into the Jiexiao System, we have established a database of our construction projects, contracts, customers and suppliers. Thus, we can associate or link subsequent processes in our construction projects (such as progress monitoring, purchase for and receipt of delivery of raw materials, calculating cost incurred, payment, issue of invoices, etc.) with the corresponding construction projects, contracts, customers and suppliers in the Jiexiao System.

(ii) Measurement

Our staff input various data into the Jiexiao System using mobile devices during the course of our daily operation. Using such data, we can measure on a daily basis the costs incurred for (a) raw materials, by recording the amounts of raw materials delivered through uploading photographs of the raw materials, which would be watermarked as proof of authenticity of the delivery and the amounts, and the relevant delivery notes; (b) equipment, by ascertaining the time of usage of the machinery through uploading watermarked photographs of the operation panel of the machinery before and after use; and (c) subcontracting labor, by recording the working time of our subcontracted workers through the face scanning function of the Jiexiao System and requiring subcontracted workers to wear RFID tags so that our management team can perform attendance inspections on sites.

(iii) Execution and analysis

The Jiexiao System also assists our management team to (a) manage the budget and costs of construction projects; (b) manage the progress of construction projects; (c) process applications for payment and receipt of payment; and (d) process applications for issue of invoices.

Manage budget and costs — during the preparation phase of each of our construction projects, we would prepare and upload a budget for such construction project to the Jiexiao System, which would be used as the basis for controlling our costs incurred. Throughout the course of our construction projects, if we notice any purchase which would render the costs incurred exceeding the estimated amount in the uploaded budget, then the request for purchase (to the extent of the amount in excess) would be rejected, unless approved by our president (in which case we would require that the uploaded budget be promptly adjusted accordingly), thereby preventing over-spending.

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Manage progress — by comparing the budget and the actual costs we incurred, we can ascertain the progress of our construction projects, and make adjustment in case we notice any deviation from the planned schedule.

Process application for payment and receipt of payment — the applications for payment to suppliers and receipt of payment from customers are processed through the Jiexiao System. Our staff would submit such application to the Jiexiao System with the necessary information and documents. Our management team would review the application and decide whether to approve the application.

Process application for issue of invoices — our staff would submit applications for the issuance of invoices through the Jiexiao System with the necessary information and documents, and would only issue invoices after obtaining approval from our management team.

(iv) Decision-making

The Jiexiao System is equipped with the functions of (a) statistics of information; (b) management of targets; and (c) arranging for meetings. Our management team can promptly handle various processes of our construction projects through the mobile or web application interfaces of the Jiexiao System and make decisions based on the data stored in the system.

Statistics of information — by collecting information in relation to our projects, contracts, customers and suppliers, we can generate statistics and indicators for such information to ascertain the costs incurred, progress and quality of our construction projects.

Management of targets — our management team would set deadlines for the tasks and targets to be completed by our staff. The Jiexiao System records information such as the progress and status of completion of the targets and the actual completion time. Our management team would conduct a review of the completion of targets on a weekly basis.

Arranging for meeting — Our staff can also arrange for meeting through the Jiexiao System, which would send invitation to the relevant participants, thereby facilitating problem-solving through prompt communication.

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Screenshot of the web application interface of the Jiexiao System

During the Track Record Period, we applied the Jiexiao System to the operation of projects undertaken by our Group. Through practical application of the Jiexiao System and continuous improvement of its functions, we have enhanced our capability to, among other things, monitor and control the processes of our construction projects, performance of contracts, costs incurred, quality and completion of targets, thus improving our customers’ satisfaction and strengthening our competitiveness in the market. We also strive to improve our ability to confirm and control the costs we incurred, such as costs of raw materials, equipment and labor, more expediently and accurately through deployment of our software and technologies.

During the Track Record Period, we provided software services in relation to the Jiexiao System to external parties, such as our suppliers and other construction companies. Our services include platform configuration services of the Jiexiao System according to the requirements of the software subscribers, cloud storage services and provision of technical support and training services. We charge the subscribers platform subscription fee and other service fees, which is generally charged on a cost-plus basis. In determining our service fees, we take into account factors such as the scope of services, manpower required and level of competition. For the years ended December 31, 2021, 2022 and 2023, our revenue generated from the provision of software services amounted to RMB0.1 million, RMB0.8 million and RMB0.6 million, respectively.

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Uniqueness of the Jiexiao System

According to Frost & Sullivan Report, our self-developed software, Jiexiao System, as compared with other off-the-shelf construction management software, is one of the few construction management software in the market that provides comprehensive functions covering various stages of the construction process, including cost monitoring, progress measuring, resources tracking and other functions. While there are similar software in the market, the developers of the software may not possess the specific knowledge of the construction industry. As such, the functions of those software may not be tailor-made to adapt for construction companies. Most existing software in the construction industry has limitations, and may lack functions covering certain stages of the construction process, such as material management, personnel management, machinery management. They may not be as comprehensive as our Jiexiao System. On the other hand, Jiexiao System is developed based on our comprehensive knowledge and understanding of the construction industry, which sets it apart from other software by providing a wide range of tailor-made functions, including material management, personnel management, machinery management, construction contract management, cost management, production and schedule management, and operational management systems, making it a comprehensive solution for various aspects of construction projects.

As a construction company, we believe that informatization is crucial to our future development. Since the available construction management software in the market are not applicable to our Group, we self-developed the Jiexiao System by applying the parameters of our construction projects and combining our experience and knowledge in the construction industry. Compared with other off-the-shelf construction management software, our Directors believe that our Jiexiao System has the following advantages:

- (i) our Jiexiao System is adapted to our business and project needs and various functions can be adjusted according to our project conditions;
- (ii) our Jiexiao System can be applied to the whole construction project cycle, from project commencement to project completion, with the ability to retain and store unmodifiable data on the system;
- (iii) our Jiexiao System can provide real-time display of project progress, allowing us to monitor our project progress efficiently;
- (iv) the user-friendly interface of our Jiexiao System has drag-and-drop functions, and the data source and linked pages can be easily accessed; and
- (v) the warning function of our Jiexiao System sends out notification whenever there is abnormal amount of cost recorded, allowing us to have better control of our costs.

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Highlights of our construction technologies

A treatment method for roadbed hazards (一種路基危害的處理方法)

Our treatment method for roadbed hazards is developed in view of the operational need to enhance construction safety and useful life of our construction in the saline and alkaline land (鹽鹼地鹽漬土地區) where road cracks and construction corrosion may occur during our construction progress. This method enhances the resistance and anti-freezing capability of the roadbed.

We believe that the use of this method allows us to extend our services scope in different conditions and improve the quality of our construction.

Construction equipment and its construction method for the full casing pile, rotary drilling, rig borehole and bite pile (全套管、旋挖鑽機鑽孔咬合樁施工裝備及其施工方法)

Our construction equipment and its construction method for the full casing pile, rotary drilling, rig borehole and bite pile enable us to avoid mud pollution and improve the quality of rigging borehole. By utilizing the equipment and its construction method, we could improve the loading capacity of our piles and conduct underground pipeline construction adjacent to the building.

We believe that the adoption of this equipment and method can improve the safety of our construction and reduce environmental pollution.

INVESTMENT COOPERATION AGREEMENT

Our Company entered into an investment cooperation agreement with the Tianjin Economic and Technological Development Area Administrative Committee* (天津經濟技術開發區管理委員會) (“TETDAAC”) on May 16, 2022 (the “**Investment Cooperation Agreement**”), pursuant to which TETDAAC conditionally agreed to provide us with support to improve our Group’s business performance and capability in digital engineering. The salient terms of the agreement are as follows:

Duration:	May 16, 2022 to November 30, 2027
Purpose:	To improve our Group’s business performance and capability in digital engineering.

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Obligations of our Group:	<p>In order to be eligible for the support provided by TETDAAC, our Group shall comply with certain obligations stipulated in the Investment Cooperation Agreement, including:</p> <ul style="list-style-type: none">(i) our Group shall comply with the national and local laws and regulations;(ii) our Group shall register and operate in the Tianjin Economic and Technological Development Area; and(iii) our Group shall achieve certain business and financial indicators, including revenue targets and investment amount in R&D for each financial year.
Support to be provided by TETDAAC:	<p>TETDAAC shall provide economic support to our Group in various areas, including operation, investment, technological innovation, subsidies for talents, listing, taxation and marketing.</p>
Termination:	<p>If we fail to meet the relevant requirements in the Investment Cooperation Agreement, TETDAAC has the right to modify or terminate the terms of support and unilaterally terminate the Investment Cooperation Agreement.</p>

During the Track Record Period, apart from receiving economic support from TETDAAC in the aggregate amount of RMB0.1 million, TETDAAC also provided business support to us by lining up our Group as well as organizing exchange sessions with potential customers, including state-owned enterprises. We are continuously following up with TETDAAC to obtain other support as provided under the Investment Cooperation Agreement.

MARKET AND COMPETITION

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

Given the competitive nature of the markets and industries in which we operate, the Directors believe that our competitive advantages have contributed to our Group’s success and that, under the management of the Directors and senior management, our Group is well-positioned to capture the growing demands of the construction industry in the PRC. For further details of our competitive strengths, please refer to the paragraphs under “—Competitive Strengths” in this section.

BUSINESS

EMPLOYEES

As of the Latest Practicable Date, our employees had formed a labor union which represented the interests of our employees. As of the Latest Practicable Date, our Group had a total of 133 employees, all of whom were located in the PRC. The following table sets out the number of employees of our Group by job function:

Functions	Number of employees
General management	15
Project department <i>(Note)</i>	45
Commercial contract department	5
Marketing department	5
Procurement department	3
Finance department	5
Safety and environmental protection department	2
R&D department	42
Human resources and administrative department	<u>11</u>
Total	<u><u>133</u></u>

Note: Our project department consists of, among others, three project teams and a project management team.

We engage subcontractors to provide labor services for our construction projects, and generally do not employ any construction workers. For details, please refer to “— Labor subcontracting” in this document.

We generally recruit employees from the open market by placing job advertisements. We offer competitive remuneration packages to our employees. We also provide regular and *ad-hoc* training courses for our employees to ensure their competency and to keep them abreast of the latest developments and best practices in the industry so as to enhance their performance. For the years ended December 31, 2021, 2022 and 2023, our total staff costs were RMB18.5 million, RMB17.2 million and RMB19.8 million, respectively.

The Directors believe that we maintain good relations with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not face any significant employment-related issues, nor did we experience any disruption to our operations due to labor disputes, and we did not encounter any difficulties in recruiting or retaining senior staff or technical personnel.

BUSINESS

Social insurance and housing provident fund contributions

During the Track Record Period, we did not make full contributions to social insurance and housing provident funds for 233, 164 and nil of our employees, primarily because some of our employees were reluctant to make contributions to social insurance and housing provident funds based on their actual salaries as they shall bear their portion of the contributions, as a result, the salaries that they actually get would be reduced, compared to the contributions based on a lower standard.

As advised by our PRC Legal Adviser, according to the relevant PRC laws and regulations relating to social insurance contributions, if we do not pay the full amount of social insurance contributions as required, the relevant authorities may demand us to pay the outstanding social insurance contributions within the deadline stipulated by them, and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay. We may be liable to a fine of one to three times of the amount of the outstanding contributions if we fail to make such payments within the deadlines stipulated. According to the Regulations on Administration of Housing Provident Fund (《住房公積金管理條例》), for housing provident fund contributions that we fail to pay within the prescribed deadlines, we may be ordered by the housing provident fund management center to deposit the underpaid fund within a time frame; if we fail to deposit such fund within the time frame, the housing provident fund management center may apply to the people’s court to enforce collection.

We have obtained written confirmations from local social insurance and housing provident fund authorities, each stating that (i) during the period from January 1, 2021/the date of establishment of our Group companies to January 22, 2024, no violation of laws and regulations in relation to labor and social insurance by us was found, and we had been subject to no administrative penalty related to social insurance; and (ii) during the period from the date of depositing the housing provident fund with the accounts opened by us (i.e. December 2018, November 2022, December 2022, and February 2023 for our Company, Tianjin Binhai, Yujiacheng and Tianjin Zhongjianke, respectively) to January 2024, no violation of laws and regulations in relation to housing provident fund by us was found, and we had been subject to no administrative penalty related to housing provident fund. Our PRC Legal Adviser is of the opinion that the relevant written confirmations are addressed by competent authorities.

As of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to social insurance or housing provident funds and demanding payment of the same before a stipulated deadline. We were also not aware of any material complaints from employees or demands for payment of social insurance or housing provident fund contributions, nor had we received any material legal documentation from the labor arbitration tribunals or the PRC courts regarding disputes in this regard.

BUSINESS

As of the Latest Practicable Date, (i) the competent local social insurance and housing provident fund authorities have issued confirmations stating that no violation of laws and regulations in relation to labor, social insurance and housing provident fund by us was found and we had been subject to no administrative penalty related to social insurance or housing provident fund; (ii) according to the Emergency Circular of the General Office of the Ministry of Human Resources and Social Security on Applying the Spirit of the Executive Meetings of the State Council to Practically and Effectively Stabilize the Collection of Social Insurance Contributions (人力資源社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知) issued on September 21, 2018, self-organized collection and clearance of all past underpayment of enterprises is prohibited; (iii) we have not received any employees’ complaints, disagreement or demands in connection with payment of social insurance or housing provident funds, and there were no disputes between our employees and us for social insurance or housing provident funds; and (iv) we are committed to deal with complaints or demands put forward by our employees in respect of past contribution to social insurance and housing provident funds properly and timely, and make supplemental contribution to social insurance or housing provident funds, or pay relevant late payment fees timely in the event that the competent social insurance and housing provident fund authorities demand so in the future. Based on the foregoing, our PRC Legal Adviser is of the view that the risk that we would be subject to fines or late payment fees by relevant authorities in relation to our contributions to social insurance and housing provident funds during the Track Record Period is low. As such, our Directors believe that our failure to fully contribute to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date would not have any material adverse effect on our business operations or results of operations. As confirmed by our Directors, we have made full contributions to housing provident funds and social insurance provident funds for all of our employees since January 2023.

As of December 31, 2023, the outstanding amount of social insurance and housing provident fund contributions amounted to RMB2.8 million and it is estimated that our Group may be subjected to a late payment fee of RMB0.9 million. Since we are committed to make supplemental payment for social insurance or housing provident funds in a timely manner in the event that the competent social insurance and housing provident fund authorities demand us to do so, our Directors believe that no fine will be imposed on us according to the applicable PRC laws and regulations. In consideration of the view of our PRC Legal Adviser that the risk that we would be subject to fines or late payment fees by relevant authorities in relation to our contributions to social insurance and housing provident funds during the Track Record Period is low, we have made provisions in the amounts of RMB1.7 million, RMB0.4 million and nil with respect to the potential liabilities arising from shortfalls in social insurance and housing provident fund contributions during Track Record Period, respectively.

In addition, as of the Latest Practicable Date, we have established various internal policies and procedures to ensure that we make full contributions in relation to social insurance and housing provident funds. These internal policies and procedures include formulating our calculation and payment methods in compliance with the relevant laws and regulations.

BUSINESS

PROPERTY

Self-owned properties

Land

As of December 31, 2023, we owned the land use right for a parcel of land with a total area of approximately 10,380.2 sq.m. located at No. 112, Dongting Road, Economic and Technological Development Zone, Tianjin, with planned use for industrial purposes (the “**Office Land**”), and two parcels of common land (共有宗地) with a total area of approximately 85,261.8 sq.m. located at Building 26/27, Bishui Manor, Central Business District, Tianjin Binhai New Area, Tianjin, with planned use for commercial purposes. In respect of the said land use right, we have obtained the relevant real estate certificates. We have the right to occupy and use such land within the scope of use specified in the real estate certificates, the part of land use right owned by us is not subject to any mortgage, seizure, freezing or other restrictions. As of the Latest Practicable Date, the property located on the Office Land was actually used for office purpose. For further details, please refer to the paragraph headed “— Building” in this section.

Building

As of December 31, 2023, we owned three properties with a total gross floor area of 13,064.4 sq.m., including (i) one property with a total gross floor area of 12,595.4 sq.m. located at No. 112, Dongting Road, Economic and Technological Development Zone, Tianjin, with planned use for industrial purposes (the “**Office Property**”); and (ii) two properties with a total gross floor area of approximately 469 sq.m. located at Building 26/27, Bishui Manor, Central Business District, Tianjin Binhai New Area, Tianjin, with planned use for non-residential purposes (“**Bishui Properties**”). As of the Latest Practicable Date, we obtained the ownership certificates of the aforementioned properties. We have the right to occupy and use those properties within the scope of use specified in the real estate certificates, those properties are not subject to any mortgage, seizure, freezing or other restrictions.

As of the Latest Practicable Date, while the Office Property was planned for industrial use, the Office Property was actually rented by Tianjin Zhongjianke, our wholly-owned subsidiary, to our Company and used by our Group as well as certain tenants for office purposes. As advised by our PRC Legal Adviser, the actual use of the Office Property was not in line with its planned use, according to relevant rules of the Administrative Measures for Commodity Housing Tenancy (商品房屋租賃管理辦法), a property shall not be leased if its usage is changed in violation of applicable regulations. If a property is leased in violation of the above requirement, the competent construction (real estate) administrative authority may urge the violator to make corrections within a specified time limit, and impose a fine below RMB5,000 if no illegal gains have been obtained, or a fine between three and five times of the illegal gains but below RMB30,000 if illegal gains have been obtained.

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According to a confirmation issued by Tianjin Economic-Technological Development Area Bureau of Planning and Natural Resources in June 2023, during the Track Record Period and up to the date of the confirmation, Tianjin Zhongjianke had no record of administrative penalties by the bureau for land or planning matters, and the compatible use of industrial land is an encouraged approach by current urban renewal policies. Further, according to a confirmation issued by Tianjin Binhai New Area Commission of Housing and Construction in June 2023, as of the date of the confirmation, our Company and Tianjin Zhongjianke had been subject to no administrative penalties by the commission for violation of construction and housing management laws and regulations.

Since Tianjin Economic-Technological Development Area Bureau of Planning and Natural Resources and Tianjin Binhai New Area Commission of Housing and Construction, which are competent governmental authorities as confirmed by the PRC Legal Adviser, had issued the above-mentioned confirmations, which confirmed our usage of the Office Property for office purpose conform with the current urban renewal policies and we have not been subject to any administrative penalties in relation to land or property, in response to the consultation about the use of the Office Property by our Group, as of the Latest Practicable Date, the Directors are of the view that the above-mentioned governmental authorities, had no objection to the current use of the Office Property by our Group and our Group can continue to use the Office Property for office purpose. On the other hand, our Company will continue to communicate with the local government authorities in relation to the latest updates in land planning policies to ensure compliance with any future government requirements in relation to the use of the Office Property.

In addition, even if we are required not to use the Office Property for office purpose and to relocate in the future, since the Office Property is used for office purpose, the Directors believe that we will not experience any difficulties in finding alternative premises for relocation and our construction operations will not be disrupted. The estimated cost of relocation will be approximately RMB1.1 million mainly including rent for the premises and renovation fee, which is immaterial and will not have any material adverse effect on our financial conditions.

Pursuant to the Deed of Indemnity, the Controlling Shareholders have undertaken to indemnify our Group in full against any damages, losses and liabilities arising out of or in connection with the failure to continue to use the Office Property due to its planned use or fines imposed by the competent governmental authorities for using the Office Property for office purposes.

As advised by our PRC Legal Adviser, Tianjin Economic-Technological Development Area Bureau of Planning and Natural Resources and Tianjin Binhai New Area Commission of Housing and Construction are the respective planning and housing management administrative authority of the Office Property and, therefore, they are competent governmental authorities to issue the aforementioned confirmations. Based on the aforementioned confirmations and the Deed of Indemnity, our PRC Legal Adviser is of the view that the risk that our Group would be subject to material adverse impact due to inability to continue to use the Office Property or being fined as a result of the unconformity between the actual use and the planned use of the property is relatively low.

BUSINESS

Transfer of Bishui Properties to our Company

In May 2023, the Bishui Properties, with a total gross floor area of approximately 469 sq.m., were transferred to our Company to satisfy debt payment pursuant to a court ruling dated September 29, 2018, details of which are as follows:

In 2014, our Company entered into a construction contract with Tianjin Hengzeng Property Real Estate Development Co., Ltd.* (天津市恒增房地產開發有限公司, “**Tianjin Hengzeng**”), an Independent Third Party, pursuant to which we undertook construction work for a road pavement and landscape greening project of Tianjin Hengzeng, with a contract price of RMB14,608,545. The construction period was from November 2014 to June 2015. While we completed the construction work as set out in the contract, Tianjin Hengzeng did not make the payment to us according to the contract. Subsequently, we instituted a lawsuit against Tianjin Hengzeng in November 2015, claiming (i) the payment of the contract price of RMB14,608,545; and (ii) priority of compensation to the proceeds from selling off or auctioning the project in dispute to settle the amount owed by Tianjin Hengzeng (優先受償權) (the “**Priority of Compensation**”).

In November 2016, the court issued a paper of civil mediation, according to which, our Company and Tianjin Hengzeng mutually agreed that (i) Tianjin Hengzeng shall pay a construction price of RMB11,000,000 to our Company prior to November 7, 2016 for the settlement of the outstanding payment; or (ii) our Company is entitled to the Priority of Compensation. Accordingly, our Company has made loss allowance of RMB14.6 million on trade receivables as of December 31, 2016.

Since Tianjin Hengzeng failed to perform its obligations under the paper of civil mediation, our Company applied to the court for enforcement. The court made a ruling on September 29, 2018 that the Bishui Properties with a total gross floor area of approximately 469 sq.m. shall be transferred to our Company to satisfy the debt payment. Subsequent to the court ruling, Tianjin Hengzeng did not cooperate in the legal procedures regarding the transfer of the Bishui Properties, resulting in a prolonged process for the transfer. Eventually, in May 2023, the legal procedures in relation to the transfer of the Bishui Properties were completed. Accordingly, (i) an amount of RMB9.0 million was recognized as investment properties in May 2023 based on the market value of the Bishui Properties as of May 31, 2023; and (ii) a corresponding amount of reversal of impairment losses on trade and bills receivables of RMB9.0 million was recorded for the year ended December 31, 2023.

Following the transfer of the Bishui Properties, there was no outstanding balance due from Tianjin Hengzeng.

As of the Latest Practicable Date, the Bishui Properties were vacant, and our Company intended to sell them or use them as collaterals for obtaining bank borrowings.

During the Track Record Period and as of the Latest Practicable Date, save for the Bishui Properties, there was no amount due from any other customers/debtors of our Group which were settled by a transfer of properties.

BUSINESS

As the carrying amount of the properties owned by us as investment for rental income located in Tianjin accounted for 1% or more of our Group’s total assets, therefore, a property valuation report on such property interests is included in Appendix III to this document pursuant to Rule 5.01A(1) of the Listing Rules. According to the property valuation report, the properties were valued at approximately RMB17.3 million as of January 31, 2024.

Except for the property interests described in the property valuation, our Group has no other owned property interest that forms part of our non-property activities that has a carrying amount of 15% or more of total assets pursuant to Rule 5.01B(2)(b) of the Listing Rules.

Leased properties

As of the Latest Practicable Date, we leased the Office Property from Tianjin Zhongjianke for office purpose. Besides, we leased a property with a gross floor area of approximately 43.51 sq.m. from a third party for one year for registered address commencing on February 16, 2024. Our PRC Legal Adviser is of the opinion that the corresponding lease agreements for these leased properties are legal and valid and binding on the contracting parties.

In addition, as of the Latest Practicable Date, we have entered into two lease agreements as landlord to lease the Office Property to third parties with a total gross floor area of approximately 1,997 sq.m.. However, the actual use of the property is not in line with its planned use. For further details, please refer to the paragraph headed “— Building” in this section.

RISK MANAGEMENT AND INTERNAL CONTROL

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

We have developed and implemented a risk management policy to identify and address potential risks associated with our operations, including operational risks, financial risks and legal risks. Our risk management policy sets out the procedures for identifying, analyzing, classifying, mitigating and monitoring risks. Our risk management policy also sets out the classification of the risks identified in our operations. Without prejudice to the Board’s overall responsibilities, the Audit Committee of the Board oversees financial and operational risk management and discusses the processes used by the management to assess and manage the Company’s exposure to such risks, as well as the measures used to monitor and control such risk exposures. For more information, please refer to the section headed “Directors, Supervisors and Senior Management — Board Committees” in this document.

BUSINESS

The Board and senior management are responsible for establishing and maintaining an effective risk management and internal control system, including but not limited to safeguarding our Group’s compliance with all established systems and processes, as well as the relevant legal regulations. Risk management is the process designed to identify potential events that may affect the Company and to contain the risks within its risk appetite. Internal control is the process designed to provide reasonable assurance regarding the achievement of objectives related to operational effectiveness and efficiency, reliability of financial reporting and compliance with applicable laws and regulations. Our internal control systems cover all major aspects of our operations, including but not limited to, strengthening corporate governance, sales and accounts payable management, procure-to-pay management, inventory management, human resources, fixed assets, cash and funds, financial reporting, tax management, information technology management and intangible asset management.

We have also established policies and procedures and set up reporting and complaint channels in relation to the prevention of bribery and kick-backs activities. Set out below is a summary of key features of such policies and measures:

- (i) our human resources department performs background check on the management or key position staff during the hiring or promotion process, in order to check their background and possible criminal record;
- (ii) our staff are strictly forbidden from accepting or soliciting bribes in any form or manner or requests for bribes from customers and stakeholders;
- (iii) our staff are required to comply with the Group’s code of conduct, code of ethics and laws and regulations in China;
- (iv) our staff are required to sign an anti-corruption and self-discipline undertaking upon employment, which include promises of anti-bribery, no kick-backs or other unethical behaviours; and
- (v) we have established a whistleblowing mechanism, such as reporting hotlines and mailboxes, to handle bribery whistleblowing case, and our internal audit department is responsible for recording and reporting potential bribery or kick-back cases to the Board or our senior management.

Our management is responsible for implementing the control measures and taking remedial steps in a timely manner in case of the occurrence of such misconduct. Our employees are required to comply with such policies and procedures and are encouraged to report any suspicious activities to the relevant department. We did not encounter any material bribery or kick-backs case during the Track Record Period and up to the Latest Practicable Date. Our Directors are of the view that our anti-bribery and kick-backs activities policies and measures are adequate and effective.

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We have engaged an independent internal control consultant to review our internal control systems and procedures on a factual basis and to provide recommendations for a series of steps and measures to further ensure the effectiveness of our internal controls and corporate governance practices. The scope of the review performed by internal control consultant covers the internal control system, policies and procedures over the major aspects of our operations, including but not limited to qualification affiliation (掛靠), anti-bribery and kick-backs and employment.

Following the internal control review performed by the internal control consultant, our Group has implemented all of the recommendations given by the internal control consultant. The table below sets forth the material deficiencies identified by our internal control consultant and the rectification status of our implementation of the remedial measures:

<u>Major findings from the internal control review</u>	<u>Recommendations</u>	<u>Implementation of the remedial measures</u>
Our Group has no written policies and procedures for the roles and responsibilities of the Board of Directors.	Our Group should establish the Board of Directors and prepare the “Board Charter” as soon as possible in accordance with the requirements of the Listing Rules.	Our Group has established the Board of Directors and identified the relevant personnel. In addition, the Group has also established rules for the Board of Directors to standardize its work objectives and procedures.
Our Group has not appointed a qualified company secretary to fulfill the requirements under Rules 3.28 and 8.17 of the Listing Rules.	Our Group should engage a qualified company secretary as soon as possible in accordance with the requirements of the Listing Rules. In addition, our management should require the company secretary to comply with the professional training requirements of the Listing Rules.	Our Group has appointed the qualified company secretary to fulfill the Listing Rules requirement.

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<u>Major findings from the internal control review</u>	<u>Recommendations</u>	<u>Implementation of the remedial measures</u>
Our Group has not established the policies and procedures in relation to Environment, Social and Governance aspect to fulfill the requirements set out in Chapter 27 of Listing Rules.	Our Group should establish an “Environmental, Social and Governance Disclosure System” to ensure that our Group can establish appropriate and effective environmental, social and governance risk management and internal control systems.	Our Group has established the relevant Environmental, Social and Governance Disclosure System.

Our internal control consultant also performed follow-up procedures on our internal control system with respect to the remedial measures we took. Our internal control consultant did not identify any further issues or material internal control weakness and did not make any further recommendations in the follow-up review. The above internal control review and follow-up review were performed based on the information provided by us and no assurance or opinion was expressed by the internal control consultant.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of the Directors, our Group did not engage in any “qualification affiliation (掛靠)” activities and there were no non-compliance incidents in this respect. We only tendered for and undertook construction projects which our Group has the relevant qualifications and was not involved in any acts of borrowing the qualifications of others or lending our qualifications to other entities or individuals. In such connection, the independent internal control consultant conducted internal control review and did not note any incident and did not identify any material finding or recommendation in relation to “qualification affiliation”. Our Group has established policies and procedures in relation to the prevention of “qualification affiliation” activities, including the selection process of our construction team, determination procedures of the use of external labor services by checking their qualifications and construction capabilities and ensuring the subcontractors have the relevant required qualifications, which we believe would effectively minimize the risk of “qualification affiliation”.

Our Directors and the Sole Sponsor have reviewed the internal control review report, which was independently prepared by the internal control consultant, and no material internal control weakness regarding the internal control measures over qualification affiliation, bribery and kick-backs were identified by the internal control consultant. It is also noted from the internal control review report that our Group has implemented enhanced internal control policies on employment according to the internal control consultant’s recommendation, and the internal control consultant did not identify any further issues and made no further recommendations to strengthen the Group’s enhanced internal control over employment. Our Directors are of the view, and the Sole Sponsor

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concurr, that the current internal control measures adopted by our Group over qualification affiliation, anti-bribery, kick-backs and employment, are adequate and effective.

To ensure that our established compliance culture is implemented in daily work and to set expectations for individual behavior throughout the organization, we will conduct regular internal compliance reviews and inspections, adopt strict internal accountability measures and conduct compliance training.

We have also adopted appropriate internal control policies to ensure continued compliance with the Listing Rules, including, but not limited to, the identification and management of notifiable and connected transactions and other discloseable matters. We also provide compliance training to our Directors and senior management and staff to cultivate a good compliance culture and conduct training seminars for our Directors and senior management to satisfy the requirements of the Listing Rules.

LICENSES, QUALIFICATIONS AND PERMITS

Our Group is required to hold relevant licenses, qualifications and permits in order to conduct business and undertake various construction projects in the PRC. Please refer to the section headed “Regulatory Overview — Construction Qualifications” in this document for further details. According to our PRC Legal Adviser, as of the Latest Practicable Date, we obtained the necessary licenses, qualifications and permits from the relevant PRC regulatory authorities in all material aspects to conduct our current business.

The following table sets forth our primary operating licenses, qualifications and permits as of the Latest Practicable Date:

No.	Name of the operating licenses, qualifications or permits	Issuing organization or authority	Holder	Qualification	Issue date ⁽¹⁾	Expiry date
1	Petrochemical construction general contracting* (石油化工工程施工總承包)	MOHURD	Our Company	First-grade	January 23, 2024	December 22, 2028
2	Foundation construction professional contracting* (地基基礎工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	First-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
3	Building construction general contracting* (建築工程施工總承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026

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No.	Name of the operating licenses, qualifications or permits	Issuing organization or authority	Holder	Qualification	Issue date ⁽¹⁾	Expiry date
4	Municipal public construction general contracting* (市政公用工程施工總承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
5	Electrical and mechanical construction general contracting* (機電工程施工總承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
6	Electronic and intelligent construction professional contracting* (電子與智能化工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
7	Waterproof, anti-corrosion and preservation construction professional contracting* (防水防腐保溫工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
8	Building renovation and decoration construction professional contracting* (建築裝修裝飾工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
9	Architectural curtain wall construction professional contracting* (建築幕牆工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
10	Highway traffic construction (highway safety facilities subdivision) professional contracting* (公路交通工程(公路安全設施)專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026

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No.	Name of the operating licenses, qualifications or permits	Issuing organization or authority	Holder	Qualification	Issue date ⁽¹⁾	Expiry date
11	Highway traffic construction (highway mechanical and electrical construction subdivision) professional contracting* (公路交通工程(公路機電工程)專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
12	Construction mechanical and electrical installation construction professional contracting* (建築機電安裝工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	April 6, 2026
13	Highway construction general contracting* (公路工程施工總承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
14	Electrical construction general contracting* (電力工程施工總承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
15	Steel structure construction professional contracting* (鋼結構工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
16	Historic building construction professional contracting* (古建築工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
17	Urban and Street Lighting construction professional contracting* (城市及道路照明工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025

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No.	Name of the operating licenses, qualifications or permits	Issuing organization or authority	Holder	Qualification	Issue date ⁽¹⁾	Expiry date
18	Highway pavement construction professional contracting* (公路路面工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
19	Highway roadbed construction professional contracting* (公路路基工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
20	Environmental protection construction professional contracting* (環保工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	Second-grade	March 12, 2024 ⁽⁵⁾	March 12, 2025
21	Construction labor services* (施工勞務)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	N/A	March 12, 2024 ⁽⁵⁾	April 6, 2026
22	Special engineering professional contracting* (特種工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	N/A	March 12, 2024 ⁽⁵⁾	April 6, 2026
23	Value-added telecommunications business operation license* (增值電信業務經營許可證) ⁽³⁾	Tianjin Communications Administration (天津市通信管理局)	Our Company	N/A	July 18, 2023 ⁽²⁾	June 24, 2026
24	Production License of Special Equipment People's Republic of China* (特種設備生產許可證)	Tianjin Administration for Market Regulation (天津市市場監督管理委員會)	Our Company	N/A	January 17, 2024 ⁽²⁾	January 16, 2028

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No.	Name of the operating licenses, qualifications or permits	Issuing organization or authority	Holder	Qualification	Issue date ⁽¹⁾	Expiry date
25	Safety production license* (安全生產許可證)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Our Company	N/A	July 6, 2023 ⁽²⁾	February 8, 2026
26	Building renovation and decoration construction professional contracting* (建築裝修裝飾工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Tianjin Binhai	Second-grade	October 12, 2023 ⁽⁴⁾	October 25, 2027
27	Municipal public construction general contracting* (市政公用工程施工總承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Tianjin Binhai	Second-grade	October 12, 2023	October 25, 2027
28	Foundation construction professional contracting* (地基基礎工程專業承包)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Tianjin Binhai	Second-grade	October 12, 2023	October 25, 2027
29	Safety production license* (安全生產許可證)	Tianjin Housing and Urban-Rural Construction Commission (天津市住房和城鄉建設委員會)	Tianjin Binhai	N/A	November 21, 2022	November 21, 2025

Notes:

- (1) The issue date represents the date of issuance of the latest operating license, qualification or permit.
- (2) The license, qualification or permit was re-issued to our Company due to the renaming or increase in registered capital of our Company.
- (3) The value-added telecommunications business operation license is not related to the Jiexiao System as the Jiexiao System does not involve value-added telecommunications services. Instead, in 2021, with a view to develop an APP to offer an online platform for leasing equipment and machinery for construction projects (the “**Platform APP**”), our Company applied for a value-added telecommunications business operation license which was issued by Tianjin Communications Administration in June 2021 and last renewed in July 2023. As the Platform APP is intended to serve as a platform to promote the lease of equipment and machinery for construction projects between equipment and machinery owners and users, we are required to hold the value-added

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telecommunications business operation license in order to operate the APP. As of the Latest Practicable Date, since we are still undergoing the logic planning stage of the Platform APP business, the relevant developing work in respect of the APP has been suspended.

- (4) The license was re-issued to Tianjin Binhai due to expansion of its qualification in October 2023.
- (5) The qualification certificate was re-issued to our Company due to upgrading of certain qualifications in March 2024.

Certificates and awards

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

<u>No.</u>	<u>Certificates</u>	<u>Issuing entity</u>	<u>Year of grant</u>
1	Chemical Dismantling Service Enterprise Qualification Certificate (Class I) (化工拆除服務企業資質等級證書(一級))	Zhongtingyu International Credit Rating Co., Ltd.* (中霆譽國際信用評價有限公司)	2022
2	Integration of Informationization and Industrialization Management System Certificate (兩化融合管理體系評定證書)	Beijing CESI Technology Co., Ltd.* (北京賽西科技發展有限責任公司)	2022
3	Leading Nurturing Technological Enterprises in Tianjin* (天津市科技領軍培育企業)	Tianjin Municipal Science and Technology Bureau (天津市科學技術局)	2022
4	Specialized, Sophisticated, Unique and Innovative Small and Medium-sized Enterprises in Tianjin City* (天津市「專精特新」中小企業)	Tianjin Industrial and Information Technology Bureau (天津市工業和信息化局) Tianjin Finance Bureau (天津市財政局)	2022

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<u>No.</u>	<u>Certificates</u>	<u>Issuing entity</u>	<u>Year of grant</u>
5	Occupational Health and Safety Management System Certification (職業健康安全管理體系認證證書)	Beijing Zhongjing Quality Certification Co., Ltd.* (北京中經科環質量認證有限公司)	2021
6	Environmental Management System Certification (環境管理體系認證證書)	Beijing Zhongjing Quality Certification Co., Ltd.* (北京中經科環質量認證有限公司)	2021
7	Quality Management System Certification (質量管理體系認證證書)	Beijing Zhongjing Quality Certification Co., Ltd.* (北京中經科環質量認證有限公司)	2021
8	Leading Enterprise in the Strategic Emerging Industries in Tianjin City* (天津市戰略性新興產業領軍企業)	Tianjin Binhai New Area Talent Office* (天津市濱海新區人才辦)	2020
9	High and New Technology Enterprise Certificate* (高新技術企業證書)	Tianjin Municipal Science and Technology Bureau (天津市科學技術局) Tianjin Finance Bureau (天津市財政局) Tianjin Municipal Tax Service, State Taxation Administration (國家稅務總局天津市稅務局)	2019 (renewed in 2022)

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LEGAL AND COMPLIANCE EVENTS

Litigation and claims

We may be involved, from time to time, in legal proceedings arising from the ordinary course of our operations. As of the Latest Practicable Date, our Company was named as a defendant in a lawsuit with a supplier. The case was still going through the trial stage and has not been concluded. If our Company is eventually found to be liable by the PRC court, the total expected additional monetary compensation may amount to approximately RMB2,506,000. Based on the legal advices and assessment from our Directors, the amount being claimed by the supplier largely exceeded the amount which should be paid by our Company based on the invoices, and there was a mismatch between the invoices and receipts submitted by the supplier to the PRC court, therefore, the excess amount claimed by the supplier is unlikely to be supported by the PRC court, and no provision has been provided in respect of this claim. For further details, please refer to “Financial Information — Contingent Liabilities” and Note 30 in the Accountants’ Report as set out in Appendix I to this document. Notwithstanding the above claim, there was no litigation, arbitration, administrative proceeding or claim of material importance pending or threatened by or against our Group, or any of our Directors, that would have a material adverse effect on our results of operations or financial conditions.

Non-compliance events

During the Track Record Period, we did not make full contributions to social insurance and housing provident funds for our employees as required by relevant PRC social insurance and housing provident funds administrative laws and regulations. Please refer to the paragraph headed “Social insurance and housing provident fund contributions” in this section for details.

During the Track Record Period and up to the Latest Practicable Date, the property owned and used by our Group for office purpose was planned for industrial use, and the unconformity between the actual use and the planned use of the property may subject us to fines or other administrative measures. Please refer to the paragraph headed “Property” in this section for details.

As advised by our PRC Legal Adviser, we had been subject to no fines or other penalties for violation of applicable PRC laws and regulations that could, individually or in aggregate, have a material adverse effect on our business, financial condition or results of operations during the Track Record Period and up to the Latest Practicable Date.

Our Directors are of the view, and our PRC Legal Adviser concurs, that we had obtained the necessary licenses and permits, followed relevant tendering and bidding procedures in relation to our construction projects, and complied with the relevant PRC laws and regulations that are essential to our business operation, in all material aspects, during the Track Record Period and up to the Latest Practicable Date.