

BUSINESS

OVERVIEW

We are a state-owned urban service and operation provider with business operations primarily based in Changsha. The property management market in Hunan Province, China is highly competitive and fragmented. Our market share in terms of GFA under management and total revenue from all business segments in 2022 was approximately 0.66% and 0.94% of the property management market in Hunan Province. Our market share in terms of revenue generated from urban services in 2022 was approximately 0.42% of the urban service market in Hunan Province.

We provide a wide spectrum of services to our customers, forming a cohesive business layout rooted in urban area. The services we provide can be divided into three categories depending on service characteristics and industry standards: (i) property management services, including different property management services to public properties, commercial properties, and residential properties, and value-added services; (ii) urban services, including landscaping and engineering, lighting system operation, parking lot operation, and municipal sanitation services; and (iii) commercial operation services.

During the initial stage of our establishment, we primarily engaged in property management services, while CSUD Group’s business was concentrated in urban construction and development. Influenced by CSUD Group, we leaned towards managing urban public spaces from the outset. Our property management services mainly catered to public and commercial properties, with residential properties playing a secondary role. As we continued to grow, we leveraged our experience in property management services and gradually strengthened our competitive edge in urban services. For instance, we acquired a landscaping company, enabling us to expand into landscaping and engineering services in 2016. Starting from 2017, we also took on the operation of the night scenery illumination in Changsha, further establishing the foundation of our urban services business. In 2021, we officially began undertaking municipal sanitation projects. Over the past few years, our urban services business has generated steady revenue and profits, becoming the crucial driving force for our growth and the focal point of our business.

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

	For the year ended December 31,					
	2021		2022		2023	
	<i>(RMB’000)</i>	<i>(%)</i>	<i>(RMB’000)</i>	<i>(%)</i>	<i>(RMB’000)</i>	<i>(%)</i>
Property management services	192,256	44.6	207,466	39.2	237,902	36.5
Urban services	185,352	42.9	274,720	52.0	353,290	54.2
Commercial operation services	54,045	12.5	46,337	8.8	60,683	9.3
Total	<u>431,653</u>	<u>100.0</u>	<u>528,523</u>	<u>100.0</u>	<u>651,875</u>	<u>100.0</u>

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We provide diversified and quality services facing the ever-expanding urban spaces and the ever-rich urban life scenario, building a competitive edge. Our property portfolio includes public properties, commercial properties, and residential properties. During the Track Record Period, we have undertaken signature projects such as the Xiangjiang Fortune Finance Center Property Management Service Project (湘江財富金融中心物業管理服務項目), the Yanghu National Wetland Park Property Management Service Project (洋湖國家濕地公園物業管理服務項目), and the Changsha International Convention and Exhibition Center Property Management Service Project (長沙國際會展中心物業管理服務項目). Based on our experience in the property management industry, especially in the management of public properties, we have also actively developed in the urban service market and undertaken diverse projects, such as the Changsha City Night Scenery Illumination Control Center Operation and Maintenance Project (長沙市城市夜景亮化控制中心運維項目), the EPC Project of Near-zero Carbon Demonstration Zone in Yanghu Ecological New City (洋湖生態新城近零碳示範展示區項目設計施工總承包項目), the Fisherman’s Wharf Parking Lot Project (漁人碼頭停車場項目), and the Binjiang District Municipal Sanitation Project (濱江片區市政環衛維護項目). Meanwhile, we also provide commercial operation services to various clients, covering several renowned attractions and commercial districts in Changsha, such as the Taiping Street (太平街) and the Tianxing Antique City (天心閣古玩城).

Our business system and quality services ensured solid results of operations during the Track Record Period. Our revenue increased from RMB431.7 million in 2021 to RMB651.9 million in 2023, with a CAGR of approximately 22.9%. Meanwhile, our gross profit increased from RMB107.3 million to RMB151.8 million, with a CAGR of approximately 19.0%, for the same years.

For the year ended December 31, 2023, the total number of our property management projects under management was 68, with a GFA under management of 11.1 million sq.m., and the total number of projects under management in the urban service sector was 157 including four lighting system operation projects, 150 parking lot operation projects, and three municipal sanitation projects; we also completed 85 landscaping and engineering projects for the same periods, with 87 projects in progress as of December 31, 2023. The total number of projects under management in the commercial operation service sector was 50, with a GFA under management of 766 thousand sq.m. for the year ended December 31, 2023.

COMPETITIVE STRENGTHS

We believe the following competitive strengths differentiate us from our competitors, being the key to sustainable development.

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Given the highly fragmented property management market in Hunan Province, China, our presence and geographical focus on Hunan Province position us favorably to propel the growth of our overall business

We have grown into an urban service and operation provider leveraging our accumulated experiences in the property management service sector over years with a competitive market position. We have always focused on strategic growth in Hunan Province, especially in Changsha, one of China’s most vibrant cities, and we will continue to do so.

Hunan Province is one of China’s most populous and economically prospective provinces, with an increasing urbanization rate. The urban service market in Hunan Province is imbued with continuous demand, and the scale of management of urban spaces and relevant properties will continue to grow. With a CAGR of 6.6%, Hunan Province’s GDP climbed from RMB3.63 trillion in 2018 to RMB5.00 trillion in 2023. Moreover, the total revenue of the property management industry in Hunan Province increased from approximately RMB27.2 billion in 2017 to approximately RMB37.3 billion in 2022, representing a CAGR of 6.5%. Furthermore, Hunan Province is quickly urbanizing, with an urbanization rate from approximately 46.2% in 2012 to approximately 60.3% in 2022, according to Hunan Provincial Bureau of Statistics.

We have undertaken several signature projects such as Xiangjiang Fortune Finance Center Project (湘江財富金融中心項目), Changsha City Functional Street Lighting Operation and Maintenance Project (長沙市城市功能照明運維項目), and Taiping Street Commercial Operation Project (太平街商業運營項目) in Hunan Province.

We believe that our strategic focus on Hunan Province, particularly in Changsha, and our established market position for the provision of property management services and urban services in the same region will continue to support the expansion of our business scale and give us an advantage over competitors in China’s market for these services.

Underpinned by the brand recognition of our Controlling Shareholders, we have sustainable growth opportunities, supporting our expansion of businesses with Independent Third Parties

CSUDGCL, one of our Controlling Shareholders, is an urban developer and operator in Hunan Province, affiliated with Changsha Municipal SASAC. Our parent group, CSUD Group, is mainly responsible for financing, investing, constructing, operating and managing urban public infrastructures and facilities, and is in charge of the management of state-owned assets within the authorized scope. CSUD Group has developed a diversified portfolio of quality properties, including but not limited to, public infrastructures and facilities such as bridges, avenues and tunnels, office buildings, culture parks, and exhibition centers. While maintaining its existing strengths in Changsha, CSUD Group actively expands its business into other cities in Hunan Province.

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According to CIA, the market shares of CSUD Group were 22.53% and 4.29% in terms of urban infrastructure investment industry in Changsha and Hunan Province in 2022, respectively, which represent the proportions of its revenue to the total urban infrastructure investment in Changsha and Hunan Province. According to CIA, as of the Latest Practicable Date, CSUD Group was the largest urban investment and development enterprise in terms of total asset, revenue and net profit in both Changsha and Hunan Province. For details of the property and infrastructure portfolio of CSUD Group, please refer to “Relationship with Our Controlling Shareholders – Mutual and Complementary Relationship with CSUD Group” in this document.

Our long-standing relationship with CSUD Group has driven our development since our inception and laid the foundation for our continuous growth. During the Track Record Period, the total revenue we generated from CSUD Group and its associates by source of the projects amounted to RMB303.2 million, RMB348.8 million, and RMB419.8 million, respectively, accounting for 70.2%, 66.0%, and 64.4% of our total revenue, respectively. Our retention rate of the projects sourced from CSUD Group and its associates was 87.2%, 86.3%, and 92.3% in the property management service sector, respectively during the same years.

CSUD Group is the largest urban developer in Changsha. Its business scope covers the full life cycle of urban development and will generate new projects continuously. This ensures a considerable project pipeline which we capitalize as visible and sustainable growth opportunities in the long term based on our cooperative relationship with CSUD Group. After years of cooperation, we are familiar with the management system and quality requirements of the projects of CSUD Group and have established matching service capabilities by providing tailored services. These capabilities can be fully utilized to win the trust of customers. Besides, we share similar corporate culture and business philosophy with CSUD Group, with smooth communication mechanisms and low coordination costs. At the same time, CSUD Group also tends to rely on our services to guarantee smooth post-stage operation management.

In addition, our close and stable relationship with CSUD Group contributes to our brand recognition. According to CIA, as of the Latest Practicable Date, CSUD Group was the largest urban investment and development enterprise in terms of total asset, revenue and net profit in both Changsha and Hunan Province. CSUD Group invests, constructs and manages a wide range of municipal infrastructures and public facilities, leveraging its advantages in urban complex construction and district development in Changsha. The projects we cooperated with CSUD Group and its associates fulfill our project portfolio and could serve as representative precedents when we cooperate with independent third-party property developers. Also, the extensive and long-term cooperation relationship with CSUD Group provides endorsement for our service quality and market reputation. As a state-owned enterprise in Changsha, CSUD Group serves as the driving force and pioneer of the city’s urban development. Our long-standing relationship with CSUD Group contributes to the brand recognition which serve as a competitive strength for our Group in the following aspects:

- (i) The background of state-owned enterprises tightly connects us with local governments, among other customers, especially in urban service sectors. Due to the nature of urban services and public property management services, the majority of customers in these business lines are state-owned enterprises, which naturally prefer to collaborate with service providers sharing the same background;

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- (ii) CSUD Group’s market position in the urban development segment in Changsha provides us with competitive advantages valued and recognized by the local market. CSUD Group serves as the driving force and pioneer of the city’s urban development. It covers the entire lifecycle of urban development, construction, and operation, spanning major areas in Changsha. CSUDGCL was awarded the AAA credit rating by rating institutions in 2021, 2022 and 2023. CSUD Group was also awarded as the advanced entity in relation to urban management work (城市管理工 作考核先進單位) by the Changsha Urban Management Committee (長沙市城市管理 委員會) in 2022; and
- (iii) Our signature projects sourced from CSUD Group demonstrate the quality services provided and serve as benchmarks of the performance of our Group. For example, we provided property management and commercial operation services in the Xiangjiang New Area Comprehensive Transportation Hub Project (湘江新區綜合交 通樞紐) which was sourced from CSUD Group and its associates. Such project was recognized as a Five-Star Property Management Service Project (五星級物業服務項 目) in Hunan Province. Such award not only affirmed the service provided by our Group but also serves as substantiation of our historical performance in the marketing or bidding process for independent third-party projects.

Leveraging CSUD Group’s background, market position and projects, we believe we enjoy a competitive position in the regional market. Benefiting from resource support, management expertise, and brand empowerment from CSUD Group, our Directors are of the view that we have demonstrated commendable operational performance and gained recognition from local governments, urban investment companies, and other enterprises.

Leveraging our capabilities and expertise showing in cooperation with CSUD Group, we are well-positioned and have been actively sourcing projects from Independent Third Parties.

During the Track Record Period, in the property management sector, our GFA under management of projects sourced from CSUD Group and its associates accounted for 43.5%, 41.8%, and 39.1% of our total GFA under management, respectively, with the number of projects under management of 43, 45, and 48. For the same years, our GFA under management of projects sourced from Independent Third Parties accounted for 56.5%, 58.2%, and 60.9% of our total GFA under management, respectively, with the number of projects under management of 18, 18, and 20 for the provision of property management services, respectively. During the Track Record Period, all of our commercial operation services projects were sourced from CSUD Group and its associates.

Our business cooperation with CSUD Group has enhanced our visibility in Hunan Province and nationwide, allowing us to gain attention from the public; with our industry experience and attention accumulated over the years, we are able to develop businesses with Independent Third Parties. We think and anticipate that CSUD Group’s land bank and continued growth will provide constant support for our development, future growth, and diversification of our property and service portfolio.

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From property management services to urban services, our deep understanding and coverage of urban spaces guarantees us a competitive advantage

The combination of our property management expertise and urban operation capabilities allows us to offer comprehensive service types than traditional property management businesses, making it difficult for our competitors to emulate. We think that our expertise and successful track record grant us opportunities to interconnect these two distinct sectors, that our competitors who cannot adopt our business model, are unable to seize upon.

Wide range of property portfolio

We manage a wide range of properties, providing a diverse spectrum of quality services to a variety of businesses, and are committed to creating a comfortable and reassuring experience for participants in urban life and managers of public infrastructures and facilities. Our portfolio of properties under management or operation includes public, commercial, and residential properties, including (i) public properties, such as civic squares, parks and scenic spots, urban exhibition halls, government office buildings and schools; (ii) commercial properties, such as commercial office buildings, commercial complexes and sales offices; and (iii) residential properties, such as residential communities and apartments. Unlike traditional property management companies, we observe the ever-expanding urban spaces from the perspective of a city operator and explore various service scenarios in people’s life, work, and entertainment.

Diversified service offerings

We can provide property management services including greening, security, and repair and maintenance. We can also provide professional operation services such as engineering and maintenance. During the Track Record Period, we provided the relevant business and earned significant revenue. We have obtained specialized qualifications including municipal domestic waste operation sweeping, collection, transportation and disposal service license (城市生活垃圾經營性清掃、收集、運輸、處置服務許可證), letting us have a higher standard of industry qualification and stronger competitiveness in relevant fields. We have built a one-stop service format based on our capabilities on providing diversified services to meet the needs of our customers. We can also offer other related services to that customer after one service has been provided, further differentiating us from our competitors. For example, in the Yanghu National Wetland Park Project (洋湖國家濕地公園項目), we provide services including garden construction, greenery maintenance, floral landscaping, and on-site property management services, which is a typical project under the business structure of “landscaping and engineering + property management.”

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Experience in urban services

Our business segment is organized around urban services, which is our main area of strength. The urban service sector has the following characteristics: a diverse range of business types, a large service audience and its high mobility, quality requirements, and high customer stickiness. The experiences, reputation and customer loyalty that we have accumulated over the years in providing public property management services in Changsha have helped us cut in the urban service market and continuously expand our business portfolio. One typical example is that we started to undertake the Night Scenery Illumination Control Center Operation and Maintenance Project (夜景亮化控制中心運維項目) in 2017 and have continued to make breakthroughs in the field of urban lighting, which has accumulated diverse service experience for us in the field of urban services and has directly driven the establishment of Lighting Company with the expansion of business scale.

Based on our understanding and practice of urban services, we have accumulated experience and applied it to new business scenarios. We engage in landscaping and engineering, lighting system operation, parking lot operation, and municipal sanitation services in Changsha. The owners of these municipal infrastructures are usually local governments or state-owned enterprises, whose service quality and effectiveness requirements are similar to those of public property management. Therefore, we have been able to make appropriate use of our accumulated management experience and have gradually formed a service model that connects property management services and urban services. As we expand our business layout, our increasingly diverse portfolio of businesses gives us an increasingly comprehensive advantage with more project opportunities.

Prospects of the urban service market

With the acceleration of urbanization, cities are facing complex challenges and demands. The urban services industry, through providing a wide range of services and solutions, aims to enhance urban efficiency, promote urban development, and ultimately meet the diverse needs of urban residents. This industry encompasses various fields, such as infrastructure construction, environment and sanitation, transportation, smart city solutions, and these fields offer opportunities for innovation and improvement, highlighting the vast prospects within the urban services industry. What’s more, under the new standard of refined city management and the continuous advancement of reforms to “streamline administration and delegate power, improve regulation, and upgrade services (放管服)”, the market for urban services is continuously growing. According to data provided by CIA, from 2017 to 2022, the national urban service market size grew from RMB0.8 trillion to RMB1.3 trillion, with an annual compound growth rate of 11.0%. It is expected that from 2022 to 2026, the national urban service market size will grow from RMB1.3 trillion to RMB1.7 trillion with an annual compound growth rate of 6.4%. Within the Hunan Province, from 2017 to 2022, the urban service market size grew from RMB42.1 billion to RMB65.6 billion, with an annual compound growth rate of 9.3%. It is expected that from 2022 to 2026, the Hunan urban service market size will grow from RMB65.6 billion to RMB85.9 billion with a compound growth rate of 7.0%.

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In the process of promoting urban delicacy management, property management companies have natural advantages in undertaking urban service projects. In recent years, more and more leading companies in the property management service industry have strengthened the layout of urban services. However, the urban service market has strict barriers, namely certain requirements for experience, technology and talent. As for the experience barrier, urban services often demand vendors with extensive industry experience, with tender documents requiring bidders to provide proof of past performance and project participation. As for the technology barrier, urban services cover many service domains, each of which has standards and requirements. As for the talent barrier, the industry’s various application fields require highly skilled personnel with comprehensive technical capabilities. In addition to professional technical skills, they must deeply understand the industry’s business processes, management standards, related technologies, and application environments. They should also be able to reasonably plan and design according to the characteristics of different levels and regions.

Standardized and customized service processes and quality services help us build up a brand image

We have established and implemented strict quality norms and provide standardized services. During the Track Record Period, we successfully maintained (i) GB/T 19001-2016/ISO9001:2015 quality management system certification; (ii) GB/T 24001-2016/ISO 14001:2015 environment management system certification; (iii) GB/T 45001-2020/ISO 45001:2018 occupational health and safety management system certification; and (iv) GB/T 23331-2020/ISO 50001:2018 energy management system certification.

To monitor and maintain the quality of our services, we have a quality control team to supervise our employees and suppliers. We have also come up with a number of quality control methods and platforms to ensure service quality. To ensure any concerns presented by our customers are handled and resolved promptly, we have built a customer dispute resolution mechanism with a standardized method and compiled a service manual for dealing with client complaints. We believe with our standards and procedures we could scale up and expand our operation without compromising our service quality. We adopt service tools such as information systems, data analysis and processing, and intelligent devices to tailor our goal of efficient management.

We have been practicing locally for many years, leaving a deep impression on our customers. Our commitment to quality services has earned us numerous industry awards and recognitions. For example, our Xiangjiang Fund Town Project (湘江基金小鎮項目) and Nanjiao Complex Project (南郊綜合樓項目) were each recognized as a Five-star Property Management Service Project (五星級物業服務項目) by the Hunan Property Management Association (湖南省物業管理行業協會).

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An experienced and professional management team supported by an effective human resources management system

Our management team, with extensive professional experience, profound industry insights, and rich technical expertise, contributes to our current achievements and future development. Our management team is led by Mr. Xie Yi, who has been engaged in the property management market for approximately 20 years. The core members of our management teams are highly educated and equipped with extensive professional experience and expertise. 72.7% of our management team members have bachelor’s degrees or higher education and different professional qualifications.

We have put in place a solid human resource management system that involves competitive remuneration schemes, an effective internal assessment system, and a sophisticated training system to maintain talent competitiveness. The induction training is offered for newcomers to familiarize themselves with our Group. And we provide routine training for our employees to improve their professional skills in each business segment. Furthermore, we also provide quality development training for all employees in order to strengthen the awareness of teamwork, communication and safety production. In addition to the above internal training, we also actively participate in external training programs, including but not limited to financial-related training, office software training, writing training, etc. Through these training programs, we are able to replicate and pass on our experience to our new employees. We have also established a competitive compensation structure and a performance assessment system to incentivize personnel. We think that our established talent recruiting, training and assessment systems enable us to discover workers who share our essential values and individuals who can offer professional services to customers, allowing us to differentiate ourselves from competitors.

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We have created the following business strategies to help us achieve our strategic goals more effectively.

Consolidate our position in Hunan Province and continue to expand our business scale through multiple channels

We plan to continue solidifying our market position in Hunan Province through organic growth and strategic cooperation, acquisitions, and investments.

First, utilizing our extensive operational experience and established business relationships with our customers and business partners in Hunan Province, we intend to optimize our service offerings such as property management services, landscaping and engineering, parking lot operation, etc., based on our deep cultivation of related industries and accumulated years of experience. We will continue to leverage the project reserves held by CSUD Group and its associates and plan to actively secure projects to be developed by CSUD Group and its associates in the future to expand our scale. In addition, we also intend to expand

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and solidify our cooperation with the diversified business segments of CSUD Group to further grow our business operations and solidify our market position in Hunan Province. In addition to cooperation with CSUD Group, we also plan to strengthen our business development capabilities by obtaining business opportunities with independent third-party property developers and other customers leveraging our brand image and business know-hows accumulated through our successful business operation.

Second, we target to expand our business outside Hunan Province, including Jiangxi Province, Guizhou Province, and other regions, based on our existing business foundation, and combined with the future development positioning. We will actively improve our operational capability and accelerate the development of new businesses to achieve healthy development. With the depth of our industry knowledge and the breadth of our operating practices, we plan to explore business collaboration with local governments and public entities such as local city investment companies to facilitate the conduct of businesses.

To facilitate our expansion plan and maximize potential collaborative advantages with our existing business operation, we intend to explore strategic investment and acquisition opportunities with property management companies that either provide property management services or specialize in urban services. We are looking for suitable target companies to invest in or acquire and will utilize the results of our research, financial due diligence, preliminary evaluation and feasibility studies of the target companies to determine whether to ultimately invest in or acquire them.

Approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be used for pursuing potential strategic acquisition opportunities of property management service providers and urban service providers to maximize potential collaborative advantages with our existing business and boost our business development. For details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Boost the service capacities and keep diversifying the service offerings

We try to consolidate and strengthen current service capabilities and intend to expand the portfolio of properties under our management. Specifically, (i) approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be [REDACTED] to the procurement of operational vehicles for municipal sanitation services to cater to the technological and mechanization trend in the industry and improve our operation efficiency and service quality, thereby further enhancing our reputation and competitiveness in the market; and (ii) approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be [REDACTED] to the procurement of operational vehicles and equipment and for lighting system operation services to reduce our costs and strengthen vehicle management and further reinforce our market standing.

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We believe that procuring new vehicles will enhance our operational efficiency and service quality. This investment aims to increase mechanization and reduce costs in the long run, with expected annual savings resulting from reduced rental expenses. This procurement will also bolster our responsiveness to emergencies, expand our service range, and improve our corporate image. Furthermore, investing in these vehicles positions us for future opportunities in the evolving urban services business, emphasizing both immediate operational benefits and long-term strategic growth.

We are committed to undertaking more urban service projects, and we will take advantage of our management experience and Shareholder background to obtain new project opportunities through contacts with property owners. Besides, we will actively participate in bidding and continuously attend to market trends and new areas where there will be new demands. Leveraging the advantages of CSUD Group, we will actively expand our business reach to undertake more projects. In addition, we will cooperate with local governments to take urban services as the entry point, and undertake relevant projects to increase our output value. We will also try to enrich our value-added services by adding different customized value-added services to the service value chain.

Approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be used for the purchase of operational vehicles and equipment for municipal sanitation services and lighting system operation services. For details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Invest more for further technology development to bolster our technology capabilities and promote our degrees of digitization and automation

Labor cost is one of our major costs in property management services, urban services, and commercial operation services. In light of our steady growth, we must not only create capabilities for managing our service system but also need to control expenses and enhance operational efficiency. That makes investment in technology necessary because it continues to be essential for the efficient operation of the property management business, urban service business and commercial operation business.

During the Track Record Period, we employed a series of operating systems and platforms developed by CSUD Group in our business operations, including office automation system for office file submission and process management, human resource system to efficiently manage our organization’s workforce, covering aspects such as recruitment, training, and performance evaluation, accounting system that tracks and manages financial transactions, procurement system for supplier selection, etc.

We plan to develop and optimize the functionality of our internal management information system, which primarily focuses on the online management of various labor-intensive tasks, contracts, finance, and assets, to replace the current system.

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Furthermore, we plan to develop and enhance various types of business operating systems to achieve functional development, data linking, and information resource sharing, including (a) a smart parking operation to improve functions such as payment management for carparks; (b) a vehicle operation system to monitor the sanitation trucks remotely; (c) a flexible staffing system for efficient allocation of workforces; and (d) a membership system for customers in malls, parking lots, and the other properties under our management.

Moreover, we plan to develop device connection systems to enable us to oversee the facilities and devices as a whole. These systems will also automate tasks such as energy consumption management, building interior environment surveillance, security surveillance, predictive maintenance, real-time data collections on buildings, prediction on future conditions of the buildings with the current available data, etc. In addition, we plan to employ software engineers to develop and maintain these systems.

Approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be used for technological investment. For details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

Adhere to talent-oriented management policy and continue to improve the human resource management system

We plan to take various initiatives to attract and nurture talent in the industry with diverse backgrounds and skill sets to contribute to our growth and development, provide training programs and development opportunities, and offer competitive compensation, benefits and incentives to our employees. Specifically, approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be [REDACTED] to expand our dedicated team with diversified backgrounds in order to strengthen the competitiveness of our workforce.

Furthermore, we intend to provide talent training programs tailored to the skill sets required by employees at various levels, and approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be [REDACTED] to promote talent training programs.

Approximately [REDACTED]% of the net [REDACTED] or HK\$[REDACTED] million will be used for talent recruitment and training. For details, please refer to the section headed “Future Plans and [REDACTED]” in this document.

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OUR BUSINESS MODELS

During the Track Record Period, we generated revenue primarily from the following three business segments divided by types of services.

Property management services We mainly provide public property management services, commercial property management services and residential property management services, such as cleaning, security, and repair and maintenance services. Public properties include civic squares, parks and scenic spots, urban exhibition halls, government office buildings, and schools; commercial properties include commercial office buildings, commercial complexes, and sales centers; and residential properties mainly include residential communities and apartments. In addition, we also provide a wide range of value-added services to property developers, property owners, and tenants. During the Track Record Period, for public properties, our customers were mainly government institutions, whereas for commercial and residential properties, our customers were mainly private entities and individuals.

Urban services We assist local governments and public institutions in providing urban services to improve the living experience and environment of citizens. Our urban services mainly include (i) landscaping and engineering, including landscape construction and engineering construction; (ii) lighting system operation, including landscape lighting operation and functional lighting operation; (iii) parking lot operation including the operation and management of public parking spaces by self-operation and leasing; and (iv) municipal sanitation services including the cleaning of municipal infrastructures such as city roads, the external walls of buildings along the main road, street lamps, and bus platforms. During the Track Record Period, we primarily provided landscaping and engineering services to CSUD Group. For lighting system operation and municipal sanitation services, our customers were mainly government institutions, while for parking lot operation, our customers were mainly private entities and individuals.

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Commercial operation services We manage various types of commercial projects, such as commercial office buildings, commercial districts, and industrial parks. We have established a comprehensive commercial asset management process, including preliminary business planning, commercial positioning, tenant recruitment, lease agreement formulation, marketing and promotion, and daily operation management and maintenance of commercial assets. During the Track Record Period, we primarily provided commercial operation services to CSUD Group and its associates.

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

	For the year ended December 31,					
	2021		2022		2023	
	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>
Property management services	192,256	44.6	207,466	39.2	237,902	36.5
– Public properties	69,894	16.2	72,458	13.7	74,015	11.4
– Commercial properties	95,191	22.1	105,798	20.0	114,563	17.6
– Residential properties	1,264	0.3	2,483	0.5	12,384	1.9
– Value-added services	25,907	6.0	26,727	5.0	36,940	5.6
Urban services	185,352	42.9	274,720	52.0	353,290	54.2
– Landscaping and engineering	83,482	19.3	125,847	23.8	186,347	28.6
– Lighting system operation	30,856	7.1	64,007	12.1	67,497	10.4
– Parking lot operation	42,089	9.8	40,633	7.7	46,733	7.2
– Municipal sanitation services	28,925	6.7	44,233	8.4	52,713	8.0
Commercial operation services	54,045	12.5	46,337	8.8	60,683	9.3
Total	431,653	100.0	528,523	100.0	651,875	100.0

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The following table sets forth a breakdown of our revenue generated by type of the services and source of the projects for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Property management services⁽¹⁾⁽²⁾	192,256	44.6	207,466	39.2	237,902	36.5
CSUD Group and its associates	131,991	30.6	150,576	28.5	171,634	26.3
Independent Third Parties	60,265	14.0	56,890	10.7	66,268	10.2
– Government/public institutions	57,674	13.4	55,084	10.4	47,787	7.3
– SOEs	1,380	0.3	1,806	0.3	12,661	1.9
– Others	1,211	0.3	–	–	5,820	1.0
Urban services⁽¹⁾⁽³⁾	185,352	42.9	274,720	52.0	353,290	54.2
CSUD Group and its associates	117,160	27.1	151,853	28.7	187,526	28.8
Independent Third Parties	68,192	15.8	122,867	23.3	165,764	25.4
– Government/public institutions	60,195	14.0	106,534	20.2	119,261	18.3
– SOEs	3,057	0.7	7,840	1.5	45,113	6.9
– Others	4,940	1.1	8,493	1.6	1,390	0.2
Commercial operation services⁽¹⁾⁽²⁾⁽⁴⁾	<u>54,045</u>	<u>12.5</u>	<u>46,337</u>	<u>8.8</u>	<u>60,683</u>	<u>9.3</u>
Total revenue	<u><u>431,653</u></u>	<u><u>100.0</u></u>	<u><u>528,523</u></u>	<u><u>100.0</u></u>	<u><u>651,875</u></u>	<u><u>100.0</u></u>

Notes:

- (1) Our Group categorizes the source of projects by parties entitled to grant such projects.
- (2) The parties entitled to grant projects of property management services and commercial operation services are developers or owners of the properties.
- (3) The parties entitled to grant projects of parking lot operation are lessors of the parking spaces. The parties entitled to grant projects of other urban services are counter-parties of the contracts.
- (4) During the Track Record Period, all of our commercial operation service projects were sourced from CSUD Group and its associates.

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For details of our relationship with CSUD Group, please refer to the sections headed “Relationship with Our Controlling Shareholders” and “Business – Customers – Our Top Five Customers”.

The following table sets forth the relevant number of projects under management for the years indicated by type of services:

	For the year ended		
	December 31,		
	2021	2022	2023
Property management services			
– Public properties	29	29	24
– Commercial properties	29	30	36
– Residential properties	3	4	8
Urban services			
– Landscaping and engineering ⁽¹⁾	44	98	85
– Lighting system operation	2	4	4
– Parking lot operation	146	144	150
– Municipal sanitation services	2	2	3
Commercial operation services	44	44	50
	<u>44</u>	<u>44</u>	<u>50</u>
Total	<u>299</u>	<u>355</u>	<u>360</u>

Note:

- (1) Landscaping and engineering projects are projects of a one-off nature, and the number listed here refers to the number of completed projects.

PROPERTY MANAGEMENT SERVICES

Overview

We provide public property management services, commercial property management services and residential property management services. Public properties include civic squares, parks and scenic spots, urban exhibition halls, government office buildings and schools; commercial properties include commercial office buildings, commercial complexes and sales centers; and residential properties mainly include residences and apartments.

We also provide a wide range of value-added services for property owners, property developers, residents and tenants, including (a) air conditioner cleaning services; (b) affiliated carpark space management services; (c) decoration management services; (d) swipe card services; and (e) additional customized services.

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The following table sets forth a breakdown of our revenue from property management services by type of properties for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>
Property management services						
– Public properties	69,894	36.3	72,458	34.9	74,015	31.1
– Commercial properties	95,191	49.5	105,798	51.0	114,563	48.2
– Residential properties	1,264	0.7	2,483	1.2	12,384	5.2
– Value-added services	<u>25,907</u>	<u>13.5</u>	<u>26,727</u>	<u>12.9</u>	<u>36,940</u>	<u>15.5</u>
Total	<u><u>192,256</u></u>	<u><u>100.0</u></u>	<u><u>207,466</u></u>	<u><u>100.0</u></u>	<u><u>237,902</u></u>	<u><u>100.0</u></u>

During the Track Record Period, we secured several property management projects by participating in tenders, a process whereby local governments and public institutions evaluate and select from multiple relevant service providers, which is a standard tender process regulated by the applicable PRC laws and regulations and the same process we undergo with respect to property management service agreements. In the meantime, for projects sourced from CSUD Group and its associates, we were primarily awarded property management service contracts through direct engagement. For details, please refer to the paragraph headed “– Property Management Services – Tender Process” in this section.

During the Track Record Period, our revenue witnessed substantial growth. The revenue generated from property management services increased at a CAGR of 11.2% from RMB192.3 million in 2021 to RMB237.9 million in 2023. During the Track Record Period, our total GFA under management was approximately 10.6 million sq.m., 10.3 million sq.m., and 11.1 million sq.m., respectively.

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The following table sets forth a breakdown of the retention rate of property management services for the years indicated by type of properties:

	For the year ended		
	December 31,		
	2021	2022	2023
Number of effective projects⁽¹⁾	57	63	67
– Public properties	23	24	21
– Commercial properties	28	30	34
– Residential properties	6	9	12
Number of contracted projects	66	70	73
– Public properties	29	29	24
– Commercial properties	31	32	37
– Residential properties	6	9	12
Retention rate	86.4%	90.0%	91.8%
– Public properties	79.3%	82.8%	87.5%
– Commercial properties	90.3%	93.8%	91.9%
– Residential properties	100.0%	100.0%	100.0%

Note:

- (1) Number of effective projects refers to the aggregate number of contracted projects during the entire year minus the number of projects we ceased to manage during the same years.

The following table sets forth a breakdown of the retention rate of property management services for the years indicated by source of the projects:

	For the year ended		
	December 31,		
	2021	2022	2023
Number of effective projects	57	63	67
– CSUD Group and its associates	41	44	48
– Independent Third Parties	16	19	19
Number of contracted projects	66	70	73
– CSUD Group and its associates	47	51	52
– Independent Third Parties	19	19	21
Retention rate	86.4%	90.0%	91.8%
– CSUD Group and its associates	87.2%	86.3%	92.3%
– Independent Third Parties	84.2%	100.0%	90.5%

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The following table sets forth a breakdown of the renewal rate of property management services for the years indicated by type of properties:

	For the year ended		
	December 31,		
	2021	2022	2023
Number of renewed projects	10	21	16
– Public properties	6	9	9
– Commercial properties	4	12	7
– Residential properties	–	–	–
Number of expired projects	19	28	22
– Public properties	12	14	12
– Commercial properties	7	14	10
– Residential properties	–	–	–
Renewal rate	52.6%	75.0%	72.7%
– Public properties	50.0%	64.3%	75.0%
– Commercial properties	57.1%	85.7%	70.0%
– Residential properties	–	–	–

The following table sets forth a breakdown of the renewal rate of property management services for the periods indicated by source of projects:

	For the year ended		
	December 31,		
	2021	2022	2023
Number of renewed projects	10	21	16
– CSUD Group and its associates	7	13	8
– Independent Third Parties	3	8	8
Number of expired projects	19	28	22
– CSUD Group and its associates	13	20	12
– Independent Third Parties	6	8	10
Renewal rate	52.6%	75.0%	72.7%
– CSUD Group and its associates	53.9%	65.0%	66.7%
– Independent Third Parties	50.0%	100.0%	80.0%

The property management projects we undertake are developing steadily. During the Track Record Period, the renewal rate of our property management projects was 52.6%, 75.0%, and 72.7%, respectively. During the same years, the retention rate of our property management projects was 86.4%, 90.0%, and 91.8%, respectively. In 2021, the renewal rate and the retention rate were relatively low owing to the expiration of five ad hoc projects, which are of ancillary and transitional natures and are normally not repetitive. For example, some projects such as the Bus Shelter Maintenance and Relocation Service Project (公交候車亭維護遷移服務項目) did not need comprehensive property management services upon the completion of

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their relocation; some projects such as the Transitional Maintenance Project of Roads in Malanshan Area (馬欄山片區道路過渡期維護項目) only needed ancillary property management services during the transition period. Additionally, we voluntarily chose not to renew two projects which were not as profitable as expected, so as to reallocate our resources to more profitable ones in an effort to optimize our property management portfolio. During the Track Record Period, the renewal rate of projects sourced from CSUD Group and its associates remained at a modest level for two main reasons: (i) several ad-hoc projects, as stated above, expired and were primarily sourced from CSUD Group and its associates; and (ii) we decided not to renew certain projects and instead reallocated our resources to more profitable ones.

Our Geographical Presence

Since our inception, we have been deeply rooted in Hunan Province, especially in Changsha. We managed 66 properties with an aggregate GFA under management of around 10.6 million sq.m. as of December 31, 2023 in Hunan Province. Our long-term intensive cultivation in Hunan Province allows us to form a regional service network in the certain region, and we have become one of the property management service providers most deeply ingrained in the Changsha market.

The table below sets forth the regions and cities in which we had contracted projects and projects under management for the year ended December 31, 2023:

Region	Number of projects under management	GFA under management (sq.m.'000)	Number of contracted projects	Contracted GFA (sq.m.'000)	Revenue (RMB'000)
Hunan Province					
(Changsha)	66	10,557	71	10,643	232,526
Jiangxi Province					
(Pingxiang)	2	516	2	516	5,376
Total	68	11,073	73	11,159	237,902

Scope of Services

We provide the following major categories of property management services:

- *Cleaning and general greening services.* We provide general cleaning, pest control, fertilizing, greening and pruning services for a wide range of property portfolio. In order to provide citizens with a clean and orderly living environment, we use standardized cleaning techniques and cleaning equipment. We adopt automated cleaning equipment to increase the professionalism of our cleaning services.

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- *Security services.* We seek to ensure that the properties we manage are safe and in good order. The security services we provide on a daily basis include, among others, patrolling, emergency response, entry control and fire safety management. Our primary objective is to ensure the safety and orderliness of properties under our management. To achieve this, we have a team of security personnel who conduct regular patrols, inspect surveillance systems in common areas, verify the identities of visitors and their vehicles, and respond to emergencies. To provide the best possible service, we utilize both in-house staff and external contractors for our security operations.
- *Repair and maintenance services.* We are generally responsible for the maintenance of common area facilities, construction structures and utility facilities, such as power supply and distribution, water supply and drainage system and pipeline dredging, oil fume pipeline cleaning, secondary maintenance of water supply system, maintenance of mud and wood facilities and weak current equipment.

Public Property Management Services

We offer public property management services, e.g., security, cleaning, as well as repair and maintenance services to parks, schools, hospitals, and large exhibition venues. We offer such services primarily through our own employees and subcontractors. We enter into property management service contracts with local governments and public institutions that are in charge of managing the relevant infrastructures and charge service fees on a lump-sum basis.

During the Track Record Period, our revenue generated from providing property management services to public properties was approximately RMB69.9 million, RMB72.5 million and RMB74.0 million, representing approximately 36.3%, 34.9%, and 31.1% of our total revenue from property management services, respectively. We provided property management services to 29, 29, and 24 public properties, with a total GFA under management of 8.5 million sq.m., 8.0 million sq.m., and 7.6 million sq.m., respectively, for the same years.

Commercial Property Management Services

We offer commercial property management services e.g., security, cleaning, as well as repair and maintenance services. Commercial properties include commercial office buildings, commercial assets and industrial parks. We offer such services primarily through our own employees and subcontractors. We enter into property management service contracts with property developers and property owners. We charge service fees on a lump-sum basis.

During the Track Record Period, our revenue generated from commercial property management services amounted to RMB95.2 million, RMB105.8 million, and RMB114.6 million, respectively, accounting for 49.5%, 51.0%, and 48.2% of our total revenue from property management services, respectively. We provided property management services to 29, 30, and 36 commercial properties, with a total GFA under management of 1.9 million sq.m., 1.9 million sq.m., and 2.1 million sq.m., respectively, for the same years.

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Residential Property Management Services

During the Track Record Period, our revenue generated from residential property management services amounted to RMB1.3 million, RMB2.5 million, and RMB12.4 million, respectively, accounting for 0.7%, 1.2%, and 5.2% of our total revenue from property management services, respectively. For the same years, we provided property management services to three, four and 8 residential projects, with a total GFA under management of 267 thousand sq.m., 322 thousand sq.m., and 1,374 thousand sq.m., respectively.

Value-Added Services

We provide value-added services to address customers’ needs and improve the living experience and environment of property owners and residents at our managed properties. Our value-added services include (a) air conditioner cleaning services; (b) affiliated carpark space management services; (c) decoration management services; (d) swipe card services; and (e) additional customized services.

- *Air conditioner cleaning services.* Our services mainly include filter cleaning, return air network cleaning, aluminum fin cleaning, condensate pipe inspection and dredging, heat sink cleaning and disinfection.
- *Affiliated Carpark space management services.* We manage the carpark space affiliated with commercial buildings and residential communities. We offer daily maintenance, surveillance, entry control, and parking fee collection services. We profit from our carpark space management services by charging owners periodic management fees or collecting a percentage of temporary parking fees.
- *Decoration management services.* In commercial property and residential property projects, if the property owner wants to carry out renovation, we provide security, inspection and specification service of the relevant public spaces.
- *Swipe card services.* We provide the management and production services of swipe cards for both commercial buildings and residential communities. This services include tasks such as card registration, issuance, programming, and ongoing management, ensuring the smooth functioning of the access control system.
- *Additional customized services.* We provide a wide range of additional customized services as may be required by our customers for their properties or in relation to particular areas or facilities of their properties. These services include concierge services, repair services, conference services, and garbage removal services.

During the Track Record Period, our revenue from value-added services was RMB25.9 million, RMB26.7 million and RMB36.9 million, accounting for 13.5%, 12.9% and 15.5% of our total revenue from property management services, respectively.

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We strive to achieve efficient customer-focused service standards in our managed properties in order to provide on-site services, and dedicated care to property developers, property owners, residents and tenants. It is our standard practice to keep and update records of the property owners of the properties we managed and to respond to and record complaints and feedback on our services. For details, please refer to the paragraph headed “– Quality Control – Feedback and Complaint Management” in this section about our management relating to feedback and complaints received.

Portfolio of properties under management

During the Track Record Period, the GFA under management of projects sourced from CSUD Group and its associates accounted for approximately 43.5%, 41.8%, and 39.1% of our total GFA under management, respectively. While remaining focused on providing public property management services, we also sought to diversify our portfolio of managed properties. During the Track Record Period, we offer diversified services to a wide spectrum of properties such as government buildings, industrial parks, commercial complexes, and residential properties.

The following table sets out the expiry schedule of our property management service agreements for contracted GFA for the year ended December 31, 2023:

	Number of projects		Contracted GFA	
		%	(sq.m.'000)	%
Property management service agreements with no fixed term⁽¹⁾	14	19.2%	2,722	22.6%
Property management service agreements with fixed terms expiring in the following years:				
– for the year ending December 31, 2024 ⁽²⁾	32	43.8%	1,304	10.8%
– for the year ending December 31, 2025	16	21.9%	3,989	33.1%
– for the year ending December 31, 2026 and thereafter	3	4.1%	21	0.2%
Property management service agreements expired				
– expired but continue to provide services ⁽³⁾	2	2.7%	2,828	23.5%
– expired and stop providing services	6	8.2%	1,175	9.8%
Total	73	100.0%	12,039	100.0%

Notes:

- (1) We provide preliminary property management services for these projects until the establishment of property owners’ associations.
- (2) As of the Latest Practicable Date, 12 of these property management service agreements had been renewed.
- (3) We continue to provide services for two expired projects because as of the Latest Practicable Date, these projects were in the process of renewal, the agreements of which are expected to be renewed in June 2024.

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The following table sets forth the number, the GFA, and the revenue from property management services by source of the projects for the years or as of the dates indicated:

	For the year ended or as of December 31,																									
	2021				2022				2023																	
	Number of contracted projects	Contracted GFA management (sq.m.'000)	GFA under management (%)	Revenue (RMB'000)	Number of projects under management	Contracted GFA management (sq.m.'000)	GFA under management (%)	Revenue (RMB'000)	Number of contracted projects	Contracted GFA management (sq.m.'000)	GFA under management (%)	Revenue (RMB'000)	Number of projects under management	Contracted GFA management (sq.m.'000)	GFA under management (%)	Revenue (RMB'000)										
CSUD Group and its associates	47	5,344	46.2	131,991	43	4,622	43.5	131,991	68.7	51	5,303	46.1	150,576	45	4,282	41.8	150,576	72.6	52	5,100	42.4	48	4,325	39.1	171,634	72.1
Independent Third Parties	19	6,224	53.8	60,265	18	5,996	56.5	60,265	31.3	19	6,200	53.9	56,890	18	5,972	58.2	56,890	27.4	21	6,938	57.6	20	6,748	60.9	66,268	27.9
Total	66	11,568	100.0	192,256	61	10,619	100.0	192,256	100.0	70	11,503	100.0	207,466	63	10,254	100.0	207,466	100.0	73	12,039	100.0	68	11,073	100.0	237,902	100.0

During the Track Record Period, there was apparent growth in the number of property projects that we managed, GFA under management and contracted GFA, which in turn our revenue increased as well. Such growth was due to (i) the adjustment of our Company's strategic development direction and the clarification of the development strategy, which further indicated the direction for our Company's development; (ii) our Company's increasing strength, regional brand and market influence, especially with the branding of Changsha's leading state-owned enterprise, CSUD Group, enabling our Company to gain more opportunities for external market cooperation.

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The following table sets forth the number, the GFA, and the revenue from property management services by type of the properties for the years or as of the dates indicated:

	For the year ended or as of December 31,																							
	2021		2022		2023																			
	Number of contracted projects	Contracted GFA (sq.m.'000)	Number of projects under management	GFA under management (sq.m.'000)	Revenue (RMB'000)	Number of projects under management	GFA under management (sq.m.'000)	Revenue (RMB'000)																
		(%)		(%)	(%)		(%)	(%)																
Public properties	29	8,479	73.3	29	8,474	79.8	69,894	36.3	29	8,032	69.8	29	8,027	78.3	72,458	34.9	24	7,592	63.1	24	7,586	68.5	74,015	31.1
Commercial properties	31	2,247	19.4	29	1,878	17.7	95,191	49.5	32	2,275	19.8	30	1,905	18.6	105,798	51.0	37	2,303	19.1	36	2,113	19.1	114,563	48.2
Residential properties	6	842	7.3	3	267	2.5	1,264	0.7	9	1,196	10.4	4	322	3.1	2,483	1.2	12	2,144	17.8	8	1,374	12.4	12,384	5.2
Value-added services	-	-	-	-	-	-	25,907	13.5	-	-	-	-	-	-	26,727	12.9	-	-	-	-	-	-	36,940	15.5
Total	66	11,568	100.0	61	10,619	100.0	192,256	100.0	70	11,503	100.0	63	10,254	100.0	207,466	100.0	73	12,039	100.0	68	11,073	100.0	237,902	100.0

Note: Exclude the revenue generated from value-added services.

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The following table indicates the movement of our effective projects by source of projects for the years or as of the dates indicated:

	For the year ended or as of December 31,					
	2021		2022		2023	
	Number of projects	GFA (sq.m.'000)	Number of projects	GFA (sq.m.'000)	Number of projects	GFA (sq.m.'000)
As of the beginning of the year	38	8,488	57	10,000 ⁽¹⁾	63	9,827
– CSUD Group and its associates	23	2,907	41	4,187	44	3,855
– Independent Third Parties	15	5,581	16	5,813	19	5,972
New engagements	28	2,131	13	254	10	1,246
– CSUD Group and its associates	24	1,715	10	94	7	468
– Independent Third Parties	4	416	3	160	3	778
Terminations	9	634	7	427	6	1,175
– CSUD Group and its associates	6	450	7	427	4	505
– Independent Third Parties	3	184	–	–	2	669
As of the end of the year	57	9,985	63	9,827	67	9,898
– CSUD Group and its associates	41	4,172	44	3,855	48	3,817
– Independent Third Parties	16	5,813	19	5,972	19	6,081

Note:

(1) Include an increase in the GFA of one project at the beginning of 2022.

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The following table indicates the movement of our effective projects by type of properties for the years or as of the dates indicated:

	For the year ended or as of December 31,					
	2021		2022		2023	
	Number of projects	GFA (sq.m. '000)	Number of projects	GFA (sq.m. '000)	Number of projects	GFA (sq.m. '000)
As of the beginning of the year	38	8,488	57	10,000 ⁽¹⁾	63	9,827
– Public properties	18	6,917	23	7,841	24	7,617
– Commercial properties	18	1,455	28	1,892	30	1,889
– Residential properties	2	116	6	267	9	321
New engagements	28	2,131	13	254	10	1,246
– Public properties	11	1,558	6	187	1 ⁽²⁾	0
– Commercial properties	13	422	4	13	6	193
– Residential properties	4	151	3	54	3	1,053
Terminations	9	634	7	427	6	1,175
– Public properties	6	634	5	411	3	1,169
– Commercial properties	3	–	2	16	3	6
– Residential properties	–	–	–	–	–	–
As of the end of the year	57	9,985	63	9,827	67	9,898
– Public properties	23	7,841	24	7,617	22	6,448
– Commercial properties	28	1,877	30	1,889	33	2,076
– Residential properties	6	267	9	321	12	1,374

Notes:

(1) Include an increase in the GFA of one project at the beginning of 2022.

(2) For this specific project, GFA was not specified in its contract.

During the Track Record Period, our total GFA under management for public properties decreased from approximately 8.5 million sq.m. for the year ended December 31, 2021 to 8.0 million sq.m. for the year ended December 31, 2022 and further to 7.6 million sq.m. for the year ended December 31, 2023. The decreasing trend of the amount of contracted GFA and GFA under management could be mainly attributable to the termination of two projects, the Exhibition Landscape Spot Property Management Service Project (會展景觀帶物業管理服務項目) and Liuyang River Scenic Spot Property Management Service Project (瀏陽河風光帶物業管理服務項目), the contracted GFA and GFA under management of which amounted to 800 thousand sq.m. while their revenue contribution was relatively small. The two temporary public projects were sourced from CSUD Group and its associates by direct engagement, and we provided property management services for them, spanning from the completion of their construction to the final delivery to the government. We did not tender for these projects subsequently because we reallocated our resources to more profitable projects. According to CIA, there was a general decline in the GFA of new projects available for management since 2021. As a result, there was a reduction in the number of our new engagements.

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During the Track Record Period, we have been contracted to manage commercial complexes, office buildings and residential properties. Our GFA under management of commercial properties was 1.9 million sq.m., 1.9 million sq.m., and 2.1 million sq.m., respectively. For the same years, our GFA under management of residential properties was 267 thousand sq.m., 322 thousand sq.m., and 1,374 thousand sq.m., respectively. We believe that as we accumulate experience and recognition for the quality of our property management services to public properties, commercial properties and residential properties, we will be able to continue to diversify our portfolio of properties under management and further enlarge our customer base.

The following table sets forth our five largest property management service projects in terms of the revenue of each year during the Track Record Period:

Project	Type of service	Location	Duration	For the year ended December 31,		
				2021 (RMB'000)	2022 (RMB'000)	2023 (RMB'000)
Yanghu National Wetland Park Project (洋湖濕地公園項目)	Public	Changsha	January 2017- Present	25,229	24,537	28,155
Changsha West Center Project (長沙西中心項目)	Commercial	Changsha	October 2015- Present	32,097	30,464	27,278
Xiangjiang Times Project (湘江時代項目)	Commercial	Changsha	January 2017- Present	19,912	19,719	22,610
Xiangjiang Fortune Finance Center Project (湘江財富金融中心項目)	Commercial	Changsha	November 2017- Present	31,592	41,744	52,997
Xianjia Lake Scenic Area Project (咸嘉湖景區項目)	Public	Changsha	November 2016- Present	10,021	7,577	7,691

Property Management Fees

During the Track Record Period, all of our projects were subject to a lump-sum basis for charging fees.

Under the lump-sum fee model, we charge a fixed and “all-inclusive” fee for our property management services which we provide through our employees and subcontractors, and our property management fees are typically charged on an semi-annual, quarterly or monthly basis, depending on the terms of our property management service agreements. We are entitled to retain the full amount of property management fees collected from property developers, property owners and residents as revenue and bear the costs incurred in providing our property management services.

BUSINESS

The lump-sum fee model challenges our operation management capabilities. Prior to negotiating and entering into our property management service agreements, we seek to prepare, as accurate as possible, an estimate of our cost of sales. Our cost of sales primarily includes employee wage and benefit expenses, energy expenses, maintenance costs, landscaping costs, office expenses, garbage removal and disposal expenses, parking costs, security maintenance costs, tax and surcharges, greening and cleaning expenses, depreciation and amortization expenses, among others. As we bear such expenses ourselves, our profit margins are affected by our ability to lower our cost of sales. In the event that our cost of sales is higher than anticipated, we may not be able to collect additional amounts from our customers to sustain our profit margins however we may have option to raise the property management fee through friendly negotiation while still maintaining our service standard, explore other value-added services for profit growth and increase the financial and operational efficiency by applying automated system. For details, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Industry – We may suffer losses for charging services fees on a lump-sum basis” in this document.

Our Pricing Policy

We adopt two pricing methods for our property management business in accordance with market practice: the area-based pricing method and the personnel-based pricing method.

Generally, we price our property management services by considering factors such as (i) scope and quality of services; (ii) budget, estimated costs and profitability targets; and (iii) local government’s guidelines/regulations on property management fees (where applicable). Under the area-based pricing method, we charge property management fees in the form of “RMB per sq.m. per month”, considering key factors such as type of property, quality of service, with reference to unit fees of comparable projects. Under the personnel-based pricing method, we charge a total packaged property management fees on a per project basis, taking into consideration the required quantity and quality of staff (e.g. security guards, cleaners and receptionists) involved in carrying out the routine management work of the property.

During the Track Record Period, we charged all residential properties and some commercial properties which were office buildings with the area-based pricing method, while we charged all public properties and the other commercial properties such as sales centers with the personnel-based pricing method.

BUSINESS

The following table sets out the number GFA and revenue from projects under management (excluding value-added services) during the Track Record Period based on the pricing method:

	For the year ended December 31,								
	2021			2022			2023		
	Number of projects	GFA under management <i>(sq.m.'000)</i>	Revenue <i>(RMB'000)</i>	Number of projects	GFA under management <i>(sq.m.'000)</i>	Revenue <i>(RMB'000)</i>	Number of projects	GFA under management <i>(sq.m.'000)</i>	Revenue <i>(RMB'000)</i>
Personnel-based pricing method	52	9,119	90,800	53	8,700	96,144	53	8,326	100,296
– Public property	29	8,474	69,894	29	8,026	72,458	24	7,587	74,015
– Commercial property (personnel-based)	23	646	20,905	24	673	23,685	29	739	26,281
Area-based pricing method	9	1,499	75,549	10	1,554	84,595	15	2,748	100,668
– Commercial property (area-based)	6	1,232	74,285	6	1,232	82,113	7	1,374	88,283
– Residential property	3	267	1,264	4	322	2,483	8	1,374	12,384
Total	61	10,619	166,349	63	10,254	180,739	68	11,074	200,963

The following table sets forth the ranges of unit property management fees charged by our Group and our peers under the area-based pricing method for the years indicated⁽¹⁾:

	For the year ended December 31,					
	2021		2022		2023	
	Our Group ⁽²⁾ <i>(RMB per sq.m.)</i>	Peers	Our Group ⁽²⁾ <i>(RMB per sq.m.)</i>	Peers	Our Group ⁽²⁾ <i>(RMB per sq.m.)</i>	Peers
Commercial property management services	2.7-10.6	4-21	3.8-8.9	4-20	4.1-12.7	4-21
Residential property management services	2.0-2.9	1.5-3	2.0-2.9	1.5-3	2.0-2.9	1.5-3

Notes:

- (1) Given that all of our Group’s property management projects were situated in the urban area of Changsha, the unit property management fee ranges of our peers were calculated based on properties situated in the same area for comparison.
- (2) All of our Group’s property management projects charged under the area-based pricing method were sourced from CSUD Group and its associates.

BUSINESS

During the Track Record Period, all of the projects charged by our Group under the area-based pricing method were charged within the price ranges of our peers except for a specific commercial property management service project in 2021 and 2022. The reasons why the unit property management fees for this project fell below the peer price ranges are as follows: (a) the vacancy rate of this project had remained high during the Track Record Period, and for vacant properties, the property management fees are usually charged at a discount of the standard rates; and (b) our Group offered discounts on property management fees to some of our major customers to maintain long-standing relationships.

According to the Regulations on Property Management (《物業管理條例》) promulgated by the State Council on March 19, 2018, for properties that have been constructed but remain unsold or have not yet been transferred to the purchaser, the responsibility for the payment of property management fees lies with the developer of such properties. After negotiating with our customers and in consistent with the industry practices, we charge property management fees at 70-90% of the standard rate to property developers with regard to property management services provided to vacant properties. As confirmed by CIA, our pricing standard for vacant properties is in line with the charging standard of our peers in Hunan Province.

There is typically no established practice in the property management industry for calculating unit property management fees of projects charged under the personnel-based pricing method. When pricing such projects, property management companies typically consider labor costs, material costs, and other costs incurred by specific requirements from clients. We charge our clients a total packaged property management fees on a cost-plus model, which primarily consist of the total costs stated above plus a markup (i.e. management expenses 管理費). The management expenses are set at a specific percentage of the total costs, and the percentage is determined at the discretion of property management companies. To be specific, the total packaged property management fees equal total costs (including labor costs, material costs, and other applicable costs) plus management expenses and any applicable taxes. As confirmed by the CIA, the aforementioned calculation method and the components of the total packaged fees are commonly applied for personnel-based projects in the industry.

The following table sets forth the management expense rate ranges of projects charged by our Group and our peers under the personnel-based pricing method as of December 31, 2023:

	Public property management service	Commercial property management service
Our Group	5%-12%	6%-12%
– CSUD Group and its associates	8%-12%	6%-12%
– Independent Third Parties	5%-10%	10%-12%
Our Peers⁽¹⁾	5%-15%	5%-20%

Note:

(1) The ranges of our peers are provided by the CIA based on market research.

BUSINESS

As of December 31, 2023, our management expense rate ranges of public and commercial projects charged under the personnel-based pricing method fell within industry ranges. The management expense rates of public projects sourced from CSUD Group and its associates were generally higher than those of projects sourced from Independent Third Parties. This is primarily because a majority of projects sourced from Independent Third Parties were government procurement projects, which were financed by fiscal funds and subject to fierce competition. Consequently, these projects are obtained at relatively low management expense rates. The lower limit of management expense rate range of commercial projects sourced from CSUD Group and its associates was lower than that of projects sourced from Independent Third Parties. This is primarily because we undertook several high-profile office buildings at relatively low management expense rates from CSUD Group and its associates, aiming to establish a strong reputation and pave the way for future opportunities.

As representative examples of properties charged under the personnel-based pricing method, sales centers refer to commercial properties where property developers showcase the properties to be sold and potential buyers can visit to learn about these properties, communicate with sales representatives and sign contracts. Sales centers typically have a small GFA under management while demanding a large amount of service personnel. The property management services provided to sales centers primarily include reception service, cleaning service, and order maintenance service. For example, in Hengwei Jinlong Sales Center Property Management Service Project (恆偉金壠營銷案場物業管理服務項目), as required by the client, we allocated 17 service personnel, including one project manager, one repairman, six receptionists, four order maintenance personnel, and five cleaners. The Group also fulfilled the client’s specific requirement regarding features of personnel (e.g. order maintenance personnel should be above 172cm in height). The following table sets forth our salary standard for two grades of different services as of December 31, 2023:

	Reception service <i>(RMB per person per month)</i>	Cleaning service <i>(RMB per person per month)</i>	Order maintenance service <i>(RMB per person per month)</i>
Grade A	6,600 ⁽¹⁾	4,000	6,900
Grade B	6,200 ⁽¹⁾	3,700	6,400

Note:

- (1) Grade A represents the higher service standard followed by our Group. However, during the Track Record Period, we did not undertake any projects charged at this standard in light of the competitive market conditions, and all of our reception services provided were charged at the grade B standard.

BUSINESS

According to CIA, within five kilometers in the vicinity of our sales centers, the labor costs of reception services ranged from RMB5,500 to RMB6,200 per person per month; the labor costs of cleaning services ranged from RMB3,500 to RMB4,000 per person per month; the labor costs of order maintenance services ranged from RMB6,000 to RMB7,000 per person per month. The salaries of our personnel fall within a reasonable range compared to the local standard.

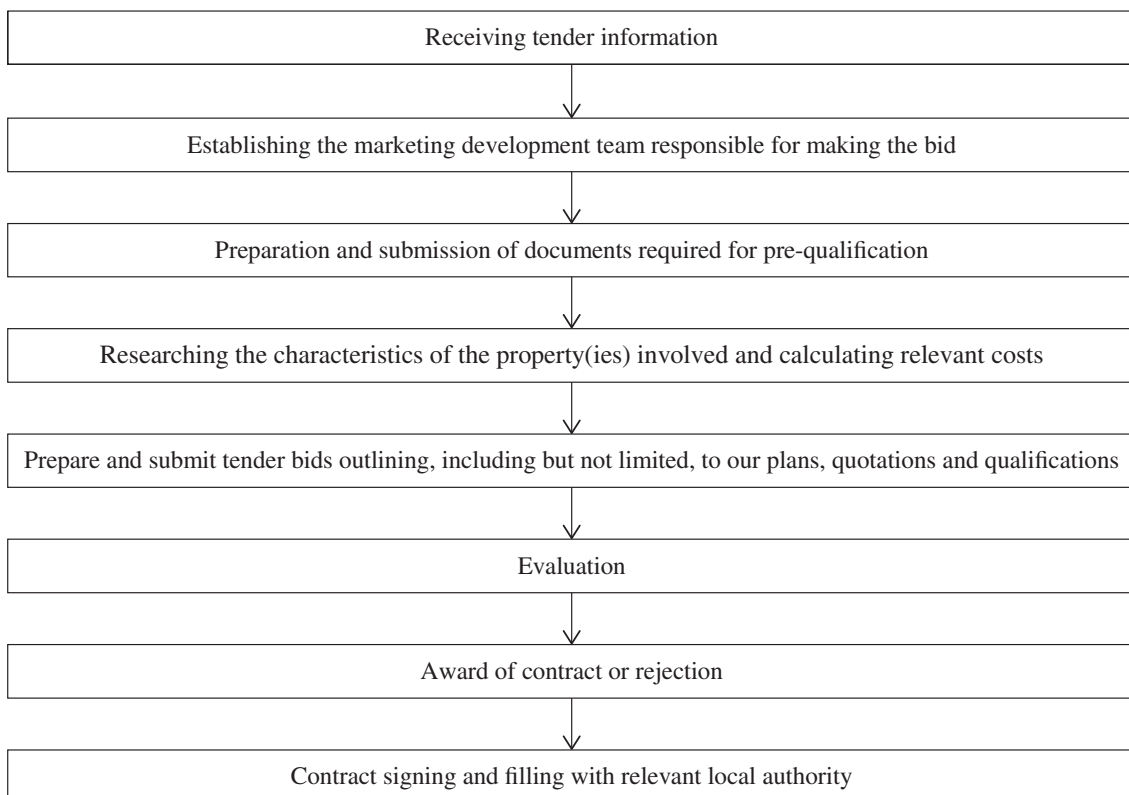
The relevant departments responsible for price administration and construction administration under the State Council jointly oversee property management fees and issue relevant guidance, and we are also subject to pricing controls issued by the PRC Government. In December 2014, the NDRC issued the Circular of the NDRC on the Opinions for Decontrolling the Prices of Some Services (國家發展和改革委員會關於放開部分服務價格意見的通知) (the “**Circular**”), which required provincial-level price authorities to liberalize certain price control or guidance policies on certain types of properties that meet the specified conditions. According to PRC laws and regulations, property management fees charged shall be determined with references to the government guidance price or the market price, based on the nature and features of the relevant properties to which the property management services are provided. The specific pricing principles and implementation rules shall be determined by the competent price administration departments and property administration departments of the local governments of each province, autonomous region and municipality. For details, please refer to the section headed “Regulatory Overview – Fees Charged by Property Management Enterprises” in this document. During the Track Record Period and up to the Latest Practicable Date, according to CIA, our property management fees were generally in line with the relevant market trends with respect to property management fees charged by property management companies in the PRC. Our PRC Legal Advisors are of the view that, during the Track Record Period and up to the Latest practicable Date, considering (i) five of the property management service projects under our management were preliminary property management service projects, and the charging standards of the five projects had been filed with the relevant competent authorities; (ii) we had not been subjected to any investigations or penalties in accordance with written certifications issued by county-level authorities under MOHURD, online public search conducted by our PRC Legal Advisors, and confirmation from our Directors; and (iii) we had not been subject to any administrative penalties or credit restrictions in accordance with a written certification issued by Changsha Administration for Market Regulation, online public search conducted by our PRC Legal Advisors, and confirmation from our Directors, the property management fees charged by us had complied with the relevant PRC laws and regulations in relation to such pricing control. In accordance with the Regulations on Property Management in Hunan Province (《湖南省物業管理條例》) and the administrative duties of governmental authorities disclosed on the websites of governmental authorities, our PRC Legal Advisors are of the view that MOHURD is the competent authority that is responsible for supervising and managing the provision of property management services.

BUSINESS

Tender Process

During the Track Record Period, we secured a small portion of property management projects by participating in tenders, a process whereby local governments and public institutions evaluate and select from multiple relevant service providers, which is a standard tender process regulated by the applicable PRC laws and regulations. Under the PRC laws and regulations, property management companies are typically required to obtain preliminary property management service agreements for residential properties through participation in the tender process. If there are fewer than three bidders or the scale of residences is relatively small, the property developer can select and hire qualified property management company by directly entering into an agreement with the approval of the real estate administrative department of the relevant district or county government where the property is located. In addition, pursuant to the Regulations on Property Management (《物業管理條例》), the non-residential property is not required to select a property management company through tender process. For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Property Management Services” on the relevant legal requirements on tender processes.

The following flow chart illustrates each stage of our typical tender process for obtaining property management service agreements.



BUSINESS

For projects sourced from CSUD Group and its associates, we are primarily awarded property management service projects through direct engagement. According to Our PRC Legal Advisors, we derive property management service projects from CSUD Group through direct engagement, in accordance with relevant PRC laws and regulations because (i) CSUD Group is a state-owned enterprise, and the Government Procurement Law (《中華人民共和國政府採購法》) does not apply to it; (ii) the projects entrusted by CSUD Group are not preliminary residential projects regulated by the Interim Measures for Bidding Management of Pre-property Management (《前期物業管理招標投標管理暫行辦法》); and (iii) the projects entrusted by CSUD Group do not fall within the scope of projects that must be tendered under the Tenders and Bids Law of the PRC (《中華人民共和國招標投標法》) and the Implementation Regulations for the Tenders and Bids Law of the PRC (《中華人民共和國招標投標法實施條例》), and therefore, CSUD Group is entitled to directly entrust us with the contracts. For projects obtained through direct engagement from Independent Third Parties, according to our PRC Legal Advisors, we are also in compliance with relevant PRC laws and regulations because the Government Procurement Law (《中華人民共和國政府採購法》) does not apply to these Independent Third Parties. In addition, these projects awarded to us do not fall with the scope of projects that must be tendered according to the aforementioned laws and regulations. For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Property Management Services – Regulations on Appointment of the Property Management Enterprises” in this document. Before accepting a new engagement, we conduct feasibility analyses and financial projections, taking into account a range of factors, including the profile, scope, term of services to be provided, estimated total costs, projected profitability, competitive landscape of the local market, any applicable regulatory requirement and relationship with our other business, such as value-added services.

BUSINESS

The following table sets forth a breakdown of the revenue and the number of our contracted property management service projects secured through tendering and direct engagement during the Track Record Period:

	For the year ended or as of December 31,					
	2021			2022		
	Number of projects	Contracted GFA (sq.m.'000)	Revenue (RMB'000)	Number of projects	Contracted GFA (sq.m.'000)	Revenue (RMB'000)
Tendering						
- CSUD Group and its associates	17	2735	47,423	20	4,645	75,389
- Independent Third Parties	9	1,614	33,457	12	1,969	52,316
Direct engagement						
- CSUD Group and its associates	49	8,833	144,833	50	6,858	132,077
- Independent Third Parties	38	3,730	98,534	39	3,334	98,261
	11	5,104	46,299	11	3,524	33,816
Total	66	11,568	192,256	70	11,503	207,466
				73	12,039	237,902

BUSINESS

The following table sets forth our tender success rate of entering into services contracts by source of the projects during the Track Record Period:

	For the year ended December 31,								
	2021		2022		2023				
	Number of bids submitted ⁽¹⁾	Number of winning bids ⁽¹⁾	Tender success rate (%)	Number of bids submitted ⁽¹⁾	Number of winning bids ⁽¹⁾	Tender success rate (%)	Number of bids submitted ⁽¹⁾	Number of winning bids ⁽¹⁾	Tender success rate (%)
CSUD Group and its associates	4	4	100.0	3	3	100.0	3	3	100.0
Independent Third Parties	12	3	25.0	14	4	28.6	17	5	29.4
Total	16	7	43.8	17	7	41.2	20	8	40.0

Note:

(1) Exclude the number of bids submitted and the number of winning bids made by joint bids.

BUSINESS

Our ranking and reputation in Changsha and high customer satisfaction rating help us secure projects with CSUD Group and its associates and other customers. During the Track Record Period, our tender success rate for projects of CSUD Group and its associates remains 100%, while in the same years, our tender success rate for projects sourced from Independent Third Parties is 25.0%, 28.6%, and 29.4%, respectively. The higher tender success rates of projects sourced from CSUD Group and its associates during the Track Record Period was mainly due to (i) our abilities to meet the needs and expectation of CSUD Group as a result of the established track record of provision of property management services to CSUD Group; and (ii) our long-term cooperation with CSUD Group and its associates, which was grounded in the alignment of our service philosophies and principles.

Property Management Service Agreements

For non-residential properties including public properties and commercial properties, we enter into property management service agreements with property owners.

For residential property management services and commercial property management services, we enter into preliminary property management service agreements with property developers at the pre-delivery stage. In relation to residential properties and commercial properties for that have already been delivered but the property owners' associations have not been established, we enter into preliminary property management service agreements with property developers, property owners and tenants to provide preliminary property management services. In relation to residential properties and commercial properties that have already been delivered and property owners' associations have been established, we enter into property management service agreements with the property owners' associations on behalf of property owners. During the Track Record Period, all our residential property projects and commercial property projects have not formed property owners' associations. Therefore, we enter into preliminary property management service agreements with property developers, property owners and tenants to provide preliminary property management services.

Key Terms of Dealing with the Property Owners or Property Owners' Representatives

Our property management service agreements with property owners or property owners' representatives typically include the following key terms, which we believe are consistent with the industry customs.

- *Scope of services.* A typical property management service agreement with property owners or property owners' representatives sets out the required services, including cleaning services, security services, car park management services and reception services.

BUSINESS

- *Rights and obligations of both parties.* We have the right to arrange various property management services according to relevant laws and regulations and provisions of contract. We also have the right to charge property management fees towards property owners. In addition, we are obligated to report the operation of property to customers timely. Customers have the right to use properties appropriately in accordance with relevant regulations and supervise the implementation of our property management services. Meanwhile, our customers are obligated to pay the property management fees timely and cooperate with our property management service, for instance, following the relevant management service manuals that we draw up for customers.
- *Terms.* For residential properties, our property management service agreements will generally terminate when the owners' association signs a new property management service agreement with the re-selected property service company on behalf of all owners. For public properties and commercial properties, our property management service agreements will automatically terminate at the expiration of the contract term, or if one party is in serious breach of contract, the other party can terminate by itself or by mutual agreement.
- *Liability for general breach of contract.* The maximum amount of compensation for general breach of the property management service agreement is limited to the actual damages caused by the other party.
- *Performance standard.* The agreement sets out the criteria that must be met, what services we are obligated to provide, and the timeframe and duration of those services and responses.
- *Dispute resolution.* Parties to the property management service agreement are typically required to resolve any contractual disputes through negotiations first before resorting to litigation or arbitration.

In addition, some other terms including the validity and service of agreements are also involved.

Key Terms of Dealing with the Property Developers

During the Track Record Period. Keys terms in our preliminary property management service contracts with property developers are as follows:

- *Scope of services.* A typical contract with a property developer sets out the scope of services by phase. Before the completion of construction, we mainly provide pre-delivery services. After the completion of construction, we usually provide property management services to common areas, common facilities and ancillary buildings, including cleaning, maintenance and repair, and public order services.

BUSINESS

- *Performance standards.* The preliminary property management service contract sets out specific standards for the main services we provide. The agreement also specifies quality standards and the frequency of the service’s implementation, such as the cleaning of public areas and the inspection of power supply and distribution systems, water supply and sewerage systems and septic tanks.
- *Property management fees.* The amount of property management fees, payable either on a lump-sum basis will be agreed in the contract. The property developer is responsible for paying the property management fees for unsold property units.
- *Term of service.* Usually the contracts automatically expire only when the relevant property owners’ association enters into a new property management service agreement with the re-selected property management service company on behalf of all owners.
- *Dispute resolution.* Parties are typically required to resolve any contractual disputes through negotiations first, before going through legal proceedings.

Payment

We may charge property management fees on an semi-annual, quarterly or monthly basis, depending on the terms of our property management service agreements and relevant regulations. The fees for property management services are typically due for payment by property developers and property owners upon our issuance of a notice. We primarily accept payments for property management fees by cash, wire transfer, Alipay, WeChat and Cloud POS. The method, arrangement and process of payment are the same among different customers including public properties, commercial properties and residential properties.

We have formulated a collection management method applicable to all customers, which specified that corresponding subsidiaries have special personnel in charge of the tracking service of revenue items. If any customer fails to make payment for a prolonged period, we typically demand payment for our property management services by sending a demand note to them, which, according to CIA, is consistent with the property management industry norm in the PRC. To facilitate the timely collection of property management fees and other payments, we adopt different collection approaches, such as sending text messages and issuing legal collection letters. We can recover late fees from overdue customers according to the property management service agreements. In addition, if necessary, we will file in courts, or come to the relevant government authorities to deal with the collection of property management fees. For details, please refer to the sections headed “Financial Information – Discussion of Certain Selected Items from Our Consolidated Statements of Financial Position – Prepayments, Trade and Other Receivables” and “Risk Factors – Risks Relating to Our Business and Industry – Delays in receiving payment or failure to collect service fees from customers may result in the risk of impairment losses on our trade receivables and contract assets, and adversely impact our financial condition and liquidity” of our trade receivables and related risks thereof.

BUSINESS

URBAN SERVICES

Overview

Founded on our established expertise, experience and track record of providing quality and tailor-made management services to various categories of properties, we have been extending our business capacities to become a state-owned professional urban service provider specializing in serving public spaces and municipal infrastructures. We are dedicated to propel the development of our urban services, which has become the primary focus and the key driver of future business growth.

Drawing on our extensive experience in property management services, we view urban spaces as a valuable opportunity and extend our business reach to the vast expanse of cityscapes. While maintaining and consummating the depth and width of our existing service offerings, we broaden the scope of our services in response to the nation’s urbanization, modernization and people’s pursuit of comfortable and tranquil living and workspaces. We believe urban services will allow us to further improve our market reputation and expand our sources of revenues and profitability, which in turn will contribute to our sustainable long-term growth and competitiveness. Property management services are the important ballast of our existing business, while the urban service sector has been becoming the core of our diversified and specialized services in urban areas with steady revenue and profit growths.

Our business is focused on riding on the trend of modernizing urban governance systems and capabilities. From the perspective of urban operations and facing the growing need for modernized and competent urban governance, the core of our services has been extending to urban operations, emphasizing two major functions: urban resource operation and urban space management. Starting from Changsha, our services are expected to gradually cover Hunan Province, participating in and undertaking specific businesses such as urban landscaping, urban lighting, urban parking, and urban sanitation in various cities. We will gradually build ourselves into a comprehensive urban service provider with developed characteristic industries, sound service chains, outstanding operational capabilities, and improved business models.

We closely assist local governments and public institutions in order to improve local residents’ living experiences and environment. Our urban services mainly include (i) landscaping and engineering; (ii) lighting system operation (iii) parking lot operation; and (iv) municipal sanitation services. We set up diversified subsidiaries offering specialized services to guarantee us capabilities and competitive edges in a number of specialist areas over other local urban service companies.

BUSINESS

The following table sets forth a breakdown of our revenue from urban services by business segments for the years indicated:

	For the year ended December 31,					
	2021	2022		2023		
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Urban services						
– Landscaping and engineering	83,482	45.0	125,847	45.8	186,347	52.7
– Lighting system operation	30,856	16.7	64,007	23.3	67,497	19.1
– Parking lot operation	42,089	22.7	40,633	14.8	46,733	13.3
– Municipal sanitation services	28,925	15.6	44,233	16.1	52,713	14.9
Total	<u>185,352</u>	<u>100.0</u>	<u>274,720</u>	<u>100.0</u>	<u>353,290</u>	<u>100.0</u>

The projects of urban services are not measured by GFA under management, which is regarded as a measurement mainly for property management services and commercial operation services according to CIA. With regard to landscaping and engineering projects, the method of GFA under management to calculate revenue is not applicable to these projects because of their one-off nature. With regard to parking lot operation, the number of parking spaces more accurately reflects our business performance compared to GFA under management. With regard to municipal sanitation projects, our maintenance prices are determined in accordance with the grade and length of roads. Besides, regarding the lighting system operation, the method of GFA under management to calculate revenue is not applicable.

The following table sets forth the relevant number of projects of urban services for the years indicated by type of services:

	For the year ended December 31,		
	2021	2022	2023
Urban services			
– Landscaping and engineering ⁽¹⁾	44	98	85
– Lighting system operation	2	4	4
– Parking lot operation	146	144	150
– Municipal sanitation services	2	2	3
Total	<u>194</u>	<u>248</u>	<u>242</u>

Note:

- (1) Landscaping and engineering projects are projects of a one-off nature, and the number listed refers to the number of completed projects, while the other projects of urban services are projects of a recurring nature.

BUSINESS

During the Track Record Period, we secured a substantial portion of urban service projects by direct engagement. According to Our PRC Legal Advisors, we derived urban service projects from CSUD Group through direct engagement, in accordance with the Notice on Further Regulating Matters Related to the Supervision and Administration of Transactions of State-owned Assets of Municipal Enterprises (《關於進一步規範市屬企業國有資產交易監督管理有關事項的通知》) released by Changsha Municipal SASAC and Changsha Municipal Bureau of Finance because (i) CSUD Group is a state-owned enterprise, and the Government Procurement Law (《中華人民共和國政府採購法》) does not apply to it; and (ii) the projects entrusted by CSUD Group do not fall within the scope of projects that must be tendered under the Tenders and Bids Law of the PRC (《中華人民共和國招標投標法》), the Implementation Regulations for the Tenders and Bids Law of the PRC (《中華人民共和國招標投標法實施條例》), the Regulations for Engineering Projects that Must Be Tendered (《必須招標的工程項目規定》), and the Regulations for the Scope of Infrastructure and Public Utility Projects that Must Be Tendered (《必須招標的基礎設施和公用事業項目範圍規定》), and therefore, CSUD Group is entitled to directly entrust us with the agreements. For urban service projects obtained through direct engagement from Independent Third Parties, according to our PRC Legal Advisors, we are also in compliance with relevant PRC laws and regulations because these parties are not subject to the Government Procurement Law (《中華人民共和國政府採購法》), and these projects awarded to us do not fall with the scope of projects that must be tendered according to the aforementioned laws and regulations. For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Construction Project – Construction Project” in this document. In addition, we obtain urban service agreements through participation in tenders. For specialized services, such as landscaping and engineering projects, our subsidiaries generally participate in bidding directly, while for complex projects with coordinated services, such as “landscaping + municipal sanitation” projects, we generally participates in bidding and then the relevant subsidiaries provide corresponding specialized services.

Scopes of services

Landscaping and engineering

Overview

Taking modern city landscaping and engineering as one of our focuses in urban services, we are a landscaping construction provider integrating (i) landscaping, mainly including landscape greening, scenery, garden water application, garden electricity application, garden road engineering, landscape structures, and rooftop greening; and (ii) engineering, mainly including garbage disposal, heat pipe engineering and hard paving of surface parking lots. When it comes to landscaping and engineering projects that we undertake directly, we will mainly determine our price based on the clients’ demands, industry practice and our structure of costs. We maintain a fair and equitable approach to pricing, ensuring consistency in our dealings with all clients involved. We mainly undertake landscaping and engineering projects through our operating subsidiary, Landscaping Company. Our service scope include:

- Landscaping, including planting trees, shrubs, flowers, hedges, and ground cover plants; land preparation, earthwork balancing, slope shaping for green areas, fertilization, grass and flower seed sowing, erosion control with geotextile, construction fencing; construction of walkways, safety measures; garden water application, garden electricity application night scene lighting, garden road engineering, landscape structures, and rooftop greening.

BUSINESS

- Engineering, including the construction of waste transfer stations, stormwater pipe networks, asphalt pavement construction and installation of traffic facilities, precast transformer foundation, handholes, telecommunication manholes, cable trench construction, secondary electromechanical (including fire protection, air conditioning, water heating, weak current), operational equipment, signage, and cleaning services.

As of December 31, 2021, 2022, and 2023, we completed 44, 98 and 85 landscaping and engineering projects, respectively. During the Track Record Period, the revenue generated from providing landscaping and engineering services was approximately RMB83.5 million, RMB125.8 million, and RMB186.3 million, representing approximately 19.3%, 23.8%, and 28.6% of our total revenue, respectively. We have been enhancing our own strength and shaping brand influence to win market favor by obtaining new qualifications and expanding the scope of business actively. This contributes to increased external satisfaction and therefore we make steady progress in our business volume. As of December 31, 2021, 2022, and 2023, we newly signed 77, 89, and 129 contracts of landscaping and engineering respectively in the same years.

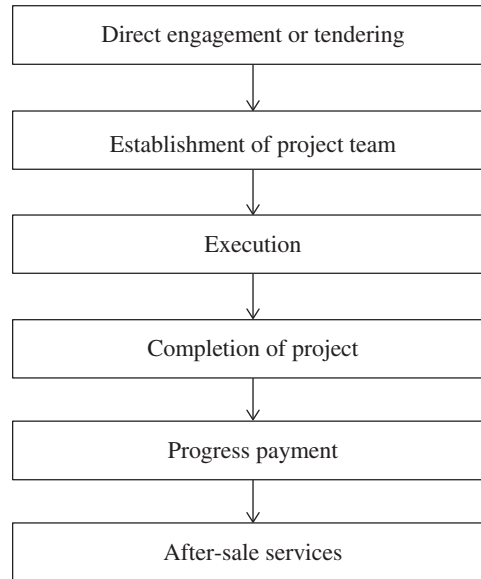
The following table sets forth the number of landscaping and engineering projects by the project progress as of the dates indicated:

	For the year ended or as of December 31,					
	2021		2022		2023	
	Number of projects	Contract amount (RMB'000)	Number of projects	Contract amount (RMB'000)	Number of projects	Contract amount (RMB'000)
Contracted but not completed as of the beginning of the year	19	29,592	52	100,853	43	125,321
– CSUD Group and its associates	15	25,281	46	82,586	40	87,837
– Independent Third Parties	4	4,311	6	18,267	3	37,484
Newly contracted completed	77	136,784	89	186,417	129	232,542
– CSUD Group and its associates	31	42,782	51	74,794	55	49,233
– Independent Third Parties	–	–	1	5,010	–	–
not completed	46	94,001	38	111,623	74	183,309
– CSUD Group and its associates	44	80,045	36	79,119	71	132,431
– Independent Third Parties	2	13,956	2	32,504	3	50,878
Completed	44	65,523	98	161,949	85	111,057
– CSUD Group and its associates	44	65,523	92	143,652	83	101,537
– Independent Third Parties	–	–	6	18,297	2	9,520
Not completed	52	100,853	43	125,321	87	180,379
– CSUD Group and its associates	46	82,586	40	87,837	83	101,537
– Independent Third Parties	6	18,267	3	37,484	4	78,842

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Operation Flow

The following diagram illustrates the operation flow of our landscaping and engineering services:



Direct engagement or tendering

We obtain landscaping and engineering projects through direct engagement and tendering. For projects sourced from CSUD Group and its associates, we are primarily awarded landscaping and engineering projects through direct engagement.

The following table sets forth a breakdown of the number of our landscaping and engineering projects and the contract amount secured through tendering and direct engagement during the Track Record Period:

	For the year ended December 31,					
	2021		2022		2023	
	Number of projects	Contract amount (RMB'000)	Number of projects	Contract amount (RMB'000)	Number of projects	Contract amount (RMB'000)
Tendering	–	–	3	45,994	3	50,878
– CSUD Group and its associates	–	–	2	18,030	–	–
– Independent Third Parties	–	–	1	27,964	3	50,878
Direct engagement	77	136,784	86	140,423	126	181,664
– CSUD Group and its associates	75	122,828	84	130,873	126	181,664
– Independent Third Parties	2	13,956	2	9,550	–	–
Total	77	136,784	89	186,417	129	232,542

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The process of tendering involves several steps followed in order. Firstly, we must receive invitations to tender or notice of such opportunities. Once an opportunity is identified, the marketing development team is responsible for making the bid. The next step is to prepare and submit the documents required for pre-qualification. This ensures that the bidder meets the necessary criteria to be considered for the tender. After pre-qualification, the bidder must research the characteristics of the project involved and calculate relevant costs. Once the research is complete, the bidder can prepare and submit tender bids outlining, including but not limited to our plans, costs and qualifications. The tender bids must be comprehensive and detailed. And an evaluation process takes place. The award of the contract or rejection is then communicated to the bidder. If the contract is awarded, the next step is contract signing and filing with the relevant local authority.

After we secure one project, our professional team will communicate with customers in the early stage and offer some successful precedents. The next step is to determine how to execute the project, ensure operational control, reliable engineering quality, and a suitable project team.

During the Track Record Period, we tendered for two, five, and five projects, and we won one, two, and four projects, respectively.

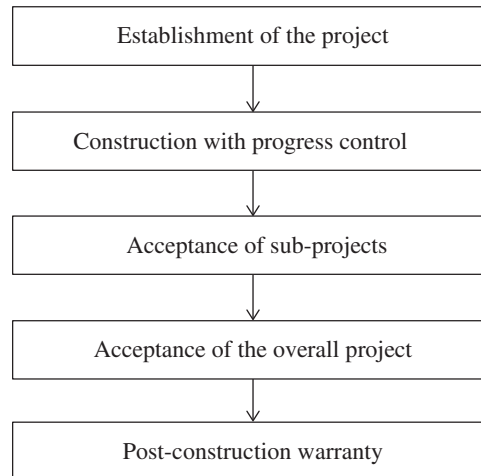
Establishment of project team

We will push forward the implementation of the project by establishing a team. For projects that are entrusted by CSUD Group and its associates, we will directly commission the project to the relevant project department within the corresponding area after receiving the client's meeting minutes or correspondence. For projects that are tendered, if our bid is successful, a notice of award will be issued to us and a project management team will be formed strictly in accordance with the tender documents after winning the bid, and all team members will be required to hold relevant qualifications.

Execution and completion of project

A project department will be established by us, with professional technical personnel assigned to it. During the execution process, the project department organizes and strictly controls the project's progress, quality, safety, and cost in a scientific and reasonable manner. The department conducts systematic inspections and acceptance of various sub-projects to ensure that the engineering process meets the acceptance standards. After the project is completed, the project department applies for the final acceptance of the project from the contract issuing party. During the warranty period specified in the contract, the project department organizes and completes the necessary repairs and cooperates with the construction unit in the project handover.

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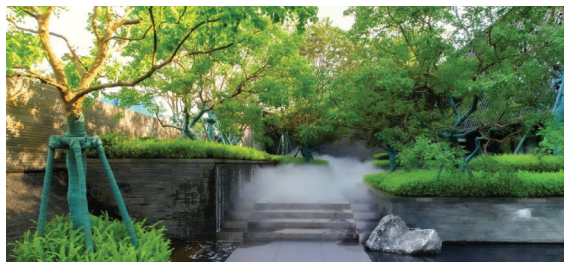
Several factors can affect the duration of a project’s completion, such as the size of the project site, technical intricacies and complexity, the progress of the site construction, timelines specified by our clients, and the timing of approvals.

After-sale services

After the project is completed, we will provide after-sale service in accordance with the relevant provisions of the contract’s warranty period, which is in line with industry practice. The warranty period is calculated from the date of completion and acceptance of the project. It shall be agreed by contracting parties, but it shall not be shorter than the statutory minimum warranty period. For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Construction Project – Landscaping Engineering” in this document. The warranty period that we usually agree upon with our clients is typically one year, and sometimes two years. During this period, we shall assume warranty obligations and liability for damages for quality defects arising from us in accordance with legal provisions and contracts.

Our Signature Projects

Landscaping Construction Project of Tanzhou Garden Exhibition Area (潭州花園項目展示區園林綠化工程)



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The project covers a low-density ecological residential area with a new Chinese-style landscape. We entered into the contract with our client, an Independent Third Party, in November 2021. The contract amount reached RMB9.0 million. Our work mainly includes all related landscaping works and construction related to the relevant drawing documents within the scope of safety and civilization construction, etc. We completed the project in December 2022 and subsequently completed the final inspection in accordance with relevant laws and regulations.

EPC Project of Near-zero Carbon Demonstration Zone in Yanghu Ecological New City
(*洋湖生態新城近零碳示範展示區項目設計施工總承包項目*)



We derived this project from CSUD Group and its associates in September 2022, with the contract amount of RMB10.5 million. We were mainly responsible for the construction work. The main construction content of the project includes the wetland water circulation system display line, environmental remediation engineering, and the related exhibition hall decoration and equipment procurement. We completed the project in July 2023 and subsequently completed the final inspection in accordance with relevant laws and regulations.

Loss-making Projects

For the years ended December 31, 2021 and 2022, we had six and 14 loss-making projects, respectively, which were all landscaping and engineering projects. None of our projects incurred any loss for the year ended December 31, 2023. For the years ended December 31, 2021 and 2022, the loss-making projects had incurred losses amounting to RMB0.21 million and RMB5.05 million, respectively. In 2022, we experienced greater loss in comparison to 2021 because we actively expanded our landscaping and engineering business and offered substantial discounts to our customers if such discounts are likely to attract future project opportunities from the customers which may render greater profit to our Group. Set out below are the details of aforementioned projects with losses exceeding RMB0.15 million during the Track Record Period.

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Project	Duration	Loss <i>(RMB'000)</i>	Reasons for loss
Landscaping Construction Project of Tanzhou Garden Sales Center (潭州花園售樓 部園林工程)	September 2021 to December 2022	518	In order to establish a reputation and facilitate the future business endeavors within the Tanzhou Garden Area, we opted for elevated standards in material selection and construction, resulting in the higher labor and material costs, such as procurement of higher-priced plant and raw material, which went beyond our revenue.
Landscaping Construction Project of Changsha Hengwei Jinlong Marketing Center (長沙恆 偉金壠營銷中心園林工程)	January 2021 to April 2021	902	With the purpose of fostering future collaboration with our customer, we prioritized the reputation for delivering quality projects that surpassed our customer’s expectations, while this commitment came with the higher labor and material costs, such as procurement of higher-priced plant and raw material, leading to the loss.
Landscaping Construction Project of the New Construction Project on Xueyuan West Road (學園 西路新建綠化工程項目)	November 2020 to February 2021	243	In preparation for future project engagements associated with the project, we adhered to the higher standard of shaping, crowning, and controlling the height of trees, incurring higher labor and material costs, such as procurement of higher-priced plant and raw material, and resulting in the loss.

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Project	Duration	Loss (RMB'000)	Reasons for loss
Subcontracting Project of Landscaping Construction of Chengfa Hengwei Exhibition Garden (城發恆偉會展花園園林分包工程項目)	June 2022 to August 2022	710	Considering our aspirations to carry out more projects within the area, we strived to meet the stringent quality demands set by our client, which incurred the elevated labor and material costs, such as procurement of higher-priced plant and raw material, and led to the loss.
Landscaping Construction Project of Beicheng Shoufu Marketing and Exhibition Area (北城首府項目營銷展示風景區工程)	March 2021 to May 2021	1,514	With the purpose of fostering future collaboration with our customer, we prioritized the reputation for delivering a quality project that surpassed our customer’s expectations, while this commitment came with higher labor and material costs, such as procurement of higher-priced plant and raw material, leading to a deficit.

For some projects such as Landscaping Construction Project of Tanzhou Garden Sales Center (潭州花園售樓部園林工程), although we could not make a turnaround, our reputation established through these projects paved the way for securing new landscaping and engineering projects, such as Landscaping Construction Project of Tanzhou Garden (Phase I) (潭州花園(一期)園林綠化工程) and Landscaping Construction Project of Tanzhou Garden (Phase II) (潭州花園(二期)園林綠化工程); as of December 31, 2023, we had recorded a profit of RMB2.0 million from the two follow-up new projects as mentioned above.

We believe that we could gradually reduce losses in the future by effectively organizing construction and implementing various cost-saving measures. In particular, with respect to cost-saving measures, we will enhance cost control and management at a granular level by implementing digitalization initiatives and further standardizing service processes to reduce costs.

BUSINESS

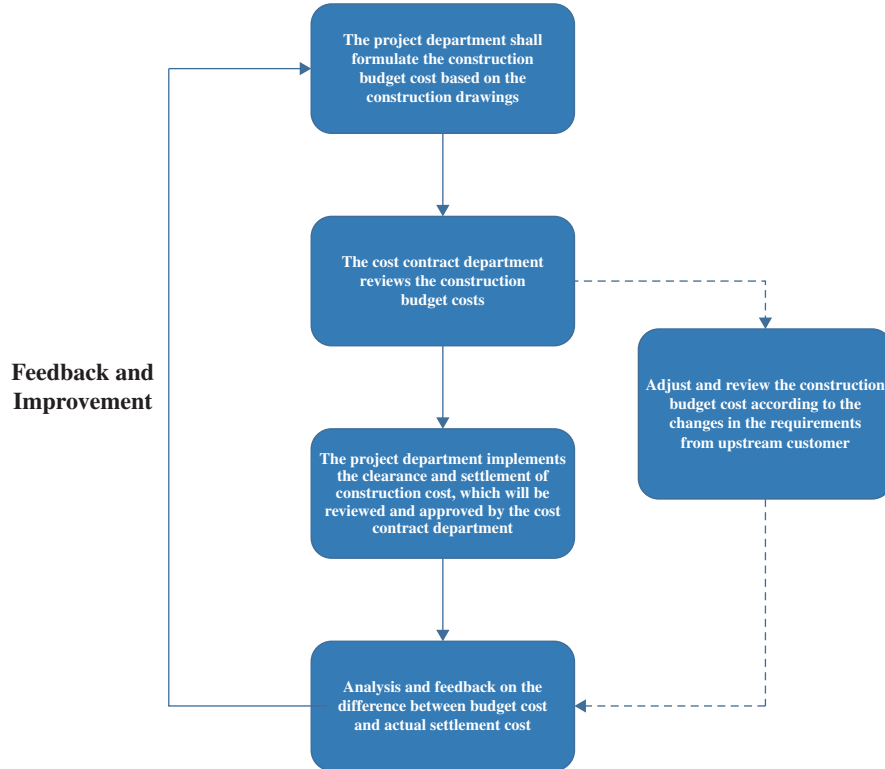
Key Terms of Our Landscaping and Engineering Agreements

The key terms of our landscaping and engineering agreements are summarized as follows:

- **Work specifications.** The contract contains the basic background information of the project, work scope, quality standards and requirements, staffing requirements and the expected date of delivery of the works or service period.
- **Contract price.** The contract price may be established based on either the integrated unit price combined with the actual quantity of construction, or it may take the form of a fixed total amount, typically not subject to adjustment.
- **Payment terms.** Usually when the work we undertook is finished, examined, and accepted by our customers, our customer will pay a portion of the total contract amount. After the final settlement of the project, 97% of the total contract amount shall be paid. Once the defect liability period is over and we have fulfilled our warranty obligations, the customer shall settle the contract amount in full.
- **Quality assurance deposits.** The contract stipulates that our customer is usually entitled to quality assurance deposits equal to 3% of the total contract price, which will be released to us upon the end of the defect liability period.
- **Quality assurance.** We offer quality assurance regarding the work we do. The contract often stipulates a one-year defect liability period during which we are responsible for fixing any flaws we made and covering this part of costs.
- **Liability for breach of contract.** The contract contains a clause imposing the liability on the defaulting party in case of overdue payment of the price, project delay, sub-standard work quality, safety accident, and other events of breach of contract.
- **Dispute resolution.** All disputes arising out of or in connection with this contract shall be settled by mutual agreement, before going through the legal proceeding in the location of the project.

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Our Budget Management Control



Our Pricing Policy

We primarily adopt the following pricing methods for landscaping and engineering projects, taking into account factors such as labor expenses, material expenses, machinery expenses, administrative expenses, and other relevant expenses.

Fixed total price method

We adopt the fixed price method for projects with relatively short contract terms and low total contract amounts. Generally, such total price remains fixed and is not subject to adjustment except for changes in expenses acknowledged by clients.

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Integrated unit price method

We adopt integrated unit price method for some projects as required by our customers, the total price of which is primarily determined by the integrated unit price and the actual quantity of construction. The quantity of construction refers to the specific amount or volume of labor, materials, or other resources that are expected to be required to complete the project. The integrated unit price comprehensively considers various factors as stated above and may be subject to potential adjustments, including but not limited to fluctuations in material prices regulated by competent authorities, and other factors agreed-upon by both parties to the contract.

Lighting System Operation

Overview

We started operating the city lighting system in 2017 with the vision of becoming an competitive operator of city lighting services. Our driving force is the smart operation of city lighting, aiming to provide standardized, and convenient lighting services for the entire city.

Our lighting system operation is divided into two categories, landscape lighting operation and functional lighting operation. Landscape lighting mainly refers to the lighting of scenic spots, high-rise buildings, and other places within the urban planning area. Its main purpose is to enhance the cultural and artistic atmosphere of the city. Functional urban lighting mainly refers to the lighting of public areas such as roads, tunnels, bridges, and squares within the urban planning area. Its main purpose is to improve the safety and convenience of the city.

Our landscape lighting operation and maintenance enables the one-button opening, closing and real-time monitoring of landscape lighting control facilities. It covers important landmark buildings in the main urban areas of Changsha, including the Xiangjiang River on both sides and main roads of the city, involving a quantity of illuminated buildings or massifs, such as Kaifu Wanda Plaza (開福萬達廣場), Xiangjiang Fortune Financial Center (湘江財富金融中心), and Three Halls and One Lobby (三館一廳), Phoenix Mountain (鳳凰山), Orange Island Scenic Area (橘子洲景區) and river-crossing bridges, such as Sanchaji Bridge (三汊磯大橋) and Fuyuanlu Bridge (福元路大橋). Our landscape lighting operation and maintenance is equipped with excellent hardware and software facilities to ensure long-term stable service operations, including courtyard lights, floodlights, wall-washer lights, and point light sources.

Our functional lighting operation mainly involves the operation and maintenance of functional lighting facilities within the urban areas of Changsha, including Furong District, Tianxin District, Yuelu District, Kaifu District, Yuhua District, and High-tech District. Specifically, we maintain streetlight fixtures, box-type substations, distribution rooms, ground cabinets, energy-saving cabinets, and annular net cabinets. We also provide maintenance for the software and hardware of control platforms associated with the functional lighting system, wireless monitoring terminals, streetlight cables, and streetlight working wells.

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During the Track Record Period, the revenue generated from lighting system operation was approximately RMB30.9 million, RMB64.0 million, and RMB67.5 million, representing approximately 7.1%, 12.1%, and 10.4% of our total revenue, respectively.

Project Portfolio

The following table indicates the movement of our projects for the years or as of the dates indicated:

	For the year ended or as of December 31,					
	2021		2022		2023	
	Number of projects	Contract amount (RMB'000)	Number of projects	Contract amount (RMB'000)	Number of projects	Contract amount (RMB'000)
As of the beginning of the year	1	5,888	2	55,235	4	70,983
– CSUD Group and its associates	–	–	–	–	2	12,993
– Independent Third Parties	1	5,888	2	55,235	2	57,990
New engagements	1	49,347	2	15,748	–	2,531 ⁽²⁾
– CSUD Group and its associates	–	–	2	12,993	–	2,531 ⁽²⁾
– Independent Third Parties	1	49,347	–	2,755 ⁽¹⁾	–	–
Terminations	–	–	–	–	–	–
– CSUD Group and its associates	–	–	–	–	–	–
– Independent Third Parties	–	–	–	–	–	–
As of the end of the year	2	55,235	4	70,983	4	73,515
– CSUD Group and its associates	–	–	2	12,993	2	15,524
– Independent Third Parties	2	55,235	2	57,990	2	57,990

Notes:

- (1) Refer to the increased contract amount due to the renewal of a project awarded to us in 2022.
- (2) Refer to the increased contract amount due to the renewal of a project awarded to us in 2023.

In 2022, two projects sourced from Independent Third Parties had expired, and we successfully renewed them. In 2023, we successfully renewed one project sourced from CSUD Group and its associates.

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The following table sets out the expiry schedule of our lighting system operation agreements as of December 31, 2023:

	Number of projects	Contract amount (RMB'000)
Lighting system operation agreements with fixed term		
– for the year ending December 31, 2024	–	–
– for the year ending December 31, 2025	3	24,167
– for the year ending December 31, 2026 and thereafter	1	49,347
Total	4	73,515

The following table sets forth a breakdown of the number of our lighting system operation projects and the revenue secured through tendering and direct engagement for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	Number of projects	Revenue (RMB'000)	Number of projects	Revenue (RMB'000)	Number of projects	Revenue (RMB'000)
Tendering	–	–	1	8,135	1	8,107
– CSUD Group and its associates	–	–	–	–	–	–
– Independent Third Parties	–	–	1	8,135	1	8,107
Direct engagement	2	30,856	3	55,872	3	59,390
– CSUD Group and its associates	–	–	2	1,938	2	5,944
– Independent Third Parties	2	30,856	1	53,934	1	53,446
Total	2	30,856	4	64,007	4	67,497

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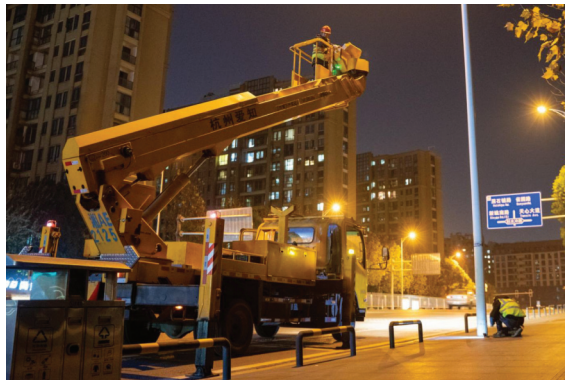
Our Signature Projects

Changsha City Night Scenery Illumination Control Center Operation and Maintenance Project (長沙市城市夜景亮化控制中心運維項目)



We have been operating it since 2017, with the contract expiring in 2025. This project revolves around the intelligent management platform. Through multiple phases of construction, this platform has encompassed a range of functions, such as one-click activation and deactivation, real-time monitoring, and management of fault feedback. With these functions, this platform is competent to centrally manage all lighting terminals distributed throughout our project sites, achieving precise control by subdividing terminals into categories such as roads, riverbanks, bridges, and mountains. During the Track Record Period, the revenue of this project was RMB8.2 million, RMB8.1 million, and RMB8.1 million, respectively.

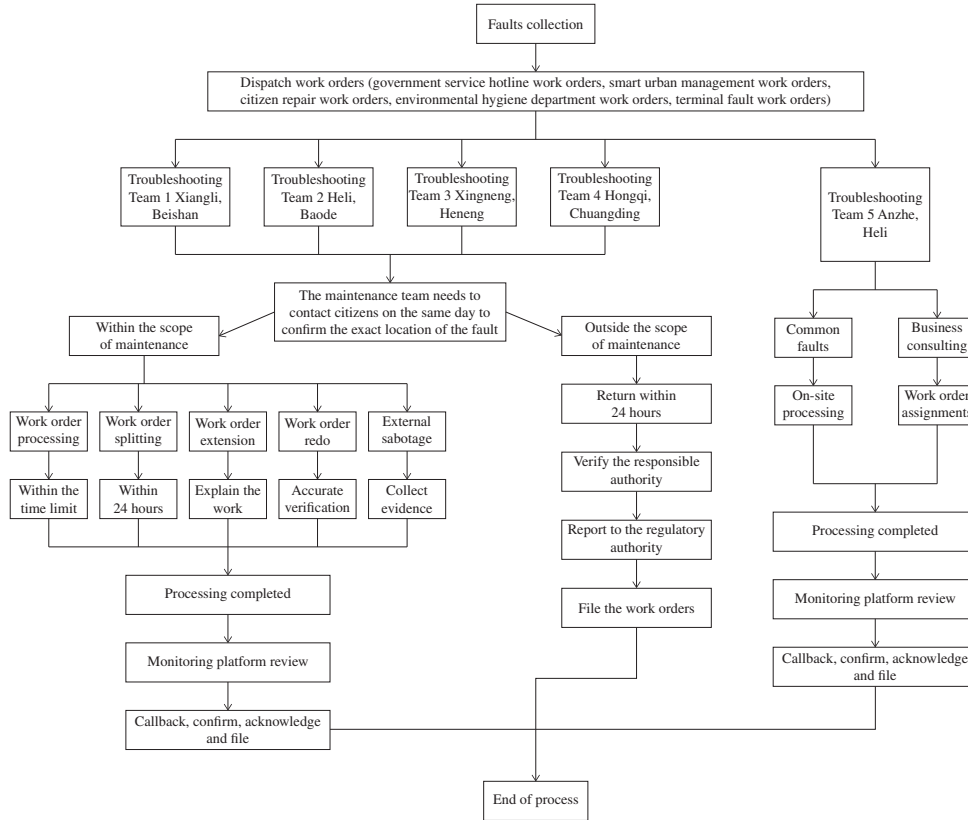
Changsha City Functional Street Lighting Operation and Maintenance Project (長沙市城市功能照明運維項目)



We derived this project from an Independent Third Party and have been operating it since 2021, with the contract expiring in 2026. For this project, we have implemented a terminal remote control, which could detect malfunctions and other issues through channels such as citizen hotlines and external inspections. Our platform classifies these issues based on maintenance areas or types of malfunctions, then assigns them to relevant maintenance personnel and timely follows up with repair progress, and finally maintains archives for further analysis. With this intelligent management platform, we aim to achieve the orderly operation of urban functional street lighting. During the Track Record Period, the revenue generated from such project was RMB22.7 million, RMB53.9 million, and RMB53.5 million, respectively.

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Flowchart for Fault Reporting on the Monitoring Platform



Note: This flowchart applies to the functional lighting operation.

Key Terms of Our Lighting System Operation Agreements

Taken our Changsha City Functional Street Lighting Operation and Maintenance Project (長沙市城市功能照明運維項目) as an example, the key terms are as follows:

- Service scope.** The agreement typically includes various aspects of service, such as operation and maintenance of lighting facilities and equipment, maintenance and optimization of control platforms, fault reporting and repair, and emergency incident handling.
- Term.** The service period is generally five years, and it is renewed annually. Through this approach, both parties can assess and adjust the agreement terms to accommodate project needs, market changes, or other factors.
- Location.** Backed by CSUD Group and local resources, all our lighting system operation projects are in Changsha.

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- **Supervision and assessment.** Our clients generally have the right to establish supervision and assessment methods based on relevant laws, regulations, and technical standards. This helps define the assessment targets and criteria and allows our clients to monitor and evaluate the services we provide.
- **Price and payment.** The agreement generally employs the charging method of a tentative total amount. Typically, our clients make payments to us quarterly, based on the results of their supervision and assessment.

Our Pricing Policy

We specify the service fee for our lighting system operation in the contract, depending on our actual workload and performance. Our pricing policy generally takes into account a variety of factors, including (i) government budgets; (ii) cost of materials and subcontracting; (iii) staffing required; and (iv) industry standards.

- **Government budgets.** Some projects, such as Night Scenery Illumination Control Center Operation and Maintenance Project, are government fiscal expenditure projects. Their pricing requires approval from Changsha City Financial Evaluation Center.
- **Cost of materials and subcontracting.** The cost of materials refers to the expenses of primary materials such as electrical equipment, as well as auxiliary and consumable materials incurred in the process. During the operation and maintenance process, certain electrical tasks may require specialized qualifications, such as high-voltage or high-altitude operations, which may necessitate professional subcontracting. The fluctuations in materials and subcontracting costs will consequently impact our pricing.
- **Staffing required.** Lighting system operation requires specialized personnel, such as inspectors, high-altitude repair workers, power distribution maintenance workers, and line inspection workers. Workers engaged in lighting system operation shall possess different levels of expertise and appropriate qualifications or certificates. Staffing requirements will directly affect our pricing.
- **Industry standards.** In addition to considering the aforementioned factors, our pricing also depends on industry standards such as the Technical Standard for City Road Lighting Facilities Operation and Maintenance (城市道路照明設施運行維護技術標準) T/CMEA21-2021 and the Maintenance Standard for City Lighting Facilities in Hunan Province (湖南省城市照明設施維護標準) J15987-2021. As industry standards increase, so does our pricing.

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Parking Lot Operation

Overview

We are mainly engaged in the operation and management of stand-alone public parking lots on the ground, underground, and under bridge. According to our business operation, we divide the parking lot operation into two models: self-operation and leasing to other entities or individuals. By utilizing abundant site resources, including geographical advantages and economies of scale, we can meet the needs of different users and bring stable business opportunities. As a subsidiary of CSUD Group, we can internally consolidate and allocate the parking lots assigned to various projects of CSUD Group and obtain increasing parking lot resources year by year from property owners.

We use intelligent systems to manage and operate parking lots, with the goal of informatization, intelligence and standardization of parking lot operation to reduce costs, increase efficiency as well as guarantee our profit.

As of December 31, 2023, our parking lot operation included 145 projects under management, with 19,576 parking spaces, in which (i) 141 parking lots were sourced from CSUD Group, with 19,159 parking spaces; and (ii) four parking lots were sourced from Independent Third Parties, with 417 parking spaces. During the Track Record Period, our revenue generated from parking lot operation was RMB42.1 million, RMB40.6 million, and RMB46.7 million, representing approximately 9.8%, 7.7%, and 7.2% of our total revenue, respectively.

Portfolio of Projects

The following table indicates the movement of our projects for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	Number of projects	Number of parking spaces	Number of projects	Number of parking spaces	Number of projects	Number of parking spaces
As of the beginning of the year	141	18,710	140	19,169	142	19,192
– CSUD Group and its associates	135	18,047	136	18,752	138	18,775
– Independent Third Parties	6	663	4	417	4	417
New engagements	5	1,367	4	773	8	1,055
– CSUD Group and its associates	5	1,367	4	773	8	1,055
– Independent Third Parties	–	–	–	–	–	–
Terminations	6	908	2	750	5	671
– CSUD Group and its associates	4	662	2	750	5	671
– Independent Third Parties	2	246	–	–	–	–
As of the end of the year	140	19,169	142	19,192	145	19,576
– CSUD Group and its associates	136	18,752	138	18,775	141	19,159
– Independent Third Parties	4	417	4	417	4	417

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The following table sets out the expiry schedule of our parking lot operation agreements as of December 31, 2023:

	Number of projects	Number of parking spaces	(%)	(%)
Parking lot operation agreements with no fixed term	2	1.4	206	1.1
Parking lot operation agreements with fixed term:	143	98.6	19,370	98.9
– for the year ending December 31, 2024	–	–	–	–
– for the year ending December 31, 2025	71	49.0	11,457	58.5
– for the year ending December 31, 2026 and thereafter	72	49.6	7,913	40.4
Total	145	100.0	19,576	100.0

The following table sets forth a breakdown of the retention rate for the years indicated by source of the projects:

	For the year ended December 31,		
	2021	2022	2023
Number of effective projects	140	142	145
– CSUD Group and its associates	136	138	141
– Independent Third Parties	4	4	4
Number of contracted projects	146	144	150
–CSUD Group and its associates	140	140	146
–Independent Third Parties	6	4	4
Retention rate	95.9%	98.6%	96.7%
–CSUD Group and its associates	97.1%	98.6%	96.6%
–Independent Third Parties	66.7% ⁽¹⁾	100.0%	100.0%

Note:

- (1) The retention rate of projects sourced from Independent Third Parties was low in 2021 due to the expiration of two projects, the land occupied by which was no longer utilized for offering parking services.

During the Track Record Period, only in the year 2022 were there 138 projects sourced from CSUD Group and its associates expiring, and we successfully renewed 135 of them, with the renewal rate of 97.8%.

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Service Models

We provide parking lot operation services and have developed a sustainable business model. During the Track Record Period, we adopted two service models, namely, the self-operation model and the leasing model, and for the year ended December 31, 2023, 112 projects adopted the self-operation model, and 38 projects were leased to external entities or individuals.

- ***Self-operation model.*** Under this model, we act as the actual operator of parking lots, possessing independent management rights. We directly obtain all operational revenue and assume corresponding costs and risks associated with the operation. These parking lots include open parking lots, which are manually charged by on-site attendants, and closed parking lots, which primarily utilize intelligent payment systems for scanning and charging. Our revenue comes from the parking fees, which are set by us and subject to government regulation. Our responsibilities include provision of parking space, vehicle guidance and inspection, on-site order maintenance, and safety management. Our costs mainly include management expenses, parking resource usage fees, and maintenance and repair fees. Due to the significant differences in the conditions and inputs of parking lots at different locations, their returns may vary.
- ***Leasing model.*** Under this model, we lease parking lots to external entities or individuals. The lessee is the actual operator of parking lots and assumes the corresponding operational risks and costs associated with the operation. The lessee determines the parking fees, which are subject to government regulation. As the lessor, we are responsible for supervising the lessee’s compliance with the site’s operational requirements, proper fee collection, safety management, etc., but do not bear the operational-related risks and costs. Our revenue comes from rental fees, which are determined through negotiation. Our costs are mainly comprised of parking resource usage fees. The parking lots that are leased to other entities or individuals mainly target remote locations with relatively low demand for parking.

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During the Track Record Period, all of our parking lot operation projects were obtained by direct engagement. The following table sets forth a breakdown of our revenue by source of the projects and service model for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	Number of projects	Number of parking spaces	Revenue (RMB'000)	Number of projects	Number of parking spaces	Revenue (RMB'000)
CSUD Group and its associates	140	19,414	41,564	140	19,525	40,237
– self-operation	102	16,409	37,753	99	15,883	36,638
– leasing	38	3,005	3,811	41	3,642	3,599
Independent Third Parties	6	663	525	4	417	396
– self-operation	6	663	525	3	276	327
– leasing	–	–	–	1	141	69
Total	146	20,077	42,089	144	19,942	40,633
				150	20,247	46,733

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The following table sets forth a breakdown of our revenue and gross profit by service model for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Self-operation	38,278	9,027	36,965	8,300	42,632	15,136
Leasing	3,811	3,105	3,668	2,811	4,101	3,234
Total	42,089	12,132	40,633	11,111	46,733	18,370

Intelligentization and informatization

During the Track Record Period, we invested in information construction such as upgrading of road gate equipment, platform construction, security monitoring, network communication guarantee, and talent training. During the Track Record Period, our informatization construction included the following four dimensions: (i) utilizing an intelligent control center to fully grasp the real-time status of parking under management; (ii) utilizing a parking operation management system to informatize the management of parking lots; (iii) improving the control capability of the acquired road gates; and (iv) building a call center to provide 24-hour customer service.

Our Signature Projects

During the Track Record Period, we operated a series of signature projects, each with its own characteristics and highlights, allowing us to have strengths in the tough market competition.

- *The ecological parking lot at the old pier of the Great West Gate (大西門老碼頭生態停車場).*

The parking lot is our ecological benchmark project, which was sourced from CSUD Group, and we have been operating it since 2015, with the contract expiring on December 31, 2025. The parking lot covers an area of more than 11,000 square meters, with more than 200 existing parking spaces and a ratio of green space of 50%, which represents the ratio of green space to total parking lot area. The parking lot with green belts is well integrated into the Xiangjiang River scenic belt and becomes a beautiful landscape in the city. During the Track Record Period, the revenue of this project was RMB1.9 million, RMB2.0 million, and RMB1.9 million, respectively.

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- ***Jiefang Middle Road Viaduct (East) parking lot (解放中路高架橋(東)停車場).***

The parking lot has a total area of more than 2,000 square meters, with more than 100 parking spaces, and is an open social public parking lot under the bridge. It was sourced from CSUD Group, and we have been operating it since 2003, with the contract expiring on December 31, 2027. We adopted an intelligent ground lock to lock the cars precisely, and the whole process of parking, locking, charging and releasing is completed automatically through an intelligent system, which reduces the labor cost and effectively solves the problems of manual charging. During the Track Record Period, the revenue of this project was RMB1.6 million, RMB1.2 million, and RMB1.2 million, respectively.

- ***The underground parking lot of Nanjiao Complex (南郊綜合樓地下停車場).***

The parking lot has an area of more than 20,000 square meters, with more than 300 parking spaces. It was sourced from CSUD Group, and we have been operating it since 2019, with the contract expiring on December 31, 2027. We provide reliable parking services for office workers and tourists on weekdays and holidays respectively, effectively improving the turnover rate of parking spaces. During the Track Record Period, the revenue of this project was RMB415.8 thousand, RMB509.7 thousand, and RMB813.4 thousand, respectively.

- ***Fisherman's Wharf parking lot (漁人碼頭(南)風光帶停車場).***

This parking lot covers a total area of more than 7,000 square meters, with more than 200 parking spaces. It is located in the commercial scenic belt and adjacent to the Xiangjiang River, with high traffic flow and high turnover rate. This project was sourced from CSUD Group, and we have been operating it since 2019, with the contract expiring on December 31, 2025. During the Track Record Period, the revenue of this project was RMB185.9 thousand, RMB491.5 thousand, and RMB782.0 thousand, respectively.

Key Terms of Our Parking Lot Operation Services Agreements

The key terms of our parking lot operation services agreements are summarized as follows:

- ***Service scope.*** We are responsible for the operation, maintenance, and cleanliness of the parking lot. Our specific services include safety management, vehicle guidance, patrols, site cleanliness, daily maintenance of equipment, and routine repairs and maintenance.
- ***Terms.*** These types of agreements are commonly executed for a duration of three years. After expiration, if the contract needs to be renewed, the two parties shall re-sign the agreements.

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- **Operating model.** The operation of the parking lot adopts a self-financing model. During the entrusted period, all expenses incurred due to our management and operation, including personnel salaries, benefits, office expenses, utilities, maintenance and repair of facilities and equipment, taxes and fees, will be paid by us.
- **Production safety.** We must establish a production safety management system and clarify the person in charge. We should also strictly implement the safety responsibilities and take effective measures to deal with the potential safety hazard.

Our Pricing Policy

Our parking lot operation service charges are subject to government guidance price, regardless of our service models. We follow the Rules for the Implementation Rules of Changsha City Motor Vehicle Parking Service Charges (Chang Fa Gai Jia Fei [2021] No. 69) (《關於印發<長沙市機動車停放服務收費實施細則>的通知》(長發改價費[2021]69號)). For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Property Management Services – Parking Service Fees” in this document.

Based on regions, such as core regions, primary regions, secondary regions, and tertiary regions, the government guidance price has differentiated charging standards, and the division of regions is subject to timely dynamic adjustments and determined by Changsha Public Security Department depending on factors such as traffic congestion. Within the range of government guidance prices, we are entitled to independently determine specific implementation charging standards, and we shall then go to the Development and Reform Department of the district (county or city) to which our parking lots belong to file the charging standards for parking services and submit corresponding materials in accordance with regulations.

For the self-operated parking lots, the charging methods are based either on the number of times or the parking duration.

- When charged based on number of times, parking service fees range from RMB5 per time to RMB10 per time according to the pricing standards of different areas. Each parking session is limited to a maximum of 12 hours; for vehicles entering and exiting parking lot multiple times a day, the parking service fees are charged at most twice within a 24-hour period.
- When charged based on parking duration, according to the pricing standards of different areas, parking service fees range from RMB0.5 per half hour to RMB3.0 per half hour during the daytime (from 7:00 a.m. to 20:00 p.m.). During the night (from 20:00 p.m. to 7:00 a.m.), parking service fees are set as RMB1 per hour. Additionally, the fees are capped at RMB10 to RMB50 every 24 hours.

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For the leased parking lots, the rent is determined through mutual agreement between us and our lessees. Additionally, for newly added parking lots or those that are not easily valued by the market, we would seek guidance from professional appraisal agencies to estimate the rent reasonably.

Municipal Sanitation Services

Overview

Leveraging our advantages built on providing traditional property management services, especially cleaning and greening, and facility and equipment upkeep to public infrastructures and facilities, we have been exploring, investigating and developing in the fields of municipal sanitation and environmental sanitation, forming a competitive urban operation service pattern.

We provide municipal sanitation services, primarily including road cleaning, sweeping and upkeep, and cleaning of vertical facades of walls, bus stops and public billboards. We also provide services of cleaning, collection and transportation of urban domestic waste.

With our quality service in Huangxing Town Sanitation Project and Binjiang Area project under our maintenance during the Track Record Period, we have been awarded as a Five-star Property Management Service Project (五星級物業服務項目) by Hunan Property Management Industry Association (湖南省物業管理行業協會).

As of December 31, 2021, 2022, and 2023, we provided cleaning, greening, inspection and maintenance services to city roads under our management with a total length of 106.8 km, 106.8 km, and 145.6 km respectively. For the same years, we generated RMB28.9 million, RMB44.2 million, and RMB52.7 million, respectively, from municipal sanitation services, accounting for 6.7%, 8.4%, and 8.0% of the total revenue respectively.

Portfolio of Projects

We have been providing municipal sanitation services for two projects since 2021, with the length of roads under management of 106.8 kilometers. For the year ended December 31, 2023, we entered into one new municipal sanitation service agreement, with the length of roads under management of 38.8 kilometers.

During the Track Record Period, all of our projects were obtained through tendering from Independent Third Parties. For the year ended December 31, 2021 and 2023, we submitted two tenders and one tender, respectively, with an 100.0% tender success rate. During the Track Record Period, our retention rate remained at 100.0%, so as our renewal rate. The contracts of the three projects will expire in 2024, and we are in the process of negotiating with our customers on the future renewal.

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Our Signature Projects

Huangxing Town Sanitation Project (黃興鎮環衛項目)



We secured this project through competitive negotiations. The project spans from January 1, 2021, to December 31, 2024. The length of the road under our maintenance reaches 42.7 km. The revenue generated from such project amounted to RMB19.3 million, RMB24.3 million, and RMB28.1 million during the Track Record Period, respectively. We conducted satisfaction surveys through methods such as interviewing and distributing questionnaires, focusing on aspects such as the overall evaluation of the environment in the area, the hygiene of the garbage cans and fruit peel boxes, garbage removal, and service attitude. The survey result of this project indicated that interviewees were appreciative of our work. Furthermore, this project was recognized as a Five-Star Property Management Service Project (五星級物業服務項目) in 2022.

This project is situated in the International Convention and Exhibition Area (國際會展片區), an integral part of the China (Hunan) Pilot Free Trade Zone (中國(湖南)自由貿易區). Since taking over the project on January 1, 2021, we have purchased various operational facilities and equipment, including washers, sweeping vehicles, garbage trucks, guardrail cleaning vehicles, and road maintenance vehicles. Operating mainly with machinery and supplemented by manual labor, we have established a comprehensive on-site operational system covering the entire project, providing excellent support for the project’s daily operations.

Over the service period, we have actively fulfilled social responsibilities, and participated in important environmental protection work for events such as, China-Africa Economic and Trade Expo (中非經貿博覽會), Boao Asia Forum (亞洲博鰲論壇), and International Engineering Machinery Exhibition (國際工程機械展覽會).

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Binjiang District Municipal Sanitation Project (濱江片區環衛項目)



We secured this project through competitive negotiations. The service term for this project runs from July 1, 2021, to June 30, 2024. The length of the road under our maintenance extends to 64.1 km. This project’s revenue amounted to RMB9.6 million, RMB19.9 million, and RMB20.6 million during the Track Record Period. We conduct satisfaction surveys through methods such as interviewing and distributing questionnaires, focusing on areas such as the overall evaluation of the environment in the area, the hygiene of the garbage cans and fruit peel boxes, garbage removal, and service attitude. The survey result of this project indicated that interviewees were appreciative of our work. This positive outcome signifies our commitment to delivering quality services and our capability to effectively meet the needs and expectations of the communities we serve. Additionally, this project was recognized as a Five-Star Property Management Service Project (五星級物業服務項目) in 2022.

This project is located in the core area of Changsha, designated as the only provincial-level financial center in Hunan Province. To ensure the operation and maintenance of Binjiang District Municipal Sanitation Project, we strive to offer premium urban sanitation services, creating a clean, tidy, and orderly urban environment. We have purchased operational facilities and equipment such as washers, sweeping vehicles, garbage trucks, and road maintenance vehicles, providing excellent equipment support for the daily operation of the project.

Key Terms of Our Municipal Sanitation Services Agreements

The key terms of our Municipal Sanitation Services agreements are summarized as follows:

- **Terms.** Service period is generally three to five years.
- **Service scope.** Our services primarily include road washing, road sweeping and cleaning, footbridge sweeping and cleaning, billboards cleaning and maintenance, trash cans cleaning and maintenance, etc.

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- **Our obligation.** We develop the corresponding operation and maintenance program and management system and report to customers. We will be staffed to carry out the day-to-day management and operational maintenance, and we can not transfer the management of road to a third party without the consent of the customer.

Our Pricing Policy

In accordance with the Quota Standards for Urban Environmental Sanitation Expenses in Hunan Province (湖南省城市環境衛生工作費用定額標準), the maintenance prices are differentiated based on the grade of roads. The roads are divided into four grades: Grade A, Grade B, Grade C, and Grade D, with reference to the Urban Appearance and Environmental Sanitation Labor Quota (城鎮市容環境衛生勞動定額) issued by MOHURD, and the specific division of the level of roads is determined by local environment and health authorities according to factors listed below:

- Grade A: covered by concentrated commercial establishments, major transportation hubs, and large-scale cultural and entertainment venues, with an average footfall of 100 persons per minute.
- Grade B: covered by less concentrated commercial establishments, fixed bus lines, with an average footfall ranging from 50-100 persons per minute.
- Grade C: covered by fewer commercial establishments, situated in the main sections of suburban junctions, with a relatively low footfall.
- Grade D: covered by minimal commercial establishments, comprising suburban junction branch roads, with the lowest footfall.

The maintenance prices are determined on a case-by-case basis, with consideration of the grade, length or area of roads, which are subject to the supervision of the relevant urban management and administrative enforcement bureau and the finance bureau. For example, the following table sets forth the maintenance prices for different grades of roads in the Binjiang District Municipal Sanitation Project (濱江片區市政環衛維護項目):

	Grade A (RMB per sq.m. per month)	Grade B (RMB per sq.m. per month)	Grade C (RMB per sq.m. per month)
Walkway	20.0	18.0	13.0
Roadway	7.0	6.0	5.0
Green belt	1.5	1.4	1.3

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COMMERCIAL OPERATION SERVICES

Overview

We have been providing commercial operation services to commercial projects in Changsha. We are positioned as a professional light-asset commercial operation company, and we manage, undertake and operate commercial assets mainly through entrusted operations. We offer a wide range of commercial property operation services to developers, owners, and tenants, including preliminary business planning, preliminary operation analysis, tenant recruitment, lease agreement formulation, opening guidance, and daily operation counseling. Preliminary planning involves the analysis of market trends and competitive landscapes, in combination with tenants’ requirements, which enables us to advise them on pricing or sales. Preliminary operation analysis is to help tenants make informed investment decisions by assessing the resources required for commercial operations and forecasting potential returns on their operations. Furthermore, we prepare lease agreements and define key operation terms for property owners and tenants. Tenant recruitment is to help property owners attract potential tenants primarily through media promotion and by organizing open-day activities. Prior to tenants officially commencing their operations, we provide them with pre-decoration and customer reception services. Subsequently, we offer guidance on addressing problems that may arise during their daily operations, such as supply chain management and employee training.

Our core competencies are anchored in two aspects. The first is our large portfolio of operation assets. The majority of our existing assets under management came from years of involvement in urban construction and redevelopment in Changsha, such as historical and cultural blocks, sports venues, antique markets and other specialized markets, etc. These commercial assets would provide us with the basis for revenue growth in the long run. The second is our team of professionals. Our professionals are equipped with experience in business development and adept in managing commercial assets. Through continual improvement of our team’s capabilities, we aim to bolster the reputation of our projects and efficiency of our operation and management.

Leveraging our close and long-lasting cooperation relationships with a variety of tenants, including trading companies, technology companies, and catering companies, we have built a reputation in commercial operation. Some local brands started their businesses in the properties under our operation, and we have since then developed long-term relationships with them. For instance, we maintain a stable cooperation relationship with a local tea brand in Changsha in our Taiping Street Commercial Operation Project (太平街商業運營項目), which has been running several stores under our operation since 2019.

During the Track Record Period, all of our commercial operation projects were sourced from CSUD Group through direct engagement, and our revenue from commercial operation services was RMB54.0 million, RMB46.3 million, and RMB60.7 million, respectively, representing 12.5%, 8.8%, and 9.3% of our total revenue in the same years, respectively. When compared to the revenue for the year ended December 31, 2021, the decrease in our revenue for the years ended December 31, 2022 was attributed to the switch of our service model, as

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well as the decline in demand for commercial properties as a result of COVID-19 pandemic. During the Track Record Period, we provided commercial operation services to 44, 44, and 50 commercial assets with a GFA under management of 534 thousand sq.m., 534 thousand sq.m., and 766 thousand sq.m., respectively.

Service Models

We provide comprehensive operation and management services to commercial assets with respect to units located within traditional shopping malls, antique cities, shopping streets, office buildings and other scattered commercial areas. Distinct from the commercial property management services, such as security, cleaning, and repair and maintenance, that we provide to property users to ensure their normal business operations, we provide commercial operation services, such as preliminary business planning, preliminary operation analysis, and tenant recruitment, and daily operation counseling, primarily to property owners to increase the occupancy rate of their commercial properties. We provided our services under two different operational models in 2021 and 2022, namely, the sublease service model and entrusted management service model. In 2023, all of the commercial properties were operated by us under the entrusted management service model.

- ***Sublease service model.*** Under this model, we lease commercial properties from property owners and sublease commercial spaces within these commercial properties to tenants. We are responsible for tenant recruitment, pricing, and the rental payments collected from tenants constitute our revenue. Meantime, we bear the fixed rental payments made to the property owners. If the market is favorable, with high occupancy rates and rental prices, we may achieve higher revenue and profits. However, in the event of an economic downturn, commercial properties may experience decreased occupancy rates or even prolonged periods of being unoccupied, which could result in insufficient revenue to cover our fixed costs.
- ***Entrusted management service model.*** Under this model, property owners entrust us with the authority to manage their commercial properties while we, in turn, collect management fees from property owners as our revenue. We have a professional management team to provide operation management services for these property owners. Other than tenant recruitment, we also provide services such as preliminary business planning, preliminary operation analysis, and daily operation counseling. Compared to the sublease service model, we have less discretion in pricing and tenant sourcing because we have to follow the tenant selection criteria and the minimum rent set by property owners. However, this model aligns better with our positioning as a professional light-asset commercial operation company because we are not burdened by fixed rent. This approach helps mitigate the impact of major market fluctuations on our revenue and profits.

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The following table sets forth the number of projects, the GFA under management, and the revenue from commercial operation services by service model for the years or as of the dates indicated:

	2021			2022			2023		
	Number of projects	GFA under management (sq.m.'000)	Revenue (RMB'000)	Number of projects	GFA under management (sq.m.'000)	Revenue (RMB'000)	Number of projects	GFA under management (sq.m.'000)	Revenue (RMB'000)
Sublease service ⁽¹⁾	—	—	887	—	—	573	—	—	—
Entrusted management service	43	534	52,332	43	534	45,420	49	766	60,683
Other ⁽²⁾	1	—	826	1	—	344	1	—	—
Total	44	534	54,045	44	534	46,337	50	766	60,683

Notes:

- (1) Though we had switched majority of our projects from the sublease service model to the entrusted management service model in 2021, a small portion of certain projects was still leased to others during the Track Record Period, the revenue generated from which should be categorized into the sublease revenue.
- (2) The other revenue comprised the rental income from our investment properties, of which the GFA under management was less than 1,000 sq.m.

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In 2021, we switched majority of our projects from the sublease service model to the entrusted management service model. This transition occurred because, under the sublease service model, we were still obliged to pay fixed rent to property owners even if their commercial properties were not subleased, which exposed us to increased operational risks and financial pressures, particularly during economic downturns. The average occupancy rate of the commercial properties decreased from 91.2% as of December 31, 2021 to 73.4% as of December 31, 2022, primarily due to a decrease in the demand for commercial properties as a number of stores were temporarily closed under the government's pandemic prevention policies, and our revenue declined during the year accordingly. To mitigate these risks and alleviate the associated pressures, we opted for the entrusted management service model.

Under the sublease service model, our revenue comprises all the rent collected from our tenants. In contrast, under the entrusted management service model, our revenue comprises only a fixed percentage of the rent. Distinct from the sublease service model, the entrusted management service model enables property owners to receive a substantial portion of the total rent after deducting our management fees. This model affords them the opportunity to benefit from higher rent, contingent upon our operational performance. Consequently, property owners exhibited increased interest in entrusting the management of their commercial properties to us, especially when they perceived the potential for future growth, as well as our performance in commercial operations. During the Track Record Period, the gross profit margin of commercial operation services was 53.5%, 53.8%, and 62.4%, respectively.

Portfolio of Projects

During the Track Record Period, all of our projects were sourced from CSUD Group through direct engagement. The following table indicates the movement of our commercial operation service projects for the year or as of the dates indicated:

	For the year ended or as of December 31,					
	2021		2022		2023	
	Number of projects	GFA under management <i>(sq.m.'000)</i>	Number of projects	GFA under management <i>(sq.m.'000)</i>	Number of projects	GFA under management <i>(sq.m.'000)</i>
As of the beginning of the year	18	381	44	534	44	534
New engagements	26	153	–	–	6	232
Terminations	–	–	–	–	–	–
As of the end of the year	44	534	44	534	50	766

Our retention rate and renewal rate maintained 100% during the Track Record Period which demonstrated the level of property owners' satisfaction with our quality services.

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The following table sets out the expiry schedule of our commercial operation service agreements as of December 31, 2023:

	Number of projects		GFA under management	
		(%)	(sq.m. '000)	(%)
Commercial operation service agreements with fixed term				
– for the year ending December 31, 2024	1	2.0	54	7.0
– for the year ending December 31, 2025	19	38.0	339	44.0
– for the year ending December 31, 2026 and thereafter	30	60.0	373	49.0
Total	50	100.0	766	100.0

Our Signature Projects

The following provides details of the different features and strengths of our signature projects.

Taiping Street Commercial Operation Project (太平街商業運營項目)



Taiping Street, with a contracted GFA of approximately 16,000 sq.m., is one of the best-preserved neighborhoods in the urban area of Changsha that retains the street and alley layout and characteristics from the Ming dynasties to the Republic of China period. It is also a representative public place that integrates antique architectural culture, folk culture, and tasty snacks with high occupancy rate and rent collection rate. In January 2022, the Ministry of Culture and Tourism and the National Development and Reform Commission identified Taiping Street as one of the first “National Leisure Tourism District (國家級休閒旅遊街區)”. We have been operating this project since 2007, with the agreement expiring on December 31, 2027. During the Track Record Period, the revenue of this project was RMB9.0 million, RMB7.3 million, and RMB8.5 million, respectively.

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Tianxinge Antique City Commercial Operation Project (天心閣古玩城商業運營項目)



Tianxinge Antique City is an art collection market in Hunan Province with a contracted GFA of more than 5,000 sq.m. It takes boutique antiques and artworks as its orientation and holds regular antique art exchange meetings and various thematic exhibitions every year, such as the spring and autumn exchange meetings and the ground stall festival. We have been operating this project since 2011, with the agreement expiring on December 31, 2027. During the Track Record Period, the revenue of this project was RMB2.8 million, RMB2.4 million, and RMB2.1 million, respectively.

Nanjiao Living Mall Commercial Project (南郊生活廣場商業項目)



Nanjiao Living Mall has opened since 2019 with a contracted GFA of more than 37,000 sq.m. It is positioned to serve the surrounding community residents and park visitors. It has gradually developed into a community shopping center characterized by family-friendly features, combining leisure, dining, shopping, and entertainment. The agreement of this project expires on December 31, 2027. During the Track Record Period, the revenue of this project was RMB5.5 million, RMB5.7 million, and RMB4.1 million, respectively.

Commercial Operation Services Agreements

For the provision of our commercial operation services, we generally enter into entrustment agreements with property owners and lease agreements with tenants and property owners.

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Key Terms of Dealing with Tenants and property owners

Our lease agreements with tenants typically include the following key terms:

- ***Location and use.*** Our agreements set forth the location, Contracted GFA and specifies the use of the rental properties;
- ***Fees and payment.*** Our agreements set forth the rent payable to property owners by the tenants, and also set forth the terms for other payments such as, among others, commercial operation fees, security deposits and utility fees. The aforementioned fees are typically due in advance on a annual, semi-annual, or quarterly basis;
- ***Term of service.*** The term is generally a fixed period of three years to ten years. Without any material breach of contract, the tenants normally have the priority of renting and may renew their lease with our consent by giving us a notice 45 to 90 days prior to the expiration of the lease term; and
- ***Termination.*** The agreements usually terminates automatically upon its expiry. All parties may terminate the agreement in advance with mutual assent. If the agreement is due to reasons attributable to the tenant, we are entitled to retain the tenant's security deposit and any pre-paid fees as liquidated damages and demand compensation for all losses we incurred.

Key Terms of Dealings with Property Owners

Our entrusted operational service agreements with property owners typically include the following key terms:

- ***Scope of property.*** Our agreements set forth the location, scope, GFA and other information of properties to be entrusted by us.
- ***Service scope.*** We are responsible for providing commercial operation services, such as market commercial positioning, tenant sourcing services, safety management and daily maintenance.
- ***Payment terms.*** We receive service fees from property owners on an annual basis. The property owners will normally complete payment within 5 days of receiving our settlement payment request.
- ***Duration.*** Our agreement with property owners typically has a term of one to five years, and property owners shall not unilaterally terminate the agreement in the absence of a legal or contractual basis.

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- **Responsibility of default.** The agreement contains clauses imposing the liability for breach of the agreements on the defaulting party in case of termination without negotiation, assignment of rights and obligations to third parties without consent and overdue payment of service fees.
- **Termination.** The agreement may be terminated by: (i) force majeure (ii) expiration, or (iii) mutual consent.

Our Pricing Policy

Under the sublease service model, the rent we collect from tenants may be affected by factors such as the geographic location, the size and layout of a commercial property, as well as the lease term.

- **Geographic location.** The geographic location plays a critical role in determining the rent for commercial properties. Properties located in bustling areas, commercial centers, or high-traffic zones usually command higher rents.
- **Size and layout.** The size and layout of a commercial property also impact the rent. Properties with well-designed layouts generally attract higher rents.
- **Lease term.** The lease term is another factor that influences the rent. Longer lease often comes with rent incentives or discounts.

Under the entrusted management service model, we initiate the lease resolution, which is then presented for the property owners' approval. This document outlines the fundamental operation terms and the tenant selection criteria. The former encompasses aspects such as the minimum rent and the lease-free period, while the latter focuses on the tenant's business positioning and business format. In our practical operation and management, we adhere to the criteria laid out in the document while selecting tenants, and the actual rent is collaboratively determined by both the tenants and us, using the initially proposed minimum rent as the foundational benchmark. When minimum rent cannot be reached, additional approval from property owners is required.

We collect management fees from property owners based upon the entrusted management service agreements, in which we stipulate the management rates. The management rates fall into two categories: for projects where we provide services such as preliminary business planning and tenant recruitment, the management fees are set at 15% of the actual rent; for projects where we provide a complete set of services, which includes not only the services mentioned above but also opening guidance and daily operation counseling, the management fees are set at 30% of the actual rent. Sometimes, we also set annual rent targets with property owners. If we fail to meet or exceed the target, the property owners would reduce or increase the management rates accordingly. During the Track Record Period, there were no instances of termination attributed to the failure to meet targets, nor were there any circumstances leading to the non-renewal of agreements.

BUSINESS

OUR STRATEGIC BUSINESS RELATIONSHIP WITH CSUD GROUP

We believe our long-term and close strategic relationship with CSUD Group lays a solid ground for our sustainable growth. CSUDGCL is one of our Controlling Shareholders under the Listing Rules upon [REDACTED]. CSUDGCL is a city developer and operator, as well as an industrial investor with a leading market share in Hunan Province. As of the Latest Practicable Date, CSUD Group had developed a diversified portfolio of properties, including but not limited to, municipal infrastructures, public facilities, office buildings, and industrial parks, etc.

We see a mutually advantageous and complementary strategic business relationship between us and CSUD Group. We have been cooperating with CSUD Group since the cooperation between Chengtou Asset, one of our subsidiaries, and CSUD Group in 2012. After years of cooperation, we are familiar with the management system and quality requirements of the projects of CSUD Group and its associates and have established matching service capabilities by providing tailored services. Besides, we share similar corporate culture and business philosophy with CSUD Group, with smooth communication mechanisms and low coordination costs. In addition, our close and stable relationship with CSUD Group contributes to our brand recognition. CSUD Group operates a wide range of infrastructures and public facilities with its leading position in the urban development and operation market in Changsha. The projects we cooperated with CSUD Group and its associates fulfilled our project lists and could serve as representative precedents when we cooperate with other market participants. At the same time, CSUD Group also tends to rely on our services to guarantee smooth post-stage operation management, so as to better meet its strategic plan of “integrated investment, construction and operation.”

During the Track Record Period, for each of our business segments, our revenue attributable to projects sourced from CSUD Group and its associates, were as follows:

- *Property management services.* During the Track Record Period, our revenue generated from projects sourced from CSUD Group and its associates in the property management service sector amounted to RMB132.0 million, RMB150.6 million, and RMB171.6 million, respectively, accounting for 30.6%, 28.5%, and 26.3% of our total revenue, respectively.
- *Urban services.* During the Track Record Period, our revenue generated from projects sourced from CSUD Group and its associates in the urban service sector amounted to RMB117.2 million, RMB151.9 million, and RMB187.5 million, respectively, accounting for 27.1%, 28.7%, and 28.8% of our total revenue, respectively.
- *Commercial operation services.* During the Track Record Period, all of our revenue was generated from projects sourced from CSUD Group and its associates in the commercial operation service sector, which amounted to RMB54.0 million, RMB46.3 million, and RMB60.7 million, respectively.

BUSINESS

Leveraging our comprehensive capabilities and expertise showing in cooperation with CSUD Group, we are well-positioned and have been actively sourcing projects from Independent Third Parties. During the Track Record Period, our revenue generated from Independent Third Parties as customers amounted to RMB248.7 million, RMB293.8 million and RMB362.4 million, respectively, showing an upward trend.

During the Track Record Period, our revenue generated from projects sourced from Independent Third Parties in the property management service sector amounted to RMB60.3 million, RMB56.9 million, and RMB66.3 million, accounting for 14.0%, 10.7%, and 10.2% of our total revenue, respectively, showing a stable trend from the perspective of revenue. During the same years, our revenue generated from projects sourced from Independent Third Parties in the urban service sector amounted to RMB68.2 million, RMB122.9 million, and RMB165.8 million, accounting for 15.8%, 23.3%, and 25.4% of our total revenue, respectively, with an increasing trend year by year, primarily due to the revenue contribution of lighting system operation and municipal sanitation services projects sourced from Independent Third Parties; we have been actively expanding our cooperation with other customers, including municipal authorities, public institutions, and private enterprises.

Considering our long-standing cooperation with CSUD Group and relying on our years of cooperation experience with CSUD Group, we are familiar with the quality control and service standards of CSUD Group and are able to establish a linkage mechanism between the urban development segment and urban resources operation to provide the government with services throughout the whole process and cycle of urban construction and management. As a result, we are able to further strengthen and consolidate our competitiveness and continue our long-term cooperation with CSUD Group.

The following table indicates the number and percentage of projects awarded by CSUD Group and its associates to our Group for each business segment for the years indicated:

	For the year ended December 31,					
	2021		2022		2023	
	Number of projects	Percentage (%)	Number of projects	Percentage (%)	Number of projects	Percentage (%)
Property management services	47	77.1	51	75.0	52	88.0
Urban services	230	95.0	274	95.1	314	96.6
Commercial operation services	44	95.7	44	95.7	50	96.2

BUSINESS

The following table indicates the amount and percentage in terms of contracted GFA of projects awarded by CSUD Group and its associates to our Group for property management services and commercial operation services for the years indicated⁽¹⁾:

	For the year ended December 31,					
	2021		2022		2023	
	Contracted		Contracted		Contracted	
	GFA	Percentage	GFA	Percentage	GFA	Percentage
	<i>(million</i>		<i>(million</i>		<i>(million</i>	
	<i>sq.m.)</i>	<i>(%)</i>	<i>sq.m.)</i>	<i>(%)</i>	<i>sq.m.)</i>	<i>(%)</i>
Property management						
services	5.3	92.3	5.3	92.7	5.1	99.8
Commercial operation						
services	0.5	79.4	0.5	79.4	0.8	84.7

Note:

(1) Urban services are not included as urban services projects are not measured by GFA under management.

CSUD Group has provided a written statement to our Company to the effect that going forward, subject to the compliance with relevant laws, rules, and regulations, CSUD Group will award its projects to our Group through direct engagement or in priority under equivalent commercial terms and conditions as long as the following criteria are met: (i) in terms of property management service, property management project invested or developed by CSUD Group; (ii) in terms of commercial operation service, commercial property which is held by CSUD Group in the long term for the purpose of leasing; (iii) in terms of landscaping and engineering service, municipal infrastructure project and landscaping project invested or developed by CSUD Group which are not required to go through tender process under relevant laws and regulations, provided our Group possesses the relevant qualifications to undertake such project; (iv) in terms of parking lot operation service, public parking lot owned by CSUD Group or which CSUD Group has the right to manage and operate; and (v) in terms of lighting system operation service, lighting system maintenance project invested and developed, or improved and transformed by CSUD Group.

Going forward, we expect that the mutually beneficial and complementary business relationship between our Company and CSUD Group will continue and in turn, is unlikely to be materially or adversely changed. For details, please refer to the section headed “Relationship with Our Controlling Shareholders – Mutual and Complementary Relationship with CSUD Group”. While maintaining our business cooperation with CSUD Group, with a view to diversifying our customer base, we have also been making continuous efforts to expand our business to manage projects sourced from third-party property developers as well as our customer base by leveraging our increasingly enhanced brand awareness and market position.

BUSINESS

Specifically, we have been actively engaging in bidding and tendering processes of Independent Third Parties. During the Track Record Period, revenue generated from projects sourced from Independent Third Parties had been steadily rising which amounted to RMB128.5 million, RMB179.8 million, and RMB232.0 million, respectively. The upward trend in the revenue generated from Independent Third Parties demonstrates our ongoing efforts to foster stronger partnerships with Independent Third Parties. We have been strengthening our relationship with existing customers who are Independent Third Parties during the Track Record Period. Our renewal rate of property management services for Independent Third Parties increased from 50% for the year ended December 31, 2021 to 80% for the year ended December 31, 2023. Moreover, we have been and will be diligently working towards establishing business collaborations with Independent Third Parties within Hunan Province and nationwide which involve forming joint ventures to jointly develop local urban services, property management, and commercial operation resources. We believe the collaborations with Independent Third Parties will enable us to expand our customer base and reduce our reliance on CSUD Group. We have formed joint ventures with three companies which are Independent Third Parties in different cities within Hunan Province and Jiangxi Province.

Going forward, our strategic approach involves acquiring third-party companies to enhance the scope and growth of our business operations. These acquisitions are expected to yield an increased number of projects from external sources, thus diversifying our business acquisition channels and reducing reliance on CSUD Group. We will continue to seek attractive opportunities for acquisitions, and target to approach reputable companies that have a sizable business with diversified management portfolio and regional competitiveness. Furthermore, we will continue to (i) participate in tenders for projects of property developers other than CSUD Group, (ii) strengthen our relationship with existing independent customers, (iii) explore and establish new relationship with independent customers, and (iv) seek out and attract competent marketing talents to join our Group in order to expand our customer base.

Our Directors are of the view that with a combination of the aforementioned approaches, we are well-positioned to expand our project portfolio by sourcing projects from Independent Third Parties.

BUSINESS

SALES AND MARKETING

The primary responsibilities of our market development department include collecting market information, developing marketing budget proposals, managing and maintaining client relationships, conducting business innovation and sales, technological development and implementing our annual business and expansion plan.

The majority of our revenue during the Track Record Period came from CSUD Group and its associates. In the near future, we anticipate that the initiatives created by CSUD Group and its associates will continue to be a reliable source of revenue. Together with continuing our strong, long-term partnership with CSUD Group, we also work to expand our service offering by increasing our exposure to outside projects. For the goals of market research and commercial development, our sales and marketing teams are expected to investigate and establish information channels in their particular communities. Such information channels may include, among other things, websites or other platforms where real estate developers or property owners’ associations announce tender and bidding opportunities, discovering business opportunities through referrals or regular communication with customers, governmental departments and other industry participants, and organizing promotional events to showcase our service offerings.

We actively strive to establish new and maintain existing business relationships with potential customers, especially property developers. We have contacted potential and significant customers via brochure distribution, phone conversations or in-person meetings.

We manage our service brand through both online and offline communication channels. Our internet promotion infrastructure is made up of a matrix of official websites and WeChat official accounts, which we use to promote our business model and present the latest advancements and promotional activities of the projects under our management. From time to time we will also organize events to advertise or showcase our service offerings during holidays or other special occasions as we see suitable with a view to boosting customer stickiness.

STANDARDIZED OPERATION, DIGITALIZATION AND INFORMATION TECHNOLOGY

We place a strong emphasis on innovation and the use of standardized operations, digitalization, and strengthen our development of information technology in order to increase our competitiveness, improve customer happiness and stickiness, and decrease our dependency on manual labor and costs. We assess our property management services and formulate procedures to deliver them in a way that is meant to increase operational effectiveness, guarantee consistent service quality, help the development of a scalable business model, and ease the burden of rising labor costs.

BUSINESS

We have standardized our operations in critical service areas like energy management, environmental management, and occupational health and safety management. We have increased the capacity of our headquarters and subsidiaries to handle our projects by standardizing and optimizing our service procedures based on the GB/T 19001-2016/ISO9001:2015 quality management system certification, GB/T 24001-2016/ISO14001:2015 environment management system, GB/T 45001-2020/ISO45001:2018 occupational health and safety management system certification and GB/T 23331-2020/ISO 50001:2018 energy management system certification. During the Track Record Period, we received a Good Standardizing Practice Certificate (標準化良好行為證書) awarded by Administration for Market Regulation of Hunan Province in 2021.

Currently, our parking business uses the internal management platform to manage the data of the parking lot in the background and applies for monthly passes through a WeChat public account. The corresponding income is directly entered into our official account. On the information construction of the parking lot, we have carried out corresponding technical transformations according to the actual business requirements in order to reduce equipment procurement costs and platform operation and maintenance costs.

DATA SECURITY AND PRIVACY

We have developed comprehensive internal control measures in place to protect data stored in our internal database from unauthorized access and ensure the availability, confidentiality and reliability of the data.

Firstly, with the consent of the data subjects, we only collect personal data necessary for our business in a lawful and fair manner. During the course of our business, we may collect sensitive personal data in the following circumstances: (i) under our commercial operation business and property management business, in order to enter into contracts with tenants, we may collect the name and identity information of individuals or the names and identity information of legal representatives and authorized representatives of tenants, and (ii) under our parking lot operation business, we may collect the name, mobile phone number and licence plate number of individual customers who apply for monthly parking passes, and we may obtain the time slot if the customer’s vehicle enters and leaves the parking lot operated by us. The combination of such information may constitute the customer’s tracking information. After obtaining their personal information, we will store and process the data in accordance with our internal policies regarding the security and protection of personal information. As long as they continue to be our users and tenants of the projects we manage, we will properly storage their personal information. Our server resources and online system, where the personal information is housed, both have strong access controls. Personal information kept in the office, monitoring center, and reception area as needed, shall not be disclosed to the public unless otherwise authorized by the subject of the personal information or otherwise provided for by law or regulation, we shall not disclose to the public.

BUSINESS

Secondly, we have strictly monitored and managed our employees in handling customer information. We only grant access to employees with internal approval or at the appropriate level. For the electronic version of customer information, only approved employees with their employee identity document and password can access the online system. We classify our employees according to their positions and responsibilities and grant them different access rights. We use technological tools for information technology systems including password management and operation security logs, so that only necessary personnel can access certain confidential information after receiving internal approval.

Thirdly, we have established customer management policies pertaining to the collection and management of customer data, clarified employees’ confidentiality obligations in the employee handbook, and would train employees to ensure that they are aware of our internal policies pertaining to the protection of customer data.

During the Track Record Period and up to the Latest Practicable Date, we are not involved in any significant lawsuits or proceedings related to the infringement of personal information protection. Additionally, there are no pending major claims related to personal information protection that pose a threat to us. Based on the Provisions on Administrative Law Enforcement Procedures for Cyberspace Administration Office (《網信部門行政執法程序規定》) issued by the CAC on February 3, 2023, as confirmed by our PRC Legal Advisors, the Internet Information Office of Changsha constitutes a competent authority in relation to cyber security, data security and protection of personal information. Based on the fact that the Internet Information Office of Changsha constitutes a competent authority and the Certificate issued by the Internet Information Office of Changsha (長沙市互聯網信息辦公室), as well as the confirmation from our Company, we had not been subject to any administrative penalties or may not be subject to any administrative penalties for violation of the laws and regulations in respect of cyber security, data security and protection of personal information during the Track Record Period and up to the Latest Practicable Date, our PRC Legal Advisors are of the view that we have complied with the relevant laws and regulations related to cyber security, data security, personal information protection, and have not been subject to any administrative penalties for violating these relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

CUSTOMERS

Revenue from our five largest customers in each year during the Track Record Period amounted to RMB259.3 million, RMB358.1 million, and RMB432.8 million, representing 60.1%, 67.7%, and 66.4% of our total revenue in the respective year. Revenue from our largest customer in each year during the Track Record Period amounted to RMB182.9 million, RMB234.7 million, and RMB289.5 million, representing 42.4%, 44.4%, and 44.4% of our total revenue in the respective year. For each year ended December 31, 2021 and 2022, all of our five largest customers, except CSUD Group and its associates which are state-invested enterprises, are government or public institutions. For the year ended December 31, 2023, two of our five largest customers are state-invested enterprises, while the others are government or public institutions. In addition, all of our five largest customers in each year during the Track Record Period, except CSUD Group and its associates, are Independent Third Parties. We granted our five largest customers in each year during the Track Record Period a credit term within 60 days.

BUSINESS

Our Top Five Customers

The following tables set forth certain details of our five largest customers in each year during the Track Record Period:

For the year ended December 31, 2021

Rank	Customer	Principal business	Length of business relationship with us <i>Year</i>	Products/services provided by us	Revenue <i>RMB'000</i>	Percentage of total revenue <i>%</i>	Relationship with us
1.	CSUD Group and its associates	Urban public infrastructure projects investment, construction, operation and management	8	Property management services, urban services and commercial operation services	182,916	42.4	Related party
2.	Customer A ⁽¹⁾	Handle administrative, economic and social affairs within its jurisdiction on behalf of the Changsha Municipal Government	7	Property management services	25,229	5.8	Independent Third Party
3.	Changsha City Maintenance Quality Supervisory Center ⁽²⁾	Evaluation and definition of sanitation, municipal, greening, lighting and other urban management infrastructure quality condition maintenance level	3	Urban services and property management services	21,216	4.9	Independent Third Party
4.	Customer B ⁽³⁾	Exercise of government management and service functions	3	Urban services	19,348	4.5	Independent Third Party
5.	Changsha Urban Management and Comprehensive Law Enforcement Bureau ⁽⁴⁾	Implementation of national, provincial and municipal guidelines, policies and laws, regulations and rules related to urban management and comprehensive law enforcement	7	Property management services and urban services	10,615	2.5	Independent Third Party
Total					<u>259,324</u>	<u>60.1</u>	

BUSINESS

For the year ended December 31, 2022

Rank	Customer	Principal business	Length of business relationship with us <i>Year</i>	Products/services provided by us	Revenue <i>RMB'000</i>	Percentage of total revenue <i>%</i>	Relationship with us
1.	CSUD Group and its associates	Urban public infrastructure projects investment, construction, operation and management	8	Property management services, urban services and commercial operation services	234,726	44.4	Related party
2.	Changsha City Maintenance Quality Supervisory Center	Evaluation and definition of sanitation, municipal, greening, lighting and other urban management infrastructure quality condition maintenance level	3	Urban services and property management service	54,619	10.3	Independent Third Party
3.	Customer A	Handle administrative, economic and social affairs within its jurisdiction on behalf of the Changsha Municipal Government	7	Property management services	24,537	4.6	Independent Third Party
4.	Customer B	Exercise of government management and service functions	3	Urban services	24,330	4.6	Independent Third Party
5.	Changsha Yuelu District City Appearance and Environmental Sanitation Maintenance Center ⁽⁵⁾	Provide management protection for the maintenance of urban environmental sanitation in the district	3	Urban services	19,903	3.8	Independent Third Party
Total					<u>358,115</u>	<u>67.7</u>	

BUSINESS

For the year ended December 31, 2023

Rank	Customer	Principal business	Length of business relationship with us <i>Year</i>	Products/services provided by us	Revenue <i>RMB'000</i>	Percentage of total revenue <i>%</i>	Relationship with us
1.	CSUD Group and its associates	Urban public infrastructure projects investment, construction, operation and management	8	Property management services, urban services and commercial operation services	289,492	44.4	Related party
2.	Changsha City Maintenance Quality Supervisory Center	Evaluation and definition of sanitation, municipal, greening, lighting and other urban management infrastructure quality condition maintenance level	3	Urban services and property management service	58,623	9.0	Independent Third Party
3.	Hunan Xiangjiang New Area Management Committee Administrative Law Enforcement Bureau ⁽⁶⁾	Research, formulation, and implementation of urban management assessment methods, administration of urban infrastructure	7	Property management services	29,450	4.5	Independent Third Party
4.	Customer B	Exercise of government management and service functions	3	Urban services	28,077	4.3	Independent Third Party
5.	Customer C ⁽⁷⁾	Construction and design for construction project, construction labor subcontracting	2	Urban services	27,147	4.2	Independent Third Party
					<u>432,789</u>	<u>66.4</u>	

BUSINESS

Notes:

- (1) Customer A is a government institution, an agency dispatched by the Hunan Provincial Government, located in the Xiangjiang New District.
- (2) Changsha City Maintenance Quality Supervisory Center is a public institution responsible for urban management infrastructure quality condition maintenance, located in Yuhua District.
- (3) Customer B is a government institution, located in Huangxing Town, Changsha County.
- (4) Changsha Urban Management and Comprehensive Law Enforcement Bureau is a government institution responsible for the management of urban city appearance, environmental hygiene, municipal roads, public green spaces and road greening, etc., located in Yuelu District.
- (5) Changsha Yuelu District City Appearance and Environmental Sanitation Maintenance Center is a public institution, located in Yuelu District.
- (6) Hunan Xiangjiang New Area Management Committee Administrative Law Enforcement Bureau is a subordinate agency of Hunan Xiangjiang New Area Management Committee, located in Yuelu District.
- (7) Customer C is a state-owned enterprise established in the PRC. Its business activities include construction and design for building project, and development and operation of real estate.

SUPPLIERS

Purchases from our five largest suppliers in each year during the Track Record Period amounted to RMB102.8 million, RMB146.5 million, and RMB162.5 million, representing 36.2%, 39.8%, and 36.3% of our total purchases in the respective year. Purchases from our largest supplier in each year during the Track Record Period amounted to RMB47.0 million, RMB75.9 million, and RMB80.7 million, representing 16.6%, 20.6%, and 18.0% of our total purchases in the respective year. Among our five largest suppliers in each year during the Track Record Period, except CSUD Group and its associates and an electricity supplier which are state-invested enterprises, the others are private entities. In addition, all of our five largest suppliers in each year during the Track Record Period, except CSUD Group and its associates, are Independent Third Parties. We were granted a settlement term ranging from 30 to 90 days by our five largest suppliers in each year during the Track Record Period.

BUSINESS

Our Top Five Suppliers

The following tables set forth certain details of our five largest suppliers in each year during the Track Record Period:

For the year ended December 31, 2021

Rank	Supplier	Major services purchased	Length of business relationship with us <i>Year</i>	Purchase amount <i>RMB'000</i>	Percentage of total purchase amount for the year <i>%</i>	Relationship with us
1.	Hunan Ico Human Resource Services Co., Ltd. ⁽¹⁾	Human resource services	6	47,034	16.6	Independent Third Party
2.	CSUD Group and its associates	Fuel oil, water resources, and rental services	8	25,408	8.9	Related party
3.	Changsha Taiqi Enterprise Management Consulting Co., Ltd. ⁽²⁾	Human resource services	6	11,531	4.1	Independent Third Party
4.	Supplier A ⁽³⁾	Electricity	8	10,574	3.7	Independent Third Party
5.	Zhongbao Hengjie Security Service Group Co., Ltd. ⁽⁴⁾	Security services	4	8,273	2.9	Independent Third Party
Total				102,820	36.2	

For the year ended December 31, 2022

Rank	Supplier	Major services purchased	Length of business relationship with us <i>Year</i>	Purchase amount <i>RMB'000</i>	Percentage of total purchase amount for the year <i>%</i>	Relationship with us
1.	Hunan Ico Human Resource Services Co., Ltd.	Human resource services	6	75,909	20.6	Independent Third Party
2.	CSUD Group and its associates	Fuel oil, water resources, and rental services	8	29,099	7.9	Related party
3.	Supplier A	Electricity	8	19,235	5.2	Independent Third Party
4.	Zhongbao Hengjie Security Service Group Co., Ltd.	Security services	4	11,656	3.2	Independent Third Party
5.	Changsha Xinli Human Resources Service Co., Ltd. ⁽⁵⁾	Human resource services	2	10,619	2.9	Independent Third Party
Total				146,518	39.8	

BUSINESS

For the year ended December 31, 2023

Rank	Supplier	Major services purchased	Length of business relationship with us <i>Year</i>	Purchase amount <i>RMB'000</i>	Percentage of total purchase amount for the year <i>%</i>	Relationship with us
1.	Hunan Ico Human Resource Services Co., Ltd.	Human resource services	6	80,677	18.0	Independent Third Party
2.	CSUD Group and its associates	Fuel oil, water resources, and rental services	8	35,770	8.0	Related party
3.	Supplier A	Electricity	8	20,275	4.5	Independent Third Party
4.	Hunan Xinhongyang Power Construction Co., Ltd. ⁽⁶⁾	Construction services	2	13,333	3.0	Independent Third Party
5.	Changsha Xinli Human Resources Service Co., Ltd.	Human resource services	2	12,454	2.8	Independent Third Party
				162,509	36.3	
				162,509	36.3	

Notes:

- (1) Hunan Ico Human Resource Services Co., Ltd. is a private entity established in the PRC. Its business activities include labor dispatch services, occupational intermediary activities, urban domestic waste management services, and human resources services.
- (2) Changsha Taiqi Enterprise Management Consulting Co., Ltd. is a private entity established in the PRC. Its business activities include enterprise management consulting services, enterprise management services, labor dispatch business operations, human resources service outsourcing, occupational intermediary services, and labor outsourcing services.
- (3) Supplier A is a state-owned enterprise established in the PRC. Its business activities include power transmission, power supply, dispatching labor personnel for overseas projects that match their strength, scale, and performance, industrial investment and management, scientific research related to power supply, technology development, power production scheduling information communication, and consulting services.
- (4) Zhongbao Hengjie Security Service Group Co., Ltd. is a private entity established in the PRC. Its business activities include gatekeeping, patrol, guarding, personal protection, property management services and consulting, advisory services, parking lot management, and labor dispatch.
- (5) Changsha Xinli Human Resources Service Co., Ltd. is a private entity established in the PRC. Its business activities include labor dispatch services and occupational intermediary activities and human resources services.
- (6) Hunan Xinhongyang Power Construction Co., Ltd. is a private entity established in the PRC. Its business activities include contracting, technique development, and program design for construction projects.

BUSINESS

Overlapping customers and suppliers

In each year during the Track Record Period, among our top five customers and suppliers, we had one overlapping customer and supplier, CSUD Group and its associates. The following table sets out (i) our revenue; (ii) the percentage of our total revenue; (iii) purchase amount; and (iv) the percentage of our total purchases amount attributable to CSUD Group and its associates during the Track Record Period:

	For the year ended December 31,		
	2021	2022	2023
Sales to CSUD Group and its associates			
Revenue (<i>RMB'000</i>)	182,916	234,726	289,492
As a percentage of our total revenue (%)	42.4	44.4	44.4
Purchase from CSUD Group and its associates			
Purchase amount (<i>RMB'000</i>)	25,408	29,099	35,770
As a percentage of our total purchases amount (%)	8.9	7.9	8.0

During the Track Record Period, we provided CSUD Group and its associates with urban services, property management services, and commercial operation services; we also purchased fuel oil, water resources, and rental services from CSUD Group and its associates. Such arrangement was in place mainly due to the reasons that (i) we were a major player in Changsha in the supply of urban services and property management services, and (ii) CSUD Group and its associates provided resources such as fuel oil, water, and rental services for individuals and entities in Changsha, and it was common for companies based in Changsha to purchase from it. For details, please refer to the section headed “Continuing Connected Transactions” in this document.

We purchased resources from CSUD Group and its associates for our own daily use and operation and for the convenience of the property owners or tenants of the properties under our management. The prices of resources such as fuel oil and water were subject to government-guided standards, and the prices charged by CSUD Group and its associates were set in accordance with these standards. Our Directors confirm that negotiations of the terms of our sales to and purchases from CSUD Group and its associates were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Furthermore, as confirmed by our Directors, all of our sales to and purchases from CSUD Group and its associates were entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant times, conducted in the ordinary course of business under normal commercial terms and on arm’s length basis. According to CIA, the resources and services we purchased from and sold to CSUD Group and its associates during the Track Record Period were at normal commercial terms and comparable to market standards in Hunan Province.

BUSINESS

Subcontracting

We outsource certain services, mainly including labor services and specialized services subcontracting. Such arrangements, we believe, enable us to take advantage of the technical expertise and human resources of the subcontractors and improve our overall profitability and efficiency.

Selection and Management of Subcontractors

We try to develop and maintain a complete and efficient system for managing subcontractors. We continually assess the subcontractors' capacity to fulfill our needs. We keep a list of qualified subcontractors based on our series of evaluation requirements, including the period of existence, the scope of overall activities, industry credentials, and technical capabilities, in order to assure the general quality of our subcontractors. Following the first evaluation of subcontractors, we periodically assess and grade their performance.

Key Terms of Our Subcontracting Agreements

Our subcontracting agreements typically include the following terms:

- ***Terms.*** These types of agreements are commonly executed for a duration of one to two years and have the option of being extended upon mutual agreement and sign the relevant agreements about extension. The subcontractors' service quality will be taken into account when evaluating the possibility of rehiring them.
- ***Service scope.*** The subcontractor is in charge of delivering the services outlined in the agreement, which may include security, cleaning, greening management and maintenance, and facilities and equipment maintenance services, as well as providing any necessary materials, facilities and equipment.
- ***Our responsibilities.*** It is our duty to furnish the subcontractors with the required workspace, amenities, and pertinent documents and data, while also working in tandem with them during their tasks. Moreover, we are responsible for monitoring their work and promptly notifying them in cases where complaints have been lodged.
- ***Our rights and obligations.*** Generally, we have both the right and obligation to supervise and evaluate our subcontractors. It is also our responsibility to provide them with the necessary support to complete their services. In the event that our subcontractors fail to adhere to our performance standards, we reserve the right to claim the rescission right, impose liquidated damages or deduct subcontracting fees.

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- ***Rights and obligations of subcontractors.*** The subcontractors we work with are accountable for acquiring all the licenses, permits, and certificates needed to carry out their business activities in compliance with the relevant laws and regulations. Additionally, they commit to delivering their services as per the defined scope, frequency, and quality standards outlined in the applicable subcontracting agreements.
- ***Risk allocation.*** The subcontractors are obligated to manage their own employees, with whom we have no employment relationship and bear responsibility for any wage and welfare, social insurance, housing fund and other expenses. In addition, they are responsible for any safety incidents, personal injury accidents or financial losses caused by themselves or third parties during the provision of the services.
- ***Subcontracting fee.*** The payment for subcontracting is usually made on a monthly or quarterly basis according to the agreements. It covers expenses related to the acquisition of raw materials, labor, equipment maintenance, taxes and other incidental costs that are incurred by the subcontractor.
- ***Termination.*** We conduct regular monitoring and evaluation of our subcontractors’ performance. In general, we retain the right to terminate the contract if our subcontractors fail to comply with their obligations, demonstrate a pattern of mistakes, or receive multiple complaints from our customers regarding their services. The proposal to renew the contract is usually notified in writing 30 days before the contract expires and agreed upon by both parties.

EFFECTS OF COVID-19 PANDEMIC

The global spread of an outbreak of respiratory sickness brought on by new coronavirus COVID-19 was first noted in December 2019. As of the Latest Practicable Date, COVID-19 Pandemic had been effectively controlled in China as a result of the strict measures implemented to contain the COVID-19 Pandemic spread and the regions where our managed properties are located are relatively less affected by the spread of COVID-19 Pandemic.

The PRC property management market faced pressure during the outbreak of COVID-19 Pandemic, as a result of the need for property management companies to halt some services and incur more expenses in order to comply with new laws and regulations. COVID-19 Pandemic has had specific short-term effects on the following services in particular. As of December 31, 2021, 2022 and 2023, the average occupancy rate of the commercial properties for which we provided commercial operation services was 91.2%, 73.4% and 93.2%, respectively. Our Directors are of the view that the decline in the average occupancy rate as of December 31, 2022 was primarily due to a decrease in the demand for commercial properties as a number of stores were temporarily closed under the government’s pandemic prevention policies to combat the COVID-19 pandemic, but the rate subsequently increased to 93.2% as of December 31, 2023 as a result of the mitigation of the pandemic and the government’s easing of control measures.

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In terms of the effect on our operation, we deployed extra personnel and incurred more expenses for protective materials in order to comply with government rules and steps to battle COVID-19 Pandemic, leading to an increase of the cost of purchasing pandemic protective materials and hiring pandemic prevention personnel, which had an impact on the short-term performance of our business. However, as of the Latest Practicable Date, we had not experienced any significant disruptions to the services supplied by our subcontractors and utilities service providers, or the supply of materials from our suppliers. To the best of our Directors’ knowledge, as of the Latest Practicable Date, since the outbreak of the pandemic, there had been no major breaches or other incidents. We have full confidence in the future operation and development of the business.

Since January 2020, we have implemented the following hygiene and preventative measures at all properties we are in charge of because of COVID-19 Pandemic, including (i) regularly cleaning and disinfecting the common areas of the properties under our management; (ii) conducting temperature check of the residents and visitors at the entrance gates; (iii) requiring our staff to wear suitable protective gears such as plastic gloves and surgical masks and to report their health condition regularly; (iv) providing pandemic control personal hygiene tips for our staff to improve their health awareness; and (v) following the policies and requirements implemented by the government from time to time.

Given that the PRC government has significantly relaxed the COVID-19 Pandemic prevention and control policy, our Directors believe that the COVID-19 Pandemic will have no major adverse effect on our operations or financial performance. For details, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Industry – Our business, financial condition and results of operations have been and may continue to be affected by COVID-19” in this document.

RECENT REGULATORY DEVELOPMENT

The “Three Red Lines” Policy

In 2020, MOHURD, together with PBOC, formulated the “Three Red Lines” policy for real estate companies, with the intention to control the scale of interest-bearing debts of major property developers in China and facilitate the sustainable development of China’s real estate industry.

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According to the 2021 and 2022 annual reports and 2023 interim report of CSUD Group, the gearing ratio (excluding receipts in advance), the net gearing ratio and cash over short-term interest-bearing loans ratio of CSUD Group as of the dates indicated are set forth as below:

	As of December 31,		As of
	2021	2022	June 30, 2023
Gearing ratio (excluding receipts in advance)	55.9%	55.6%	55.9%
Net gearing ratio	74.1%	77.4%	79.1%
Cash over short-term interest-bearing loans ratio	0.7	0.5	0.6

CSUD Group is a large-scale conglomerate providing comprehensive urban construction, urban operation and investment services. According to the 2021 and 2022 annual reports and the 2023 interim report of CSUD Group, the revenue from real estate sales business only contributed to 6.9%, 8.1% and 9.3% of the total revenue of CSUD Group for the years ended December 31, 2021 and 2022 and the six months ended 30 June, 2023, respectively. As advised by our PRC Legal Advisors and the PRC legal advisors to the Sole Sponsor, the “Three Red Lines” policy is a restrictive rule with the intention to regulate the financing activities of real estate companies. Accordingly, it is unlikely to impose legal restrictions for those companies with diversified business segments. As advised by our PRC Legal Advisors and the PRC legal advisors to the Sole Sponsor, our Directors believe and the Sole Sponsor concurs that the “Three Red Lines” policy is not applicable to CSUD Group, which is under strict supervision of Changsha Municipal SASAC, and is subject to a rigid requirement on liquidity. Our Group has formulated a series of internal control systems, including the connected transaction management system and the internal audit management system, aimed at ensuring compliance with relevant laws and regulations. Based on the above, our Directors believe and the Sole Sponsor concurs that the “Three Red Lines” policy would not have a material adverse impact on our relationship with CSUD Group and the business, results of operation and financial performance of our Group. For details of the “Three Red Lines” policy, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Real Estate Market” in this document.

Recent Changes in Property Management Service Regulations

On December 25, 2020, MOHURD and other nine competent government departments issued Notice on Strengthening and Improving the Administration of Residential Properties (《關於加強和改進住宅物業管理工作的通知》) (the “**Administration Notice**”) aiming to strengthen residential property management in the following main areas: (i) refining the requirements for owners’ associates to perform their duties and strengthen the supervision of owners’ associates; (ii) exploring the formation of property management committees with the participation of neighborhood committees and property owners’ representatives to temporarily replace owners’ associates in the absence of conditions for the establishment of owners’

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associates; (iii) encouraging property service companies to use the Internet of Things, cloud computing, big data and other technologies to enhance the level of intelligent property management services; (iv) strengthening the supervision and management of property services and developing a unified credit evaluation standards and a public platform; and (v) improving the use and management system of housing maintenance funds.

On June 13, 2021, the MOHURD and other seven departments jointly promulgated the Notice on Continuous Rectification and Regulation of Real Estate Market Order (《關於持續整治規範房地產市場秩序的通知》) (the “**Regulatory Notice**”), requiring the implementation of policies to highlight the key rectification points and focus on the rectification of real estate development, housing sales, housing leasing and property services. The main issues mentioned in the regulatory notice regarding the need to regulate the provision of property management services include: (i) failure to provide services in accordance with the agreed contents and standards of the property service contract; (ii) failure to publicize the standards of property service charges, the operation and revenue of the common areas, the use of maintenance funds and other relevant information as required; (iii) charging fees in excess of the contractual agreement or the standards of the publicized fee items; (iv) unauthorized use of the common areas to carry out business activities; and (v) refusing to withdraw from the property service project without any due reason after the property service contract is terminated or dissolved.

On April 1, 2022, Hunan Provincial Development and Reform Commission, Hunan Provincial Department of Housing, and Urban-Rural Development and Hunan Provincial Market Supervision Bureau promulgated the Management Measures of Property Service Fees in Hunan Province (《湖南省物業服務收費管理辦法(2022)》) which became effective on May 15, 2022. According to the Management and Measures of Property Service Fees in Hunan Province, property service charges are subject to government guidance prices or market-regulated prices according to the nature and characteristics of different properties. The government guidance prices shall be implemented for the property service fees of ordinary residential properties (including property service fee for purchased parking spaces, renovation service fee and renovation waste removal fee) before the establishment of the general meeting of property owners, and the market-regulated prices shall be implemented for the property service fees of villas (referring to stand-alone large houses and townhouses with outdoor courtyards), other non-residential properties and ordinary residential properties (including property service fee for purchased parking spaces, renovation service fee and renovation waste removal fee) after the establishment of the general meeting of property owners. The Management Measures of Property Service Fees in Hunan Province (2022) further clarifies the scope of application of market-regulated prices and restricts the scope of application of government guidance prices, and it shall not have any material adverse impact on our Group.

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With respect to the Regulatory Notice and the Administration Notice, according to our PRC Legal Advisors, the Regulatory Notice and the Administration Notice primarily refine or reiterate certain general requirements but do not impose new compliance requirements, on the property development and property management service industries. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date (i) we had complied in all material respects with the requirements of the Regulatory Notice in relation to property management services since the implementation of the Regulatory Notice; and (ii) we had not been subject to any material legal action or arbitration against us in connection with the services provided in the course of our business.

For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Property Management Services” in this document.

Recent Changes in Cybersecurity Regulations

On August 20, 2021, the Personal Information Protection Law of the People’s Republic of China (《中華人民共和國個人信息保護法》) (the “**Personal Information Protection Law**”), which came into effect on November 1, 2021. The Personal Information Protection Law requires that personal information of natural persons shall be protected by law, and no organization or individual shall infringe upon the personal information rights and interests of natural persons. The processing of personal information shall have a clear and reasonable purpose, and shall be directly related to the purpose of processing, and take the way that has the least impact on the rights and interests of individuals. The collection of personal information shall be limited to the smallest extent to achieve the purpose of processing, and shall not collect personal information excessively. The personal information processor shall be responsible for its personal information processing activities and take necessary measures to safeguard the safety of the personal information processed. Otherwise, the personal information processor may be ordered to make corrections or suspend or terminate the provision of services, or confiscate the illegal income, fine or other penalties.

On December 28, 2021, the CAC and twelve other PRC regulatory authorities jointly revised and promulgated the Measures for Cybersecurity Review (《網絡安全審查辦法》) (the “**Cybersecurity Review Measures**”), which came into effect on February 15, 2022. The Cybersecurity Review Measures requires that when critical information infrastructure operators purchase network products and services which affect or may affect national security, they should anticipate the national security risks that may result from the use of those products and services. A cybersecurity review shall be filed with the CAC if it affects or may affect national security. In addition, operators of online platforms possessing personal information of more than one million users that seek public listing in a foreign country shall apply for a cybersecurity review.

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Given the nature of our business, we do not operate any online platforms or provide any online services to individual users. The number of users with personal information we have in our operations is less than one million. We have not been recognized by any authoritative institutions as an operator of critical information infrastructure, nor have we been involved in any investigations initiated by the Cyberspace Administration of China or received any inquiries, notifications, warnings, or sanctions regarding this matter. Therefore, during the Tracking Record Period and as of the Latest Practicable Date, our Directors confirm that the aforementioned provisions would not have any material adverse impacts on our operations or financial condition.

The Proposed Real Estate Tax Reform

On October 23, 2021, the SCNPC passed the Decision to Conduct the Pilot Program of Real Estate Tax Reform in Certain Areas (《全國人民代表大會常務委員會關於授權國務院在部分地區開展房地產稅改革試點工作的決定》) (the “**Decision**”). The Decision grants authority to the State Council to execute a trial program of real estate tax reform in designated regions for the purposes of advancing in a proactive and prudent manner the legislation on and the reform of real estate tax, guiding reasonable housing consumption and economical and intensive utilization of land resources, and promoting the stable and healthy development of the real estate market.

According to the Decision, the State Council formulates specific measures for the pilot real estate tax, and the governments of the pilot areas formulate specific implementation rules. The pilot period is five years from the date of issuance of the pilot measures by the State Council. The taxation objects in the pilot areas are all kinds of real estate for residential and non-residential purposes, excluding rural residential bases and their residences owned by law, and the land-use rights holders and house owners are the taxpayers of real estate tax. The Decision requires that the State Council shall, under the principle of being proactive and prudent, determine pilot areas by taking into overall consideration the needs for deepening the pilot program, unifying legislation, and promoting the stable and healthy development of the real estate market, and report them to the Standing Committee of the National People’s Congress for recordation.

As of the Latest Practicable Date, the pilot cities of real estate tax were Shanghai and Chongqing, so the Decision is not expected to affect cities where we and our related parties operate. Therefore, our Directors confirm that (i) as of the Latest Practicable Date, neither we nor our related parties had been subject to any regulatory investigations concerning real estate tax; (ii) we will monitor and comply with the relevant real estate tax regulations and requirements they come into effect; and (iii) the Decision will not have any material adverse impact on our operation or financial conditions.

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PRC Laws and Regulations Relating to Overseas Listing

On February 17, 2023, the CSRC passed the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”) and relevant five guidelines, which became effective on March 31, 2023.

According to the Overseas Listing Trial Measures, an issuer is deemed to be a domestic enterprise indirectly listed abroad if it also meets the following circumstances: (i) the domestic enterprise’s operating revenue, total profit, total assets or net assets for the most recent fiscal year, any of which accounts for more than 50% of the relevant data in the issuer’s audited consolidated financial statements for the same periods, and (ii) the majority of the senior management personnel responsible for business operation and management are Chinese citizens or have their habitual residence in the PRC, and the main part of the business activities are carried out in the territory or the main premises are located in the territory. If an issuer makes an initial public offering or listing outside of China, it shall file with the CSRC within three business days after the issuance and listing application documents are submitted outside of China. The Overseas Listing Trial Measures also stipulates that if there are significant matters such as change of control, investigation or punishment by overseas securities regulatory authorities or relevant competent authorities, active termination of listing or mandatory termination of listing after the issuer’s overseas issuance and listing, it shall report the details to CSRC within three business days from the date of occurrence and announcement of the relevant matters.

On the same day, in order to promote the orderly implementation of the management pilot scheme, the CSRC issued Notice on the Arrangements for the Recordation-Based Administration of Overseas Offering and Listing by Domestic Enterprises(《關於境內企業境外發行上市備案管理安排的通知》), which stipulates that from the date when the Overseas Listing Trial Measures come into force, domestic enterprises falling within the scope of recordation are stock enterprises if (i) they have already been listed in an overseas offering; (ii) before the date when the Overseas Listing Trial Measures come into force, the applications for indirect overseas offering and listing have been approved by overseas regulatory institutions or overseas stock exchanges (for example, the hearing has been passed in the Hong Kong market or the registration has been permitted to become effective in the US market), and there is no need to undergo the regulatory procedures of overseas regulatory institutions or overseas stock exchanges for offering and listing (such as rehearing for the Hong Kong market, etc.), and overseas offering and listing have been completed before September 30, 2023. Stock companies are not required to file immediately, and subsequent filings should be filed as required if they are involved in refinancing and other filing matters.

On 24 February, 2023, the Provisions on Strengthening the Confidentiality and Archives Administration Concerning the Overseas Securities Offering and Listing by Domestic Enterprises(《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the “**Confidentiality and Archives Administration Provisions**”) was released, which became effective on March 31, 2023. According to the Confidentiality and Archives Administration

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Provisions, domestic joint-stock companies with direct overseas offerings and listed entities and domestic operating entities with indirect overseas offerings and listed entities provide or publicly disclose to relevant securities companies, securities service providers, overseas regulatory bodies and other entities and individuals, or provide or publicly disclose through their overseas listed entities, etc., documents or information involving state secrets or secrets of the work of state organs, or other documents or information that will adversely affect national security or public interest after disclosure, the corresponding procedures shall be strictly performed in accordance with the relevant state regulations.

Our PRC Legal Advisors are of the view that (i) the implementation of the [REDACTED] and [REDACTED] proposal is subject to the filing and approval procedures of domestic and offshore competent regulatory authorities, including, without limitation, CSRC, HKEX and SFC; and (ii) the Company shall submit filing documents to CSRC within three business days following the [REDACTED] at the HKEX. In compliance with the Overseas Listing Trial Measures, we submitted filing documents to CSRC, and CSRC received our filing documents on July 5, 2023. CSRC confirmed that our filing was completed on February 5, 2024. No other approvals from CSRC are required to be obtained for the [REDACTED] of the H Shares on the Stock Exchange.

Recent Changes for the Individual Housing Loans

On August 18, 2023, MOHURD, PBOC, and the State Administration of Financial Regulatory Commission jointly promulgated the Circular on Optimizing the Standards for Determining the Number of Houses in Individual Housing Loans (《關於優化個人住房貸款中住房套數認定標準的通知》) (the “Circular”). On the same day, MOF, SAT, and MOHURD released the Announcement on Continuing to Implement Relevant Individual Income Tax Policies in Support of Residents’ Purchase of Housing (《關於延續實施支持居民換購住房有關個人所得稅政策的公告》) (the “Announcement”). For details, please refer to the section headed “Regulatory Overview – Laws and Regulations Relating to Real Estate Market” in this document.

Our Directors and our PRC Legal Advisors are of the view that the Circular and the Announcement relax restrictions on housing loans for merchandized property purchasers, extend the tax refund period for housing purchases, and release some demand for housing purchases, without any material adverse impacts on our Group’s existing and future projects from CSUD Group and its associates, and our Group’s operational and financial performance. On the basis of the above, particularly in light of the view of our Directors and our PRC Legal Advisors, the Sole Sponsor concurs that the Circular and the Announcement do not have any material adverse impacts on our Group’s existing and future projects from CSUD Group and its associates, and our Group’s operational and financial performance.

QUALITY CONTROL

We believe quality control is essential to the long-term success of our Company. With the help of a qualified quality control team, we are able to uphold service standards, standardize service practices, and monitor service quality across all of our operating operations. We have

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established a comprehensive quality control procedure, which includes, (i) internal quality control standards and guidelines to improve and maintain the conditions of the sites or premises where the project is located, construction work, customer service, safety control and environment protection; (ii) specific quality standards and supervision in subcontracting agreements; and (iii) standardized mechanism based on a call center for dealing with customer complaints.

Quality Control over Property Management Services

We obtained GB/T 19001-2016/ISO9001:2015 quality management certification from Beijing Elvey Quality Certification Center (北京埃爾維質量認證中心) for the first time in 2017. Since obtaining the certification, we have been operating in accordance with this standard. We have developed a project management standardization manual to guide and monitor the quality of services of each subsidiary and project, which includes several sets of internal standards and guidelines. For example, after each round of regular inspections, we require feedback from our subsidiaries and projects on the rectification of problems and timely follow-up on the entire situation of the problem. In addition, we have technique instruction manuals on how to conduct specific business operations, such as how to clean building lobbies, how to build stone upkeep, and how to maintain and operate fire-suppression systems. To ensure the quality of work is up to standard, supervisors of our branches and projects regularly check their subordinates' attendance records, work execution status, and work standards. Furthermore, we have established a general quality management guideline, and each of our subsidiaries has developed individual implementation details by refining and adapting the guideline to their specific operations and customization requirement from our Company and the customers' demand. All of our property management initiatives are required to comply with these internal standards and guidelines. We are constantly optimizing new internal standards to meet the changing requirements of our clients.

During the Track Record Period and up to the Latest Practicable Date, as advised by our PRC Legal Advisors, there were no material claims or complaints arising from service liabilities or incidents.

Feedback and Complaint Management

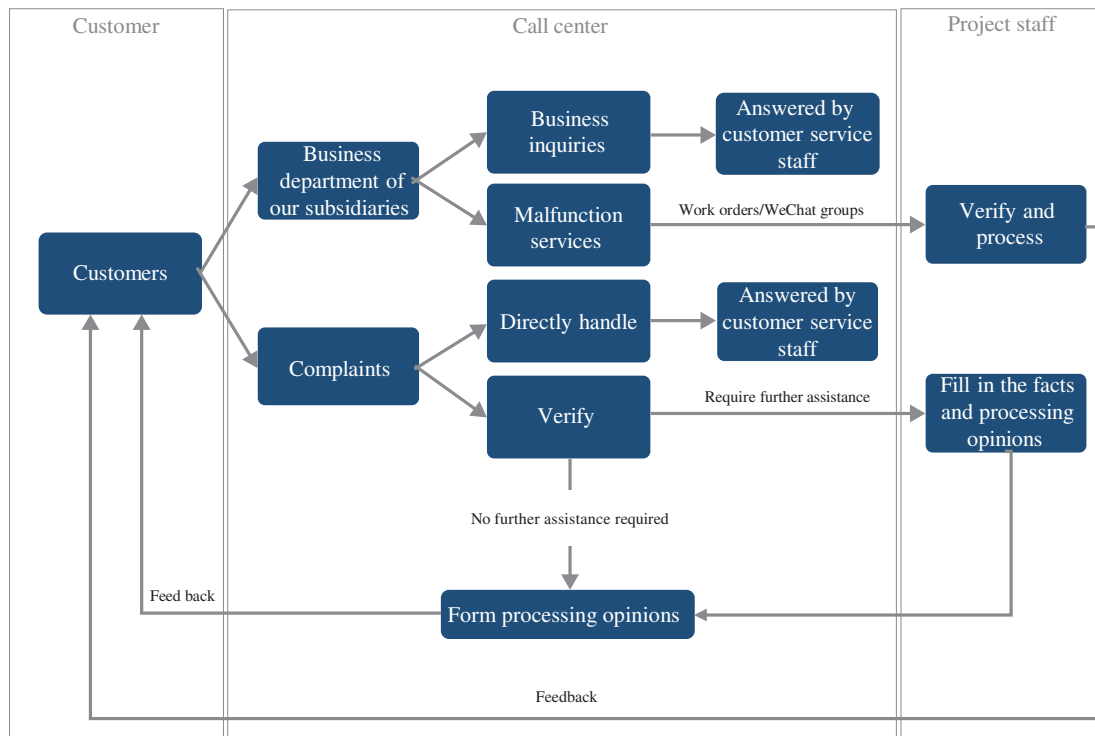
In the regular course of business, we ask for and get feedback and complaints from customers about our services. Consumers can contact us with comments and complaints by calling our service hotline or communicating with employees who are working on our property management projects. Inadequate services provided by our subcontractors and property loss or damage are just a few examples of how customer comments and complaints may be related.

We have created a standardized mechanism for attending to customer feedback and complaints in our parking lot operation sector, documenting those cases, and following up with customers to get their feedback on our replies. Our customers can use the call center to ask for business inquiries and malfunction services relevant to the business sections of our subsidiaries. In addition, they can also submit complaints through the call center. Our customer

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service staff will answer inquiries and those complaints that can be handled directly through the call center. Complaints that need to be verified but do not require further assistance can also be handled directly through the call center. In addition, malfunction services and complaints that require verification and further assistance will be handled by our project staff and corresponding answers will be sent back to customers. All interactions with customers must be documented and stored in textual and visual form. Until the issue has been handled, the staff members handling the case must maintain positive communication with the client. We believe such series of standards and procedures enable us to efficiently scale up and consistently replicate our operations without compromising our service quality. After [REDACTED], we will promote this system to all business segments.

The following flow chart illustrates each stage of our standardized mechanism for attending to customer feedback and complaints:



The Lighting Company’s procedure for handling feedback and complaints is as follows. Our monitoring system gathers complaints through the citizen hotline 12345, mass repair reports, and intelligent city management, categorizes them based on maintenance areas and fault types, dispatches maintenance tasks, promptly monitors the progress of work orders, and responds or returns orders within the allotted time.

During the Track Record Period and up to the Latest Practicable Date, there were no customer complaints about our services that could have a material negative impact on our business operations or financial condition.

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INTELLECTUAL PROPERTY

We consider that maintaining our intellectual property rights is essential to the success of our business. To protect our intellectual property rights, we mainly rely on laws and regulations governing trademarks and copyrights as well as the contractual obligations of our employees and third parties to maintain confidentiality and avoid competition.

As of the Latest Practicable Date, we registered three patents, seven trademarks, seven domain names and 31 software copyrights and one copyright of the work in the PRC and registered three trademarks in Hong Kong which are important to our business. As of the Latest Practicable Date, our above trademarks and other intellectual property rights had not been pledged and we had not had any material disputes with third parties in relation to the above trademarks and other intellectual property rights. According to our PRC Legal Advisors, we legally own the above intellectual property rights, and we have the right to use, license to third parties or transfer to third parties the above intellectual property rights during the term of the above intellectual property rights. For details of our registered intellectual property rights, please refer to the section headed “Appendix VI – Statutory and General Information – B. Further Information about Our Business – 2. Intellectual Property of Our Group” to this document.

AWARDS AND RECOGNITIONS

The following table sets forth some of our awards and recognitions received during the Track Record Period and as of the Latest Practicable Date:

Award/Recognition	Awarding year	Awarding entity
Ranked 49th among the 2023 Top 100 Property Management Companies in China (2023中國物業服務百強企業(第49位))	2023	CIA
Ranked 23rd among the 2023 Excellent State-owned Property Management Companies in China (2023中國國有物業服務優秀企業(第23位))	2023	CIA
2023 Leading Smart City Service Companies in China (2023中國智慧城市服務領先企業)	2023	CIA

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Award/Recognition	Awarding year	Awarding entity
2023 Leading Specialized Property Management Companies in China (2023 中國特色物業服務領先企業)	2023	CIA
2023 China Excellent Brand in City Service of Property Service Companies (2023 中國城市服務優秀物業品牌企業)	2023	CIA
2023 Property Brand Worthy of Attention in Capital Market (2023 值得資本市場關注的物業品牌)	2023	CIA
2023 Brand of Property Service Companies in Central China (2023 華中區域物業服務品牌企業)	2023	CIA
The 2022 Excellent Property Enterprise in Property Industry in Hunan (2022 年度湖南省物業行業優秀物業企業)	2023	Hunan Property Management Industry Association (湖南省物業管理行業協會)
Star Property Service Unit (星級物業服務項目)	2022	Hunan Property Management Industry Association (湖南省物業管理行業協會)
Green Property Management Evaluation Sign (綠色物業管理評價標識)	2022	China Enterprise Quality Certification Supervision Center (中國企業質量認證監督中心) and China Enterprise Credit Evaluation and Certification Center (中國企業信用評估認證中心)
Ranked 75th among the 2022 Top 100 Property Management Companies in China (2022 中國物業服務百強企業(第75位))	2022	CIA

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Award/Recognition	Awarding year	Awarding entity
Ranked 35th among the 2022 China Excellent State-owned Property Management Companies (2022中國國有物業服務優秀企業(第35位))	2022	CIA
The 2021 Top 100 among Service Industry Revenue in Hunan Xiangjiang New District (湖南湘江新區2021年度服務業營收百強企業)	2022	The CPC Committee of Hunan Xiangjiang New District (中共湖南湘江新區工作委員會) and the Management Committee of Hunan Xiangjiang New District (湖南湘江新區管理委員會)
Hunan Contract-keeping and Creditworthy Enterprise (湖南省守合同重信用企業)	2022	Hunan Contract-keeping and Creditworthy Enterprise Association (湖南省守合同重信用企業協會)
Ranked 117th among the 2021 Top 500 China Property Management Companies (2021物業服務企業綜合實力500強(第117位))	2021	Shanghai E-house Real Estate Research Institute (上海易居房地產研究院) and China Real Estate Evaluation Center (中國房地產測評中心)
The 2021 Excellent Property Enterprise in Property Industry in Hunan (2021年度湖南省物業行業優秀物業企業)	2021	Hunan Property Management Industry Association (湖南省物業管理行業協會)
Hunan Contract-keeping and Creditworthy Enterprise (湖南省守合同重信用企業)	2021	Hunan Contract-keeping and Creditworthy Enterprise Association (湖南省守合同重信用企業協會)

COMPETITION

The property management services, urban services and commercial operation services market in Changsha and Hunan Province, as well as in China are highly competitive and fragmented. For more details of the industry and markets that we operate in, please refer to the section headed “Industry Overview” in this document.

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Property Management Services

Our market share in terms of GFA under management and total revenue from all business segments in 2022 was approximately 0.66% and 0.94% of the property management market in Hunan Province. The property management market size of Changsha was approximately 40% of that of Hunan Province, with a total GFA under management of approximately 623 million sq.m. There were approximately 800 property management companies in Changsha, including about 20 companies headquartered in Changsha with an annual revenue exceeding RMB100 million in 2022. According to CIA, SOEs have advantages at the forefront of the industry, with four out of the top five companies in terms of revenue being SOEs, and nearly half of the top 100 companies being SOEs. In terms of GFA under management in 2022, our Group accounted for approximately 1.65% of the property management market in Changsha. In terms of total revenue in 2022, our Group had a market share of approximately 2.34% of the property management market in Changsha.

The top 100 property management service providers ranked in terms of GFA under management in China accounted for approximately 46.1% of the property management market in 2022, increasing from approximately 32.4% in 2017. According to CIA, the property management market in Changsha will become further concentrated in the future, which is in line with the national trend. In this regard, the corporate size, revenue and market share of major market players are expected to continue to grow more rapidly than other market participants. SOEs may occupy a more advantageous position in the property management service market, because they commonly possess good credit ratings and resource advantages. In addition, due to the compliance standards adhered to by SOEs, they normally have better risk prevention capabilities, and are expected to build up a higher degree of trust with property owners and developers. Our Group, relying on the resource advantages of CSUD Group in Changsha, will also be more competitive in the future property management service market. Our Directors believe we are competitive in our target market, mid-range to high-end property management service market. China’s economic development has led to increased urbanization and continuous growth in per capita disposable income for urban citizens. As a result, we anticipate with the improvement of people’s living standard, people will be more willing to pay a premium for quality property management services.

Urban Services

According to CIA, there were approximately 350 urban service providers in Changsha in 2022, with the vast majority being small-scale private enterprises. In terms of revenue, our Group accounted for approximately 1.05% and 0.42% of the urban service market in Changsha and Hunan Province, respectively.

Our Group benefits from factors such as favorable policies in the urban public services, diversified business structure, brand recognition, and business development capabilities. For example, the Hunan Provincial Department of Finance (湖南省財政廳) issued the Hunan Provincial Government Purchased Services Management Implementation Measures (《湖南省政府購買服務管理實施辦法》), which provides us with a standardized and transparent

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guideline on urban service operation. In addition, as of the Latest Practicable Date, CSUD Group was the largest urban investment and development enterprise in terms of total asset, revenue and net profit in both Changsha and Hunan Province. Our relationship with CSUD Group is expected to provide future opportunities for our public property management and urban services operations. Our Directors are of the view that, as an emerging growth point, the urban service business of our Group has development potential, and our market share in Changsha is expected to further increase in the future.

Commercial Operation Services

Our market share in terms of GFA under management in Hunan Province in 2022 was approximately 0.96% of the commercial operation services market in Hunan Province, and our market share in terms of GFA under management in Changsha in 2022 was approximately 3.21% of the commercial operation services market in Changsha. Based in Changsha, a city renowned for dynamic consumer market, in view of the prosperous commercial activities within the city we are expected to expand our commercial operation services.

We believe that our diversified business structure allows us to maintain a competitive edge over other market participants.

SOCIAL, HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are subject to the PRC laws in relation to labor, safety and environment protection matters. During the Track Record Period, we operated in compliance with the standards reflected by our GB/T 45001-2020/ISO45001:2018 occupational health and safety management system certification, which we acquired for the first time in 2017 from Ever Win Quality Certification Center (北京埃爾維質量認證中心), an independent third-party certification agency authorized by the China National Accreditation Service for Conformity Assessment (CNAS). Our current certification is valid to July 20, 2026. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material accidents that caused harm to individuals or property damage. Our Directors confirm that we did not face any material legal actions or labor disputes during the Track Record Period. We hire employees based on their qualifications and provide equal opportunities to all, regardless of their gender, age, color, religion, or any other social or personal characteristics. We have fully complied with the relevant PRC legislation concerning workplace safety during the Track Record Period and have not experienced any accidents that had a material adverse impact on our operations.

We are dedicated to protecting the environment, and we have taken and put into practice steps to make sure that we adhere to the criteria set forth by GB/T 24001-2016/ISO14001:2015 environmental management certificate and GB/T 23331-2020/ISO50001:2018 energy management certificate, which we initially received from Ever Win Quality Certification Center (北京埃爾維質量認證中心) in 2017 and 2018, respectively. Such certifications we currently hold are valid to July 20, 2026 and to July 4, 2024, respectively, and we have initiated a recertification process for ISO50001 certification to ensure that we can maintain it. We follow the requirements of the International Accreditation Guidelines (issued

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by the International Accreditation Forum, a worldwide association of accreditation body) and the relevant PRC laws and regulations. We are also subject to regular reviews during the certification period to ensure the validity of our Group’s certificates. We are confident that our operations do not pose any significant environmental hazards. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material administrative penalties for violating environmental laws or laws related to energy, nor were we subject to any material fines or penalties for violating environmental laws or laws related to energy.

OUR GOVERNANCE AND POLICIES REGARDING ENVIRONMENTAL, SOCIAL AND GOVERNANCE AND CLIMATE-RELATED RISKS AND OPPORTUNITIES

The relevant internal control policy, “Environmental and Social Responsibility Management System” (《環境與社會責任管理制度》), has been formulated in conjunction with the actual situation of our Company in order to practice corporate social responsibility, effectively protect our fundamental interests and achieve the sustainable development.

Our Board recognizes the importance of establishing and implementing sound environmental, social, and governance (ESG) principles and practices to increase our investment value and provide long-term returns to our stakeholders. To ensure the effectiveness of our ESG measures, our Board is responsible for overseeing our ESG governance, including developing our overall ESG vision, direction, and strategy, formulating explicit procedures for ESG and climate-related risks management, and reviewing our ESG performance to ensure alignment with our initiatives. To further strengthen the management of our environmental protection and safety construction, we have also established a corporate environmental protection and safety construction committee in August 2023, which comprises key members of our management team, including the chairman and executive Directors of our Board. The committee is responsible for resolving critical ESG matters. It will convene at least one specialized meeting annually and provide our Board with reports on our progress and achievements in environmental protection and safety construction. The committee has reviewed our Group’s work reports on safety work and environmental protection in 2023 and the environmental protection and safety work plan for 2024. Our Board will then compile an environmental and social responsibility report, which includes ESG aspects such as resource utilization policies and specific implementations of the social responsibility system, and we will disclose all these reports to the public.

Social Responsibility

We are committed to serving the communities in which we operate and have taken the following steps to fulfill our social responsibility.

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Social Welfare

We are actively involved in social welfare and contribute to disaster relief, poverty alleviation and child care. For example, in 2023, we organized a series of activities regarding rural revitalization and fund-raising for charity. Furthermore, our employee volunteers actively participated in community environmental clean-ups and promoted health education initiatives.

Environmental Protection and Resource Conservation

Our Company formulated environmental protection policies in accordance with national regulations on environmental protection and resource conservation, taking into account the actual situation of our Company, which requires our Company to: (i) comply with all relevant laws, rules, regulations and listing rules about environmental protection; (ii) reduce the consumption of various resources such as water, electricity and paper; (iii) avoiding the generation of waste that pollutes the environment as much as possible; (iv) use eco-friendly materials and designs, technologies and raw materials that can save energy and reduce waste; (v) minimize the negative impact on the environment caused by the development of our Company; (vi) provide training to employees on environmental protection; and (vii) create a sustainable environment. For energy management, our Group has formulated management measures to conduct energy conservation management for projects in terms of organization management, selection of measuring instruments, analysis of energy consumption data, operation of facilities and equipment, daily management and assessment. We actively respond to the eight “100% requirements” of the government’s Blue Sky Protection Campaign (an action plan for continuous improvement of air quality) for environmental protection and formulate relevant management methods to actively respond to the implementation of the work requirements. In addition, our Group has formulated Commercial Decoration Management Measures and clearly proposed the installation requirements of grease traps and oil smoke purifiers for tenants in commercial properties we have been managing.

Our current ESG policies and targets include guidance on resource consumption, environment protection and burden of the social responsibilities. Our Board may evaluate our ESG risks and review our existing strategy, targets, and internal controls, and make necessary improvements to mitigate risks.

Our Company has engaged a third-party safety consulting organization to improve the Company’s emergency management system, prepare comprehensive emergency plans, special emergency plans and on-site disposal programs, and establish a secondary production safety standardization management system. The third-party experts are responsible for identifying safety risks and hidden dangers, carrying out special management of various hidden dangers, grading and controlling risks, and striving to minimize the impact of various emergency contingencies, including extreme weather warnings and disposal processes.

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Identification, Assessment and Management of Environmental, Social and Climate-related Risks and Opportunities

We have identified significant environmental, social, and climate-related issues that are closely related to our business through the judgment of our management, including: (i) environmental, social, and climate-related issues could somewhat affect our operational efficiency and financial success. If our business or individual customers experience environmental, social and climate-related issues that reduce their capacity to consume, this would directly impact our operating income and profits; and (ii) environmental, social and climate change risks could expose our business operations to various external pressures from regulators at all levels, investors and public opinion. As a result, we may face a wide range of hazards and opportunities as a result of these environmental, socioeconomic, and climate-related challenges.

We have identified specific material ESG issues and their potential impacts in the following table:

Material issues	Potential risks, opportunities, and impacts
Impact of Extreme Weather	Extreme weather conditions like floods and droughts will probably become more frequent as a result of climate change. These extreme weather conditions could potentially result in risks and physical effects like damage to facilities and equipment like vehicles and lifts, difficulty with transportation, and extended project lead times, which could ultimately increase operational costs across all types of services. In addition, our landscaping and engineering and greening services could be substantially influenced by extreme weather conditions. Extreme weather conditions may also put our employees’ health and safety at risk. However, extreme weather conditions can also give us a chance to improve our capacity for damage control and emergency response.

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Material issues	Potential risks, opportunities, and impacts
Transition to green building	As a property management service provider, we are vastly aware of the opportunities brought by the development of green building. In the future, we will continue to introduce more energy-efficient and environment-friendly equipment and facilities. While this is likely to incur the purchase cost and increase operational cost in the short term, our environmental performance may be improved in the long term.
Human capital development	Due to the nature of the industry we are in, our ability to continue to operate depends heavily on our workforce. In order to enhance our human capital, we must be able to recruit, retain, and develop a highly competent staff. Employees with insufficient experience or training run a risk of breaking contracts or failing to comply with applicable rules and regulations, which could increase our compliance expenses and fines. Strong human capital may result in a more stable workforce and a lower turnover rate, which reduces recruiting expenses and boosts employee productivity.
Product design and lifecycle management	Products which require frequent repair may lead to a risk of increasing our costs and a lower reputation. We intent to standardize our operation and enhance our quality control method to better serve the properties we manage, which have a positive effect on the environment and the living standard of the communities.
Protection of employees' rights	If we are unable to protect our employees' rights and interests adequately, or if there is any discrimination or unfair treatment against our employees, it could result in the loss of talents and a decrease in our business effectiveness. By offering realistic career development paths and equitably evaluating employee performance, we work to attract, promote, and retain talents. We believe that keeping strong relations with our staff will increase the effectiveness of our operations and our capacity for service.

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Material issues

Potential risks, opportunities, and impacts

Business ethics

Regulatory risks arising from failure of maintaining a good business ethic may lead to legal risks and loss of our credibility. Conversely, adherence to sound business ethics not only aids in mitigating interest loss and fostering trust with stakeholders but also serves to protect both our employees and the public.

We have put in place various mitigation and measures to prevent the risks from causing unnecessary impact on our operations. For example, in order to reduce environmental pollution and emissions, we have created the quality and environmental handbook, which includes numerous procedures such as pollution control procedures, hazardous chemical management procedures, and environmental performance monitoring and control procedures. Our guiding principle for pollution control is to implement clean production techniques and use eco-friendly raw materials or chemicals as much as we can. We have also implemented measures to follow the regulation on garbage classification and the regulation on waste water disposal on properties under our management. To mitigate potential climate-related risks such as more frequent extreme weather conditions, we have put in place emergency plans against extreme weather conditions where employees and other personnel are notified promptly with any related measures.

Metrics and Targets on Environmental, Social and Climate-related Risks

As an urban service and operation provider, the statistical scope of our environmental performance indicators includes two components, the operations of our Group and the consumption of our customers. The former mainly represents the resource consumption and carbon emissions incurred by us in the operation of our offices and the common areas of our managed properties; the latter mainly represents the resource consumption incurred by our customers in our managed properties. During the Track Record Period, we acted as the intermediary responsible for the bookkeeping and collection of the utility expenses from the majority of our tenants. The table below sets out the details of the total consumption of energy, water, diesel, and gasoline during the Track Record Period:

Metric	For the year ended December 31,		
	2021	2022	2023
Total energy consumption ⁽¹⁾ (MWh)	67,033.2	75,177.6	83,118.41
Total water consumption ⁽¹⁾ (thousands of cubic meters)	868.9	1,303.5	1,604.1
Diesel consumption (liter)	327,066.2	472,272.8	474,300.1
Gasoline consumption (liter)	9,545.5	12,500.7	16,995.0

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Note:

- The total energy consumption and the total water consumption refer to the amounts used in the operations of our Group and the consumption of our customers.

Metrics of our own operations

During the Track Record Period, our energy consumption intensity and greenhouse gas emission intensity per million RMB revenue, had shown a downward trend measured on a per unit of operating revenue basis. The metrics listed below, such as energy consumption intensity, water consumption per unit of GFA under management, and GHG emissions per unit of GFA under management, were used for comparison with our peers. During the Track Record Period, the metrics of our own operations were comparable to those of our peers. Specifically, both our water consumption per unit of GFA under management and GHG emissions per unit of GFA under management in 2022 fell within the range of our peers, displaying no significant differences. The table below sets out the details of the metrics of our own offices and business operations during the Track Record Period:

Metric	For the year ended December 31,		
	2021	2022	2023
Comprehensive energy consumption (MWh)	18,210.2	21,015.6	24,597.8
Energy consumption intensity (MWh/million RMB of revenue)	42.2	39.8	37.7
Water consumption (thousands of cubic meters)	648.7	855.1	1,046.9
Water consumption intensity (cubic meters/million RMB of revenue)	1,502.9	1,617.8	1,606.0
GHG emissions (Scope 1 and Scope 2) (tons of CO ₂ e)	9,509.3	10,667.5	12,519.5
GHG emissions intensity (tons of CO ₂ e/million RMB of revenue)	22.0	20.2	19.2
Water consumption per unit of GFA under management (cubic meters/thousand square meters of GFA under management) ⁽¹⁾	58.2 ⁽²⁾	79.3	88.4
GHG emissions per unit of GFA under management (tons of CO ₂ e/thousand square meters of GFA under management) ⁽¹⁾	0.9	1.0	1.1

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Notes:

1. The area of our urban service projects is not included in the calculation since urban service projects are not measured by GFA under management (a measurement designated exclusively for property management services and commercial operation services).
2. Although there were fluctuations due to change of weather and season, our water consumption per unit of GFA under management and greenhouse gas emissions per unit of GFA under management showed an increasing trend in general due to the increase in the occupancy rate of our managed properties.

According to the Corporate Value Chain (Scope 3) Accounting and Reporting Standard (《企業價值鏈(範圍三)核算與報告標準》) issued by the World Resources Institute (WRI), we have Scope 3 – Other Indirect GHG Emissions (the “**Scope 3 Emissions**”) from emissions from downstream tenants, business travel, employee commuting, waste disposal, transport, and distribution (upstream and downstream), etc. We are aware that Scope 3 accounting involves our value chain, and that its categories are broad and complex to calculate. In this regard, we plan to gradually improve and monitor the Scope 3 emissions in accordance with the Environmental, Social and Governance Reporting Guide in Appendix C2 of the Listing Rules, and the Guidance on Climate Disclosures released by on the Stock Exchange, and expand the disclosure of Scope 3 emissions over time. The table below sets out our major indirect GHG emissions (Scope 3) during the Track Record Period⁽¹⁾, which are actually generated by our customers in our managed properties and are generally considered as Scope 3 Emissions – Category 13: downstream leased assets, in accordance with the guidelines referred above.

	For the year ended December 31		
	2021	2022	2023
Indirect GHG emissions (Scope 3) – downstream leased assets (tons of CO ₂ e)	28,366.16	31,468.12	33,374.30

Note:

1. Emissions from downstream leased assets were calculated based on the total electricity consumption data withheld and paid by us on behalf of the tenants multiplied by the national grid average emission factor. With reference to the Notice on Priorities Related to the Management of Corporate Greenhouse Gas Emission Reporting in 2022 (《關於做好2022年企業溫室氣體排放報告管理相關重點工作的通知》) and The notice on the Report and Verification of Greenhouse Gas Emissions for Key Industries in 2023-2025 (《關於做好2023-2025年部分重點行業企業溫室氣體排放報告與核查工作的通知》) issued by the Ministry of Ecology and Environment of the PRC, the national grid average emission factor that we have adopted are 0.5810 tons of carbon dioxide equivalent per MWh (2021 and 2022), and 0.5703 tons CO₂ equivalent per MWh (for use in 2023), respectively.

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Metrics of the consumption of our customers

During the Track Record Period, we acted as the intermediary responsible for the bookkeeping and collection of electricity and water expenses from the majority of the tenants of our properties under management. The table below sets out the details of electricity and water consumption incurred by our customers in property management service projects and commercial operation service projects during the Track Record Period⁽¹⁾:

	For the year ended December 31		
	2021	2022	2023
Electricity consumption by external tenants (GWh)	48.82	54.16	58.52
External tenants’ electricity intensity (MWh/thousand square meters of GFA under management)	4.38	5.02	4.94
Water consumption by external tenants (thousands of cubic meters) ⁽²⁾	220.19	448.40	557.17
Average water intensity of external tenants (cubic meters/square meter of GFA under management))	0.02	0.04	0.05

Notes:

1. The external tenants’ electricity intensity fluctuated during the Track Record Period due to factors such as weather and seasonal variations.
2. The total water consumption by external tenants is on an upward trend due to the increase in the occupancy rate of our managed properties.

Targets on environmental and climate

We are committed to the continuous improvement of energy efficiency and reduction of emissions. As of the Latest Practicable Date, We had formulated energy consumption and water consumption management norms and standards, compiled statistics and analyzed the energy consumption management situation of each project, and set several reasonable management targets but except for total quantitative emission reduction targets in terms of energy consumption and greenhouse gas emissions, as the total amount of energy consumption and greenhouse gas emissions will increase as our business expands, and the intensity targets will allow us to set emission reduction targets in tandem with business growth. Specifically:

- In terms of energy consumption, we plan to reduce our energy intensity (energy consumption per unit of revenue) by 3% by the year 2025, using 2022 as the base year. This target aims to enhance our energy efficiency in support of our national “dual-carbon” strategy and climate change resilience. From 2022 to 2023, our energy intensity per unit of revenue has shown a downward trend.

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- In terms of carbon emissions, we plan to reduce the greenhouse gas emissions intensity (per unit revenue) of our operations by 3% by 2025, using 2022 as the base year. From 2022 to 2023, our GHG emissions intensity has shown a downward trend.
- In terms of water consumption, we plan to reduce our water consumption intensity (per unit revenue) by 5% by 2025, using 2022 as the base year. This target aims to facilitate our efforts to improve the efficiency of water resources utilization to promote conservation and protection of water resources.

Our Directors are of the view that we are on track to achieve the targets set out above as we strengthen our energy efficiency management, implement energy conservation and emission reduction strategies across our project portfolio, and roll out environmental and green office initiatives to our tenants. At the same time, we will closely monitor the energy saving and emission reduction practices of our peers and the level of our target setting, and review and adjust our targets as appropriate.

EMPLOYEES

We appreciate that talent is one of the core competencies for the sustainable development of an enterprise. As of December 31, 2021, 2022, and 2023, the number of our contract employees was 365, 354 and 578, respectively. The number of employees in the operation, maintenance, and repair function increased from 12 as of December 31, 2022 to 181 as of December 31, 2023 primarily because we converted dispatched workers to our contract employees in order to comply with relevant laws and regulations. As of the Latest Practicable Date, our employees, with an average age of 38.6, were well-educated and over 67% of them had earned a college degree or higher.

We believe that our experienced management team and employees are crucial to our success. Our senior management team, accounting for about 5.0% of the workforce, has extensive experience and shares the strategic vision in property management, commercial operation and other related industries. We believe their expertise and knowledge in the property management industry, and abilities in execution and resource coordination had contributed to our steady and continuous growth during the Track Record Period.

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The following table sets forth a breakdown of our employees by function as of the dates indicated:

	As of December 31,		
	2021	2022	2023
Off-site position	87	93	142
– Senior management	18	21	22
– Administrative management (including human resource, legal compliance and emergency management)	69	72	120
On-site position	278	261	436
– Project management	131	130	97
– Security	21	18	23
– Cleaning	6	6	19
– Construction	36	35	33
– Operation, maintenance and repair	23	12	181
– Customer service	30	38	59
– Others	31	22	24
Total	365	354	578

During the Track Record Period, the majority of our employees are located in Changsha, Hunan Province. We still have a few employees located in Pingxiang, Jiangxi Province, the number of whom is four, four, and three, respectively.

During the Track Record Period, we engaged dispatched staff by signing labor dispatch service agreements with third-party dispatch agencies. These dispatched staff were mainly hired for positions with a supporting nature. These dispatched staff entered into labor contracts with the dispatch agencies and not with us, and the relevant costs of social insurance and housing funds for the dispatched staff were not borne by us. There were certain non-compliance incidents associated with this arrangement, for details, please refer to the paragraph headed “– Legal Proceedings and Compliance – Non-compliance – Number of Dispatched Staff Engaged Exceeding Regulatory Threshold” in this section.

Social Insurance and Housing Provident Fund Contributions

According to the relevant PRC laws and regulations, we are required to make contributions to social insurance fund (including pension fund, medicine insurance, unemployment insurance, work-related injury insurance, and maternity insurance) and housing provident fund for the benefit of our employees.

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During the Track Record Period, as confirmed by our Directors, the social insurance fund and housing provident fund has covered all employees, but we have not fully paid the contributions to social insurance and housing provident fund as required under the PRC law. We failed to make full payments as required because some of our employees requested us not to pay social insurance and housing provident funds for them because they had purchased new rural insurance, a type of social insurance for rural residents, or for other personal reasons.

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), if we were ordered by the social insurance premium collection agency to pay or make up the social insurance premiums within a stipulated period while still failed to do so, the maximum potential penalty would be a late payment fine of 0.05% per day from the date of default with a fine of three times the amount owed.

According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), if we were ordered by the housing provident fund administrative center to pay or make up the housing provident fund contributions within a stipulated period while still failed to do so, the maximum potential penalty would be the compulsory enforcement applied by the housing provident fund administrative center to the PRC court for the non-payment or underpayment of the housing provident fund.

We have consulted and obtained written confirmations from competent governmental authorities that during the Track Record Period, we had not been subject to any administrative penalties relating to social insurance and housing provident fund, and our PRC Legal Advisors are of the view that the risk of any action to be taken by relevant authorities demanding us to make up for our historical arrears of social insurance and housing provident fund is remote.

The competent authorities for our payment of social insurance and the changes of which are set out in the table below:

Entity	Competent Authority	Confirmation Timing
	Before November 1, 2020	
Our Group (except for Lighting Company which was established in March 2022)	The Changsha Municipal Bureau of Human Resources and Social Security (長沙市人力資源和社會保障局)	April, 2023
	After November 1, 2020	
Parking Company and Chengtou Asset	The Tianxin District Tax Bureau of Changsha of the State Administration of Taxation (國家稅務總局長沙市天心區稅務)	May, 2023 August, 2023 January, 2024

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Entity	Competent Authority	Confirmation Timing
Our Company	The Third Taxation Agency of Xiangjiang New District Tax Bureau of Hunan of the State Administration of Taxation (國家稅務總局湖南省湘江新區稅務局第三稅務所)	February, 2023 August, 2023 January, 2024
Chengfa Property and Landscaping Company	The Pingtang Taxation Agency of Xiangjiang New District Tax Bureau of Hunan of the State Administration of Taxation (國家稅務總局湖南省湘江新區稅務局坪塘稅務所)	February, 2023 August, 2023 January, 2024
Chengfa Commercial and Lighting Company	The Wangchengpo Taxation Agency of Xiangjiang New District Tax Bureau of Hunan of the State Administration of Taxation (國家稅務總局湖南省湘江新區稅務局望城坡稅務所)	February, 2023 August, 2023 January, 2024
Chengtou Property	The Juzhou Taxation Agency of Xiangjiang New District Tax Bureau of Hunan of the State Administration of Taxation (國家稅務總局湖南省湘江新區稅務局桔洲稅務所)	February, 2023 August, 2023
After August 16, 2023		
Chengfa Property, Chengfa Commercial and Chengtou Property	The Second Taxation Agency of Xiangjiang New District Tax Bureau of Hunan of the State Administration of Taxation (國家稅務總局湖南省湘江新區稅務局第二稅務所)	January, 2024

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In accordance with the relevant provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Announcement Regarding the Taxation Department Collecting Enterprise Social Insurance Premiums and Occupational Annuity of Government Departments and Public Institutions (《關於企業社會保險費和機關事業單位職業年金交由稅務部門徵收的公告》), as well as the administrative duties released on websites of governmental authorities, our PRC Legal Advisors are of the view that the aforementioned authorities are the competent authorities in respect of payment of social insurance.

The competent authorities for our payment of housing provident fund are shown in the table below:

Entity	Competent Authority	Confirmation Timing
Our Company, Chengfa Commercial, and Lighting Company	The Hunan Housing Provident Fund Administrative Center for Units Directly under Provincial Jurisdiction (湖南省直單位住房公積金管理中心)	February and August, 2023 January, 2024
Chengfa Property Landscaping Company		April and August, 2023 January, 2024 March and August, 2023 January, 2024
Parking Company	The Changsha Housing Provident Fund Administrative Center (長沙市住房公積金管理中心)	January and August, 2023 January, 2024
Chengtou Asset and Chengtou Property		March and August, 2023 January, 2024

In accordance with the relevant provisions of the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) in respect of the duties of the management center of housing provident fund, the administrative duties released on websites of governmental authorities, and the consultation with the aforementioned authorities, our PRC Legal Advisors are of the view that the aforementioned authorities are the competent authorities in respect of housing provident fund.

We adjusted the social insurance contribution base and contribution ratio in March 2024 and completed the rectification by the end of March 2024. In addition, we adjusted the housing provident fund contribution base and contribution ratio in July 2023 and completed the rectification by the end of July 2023. We have also formulated and issued the Management Measures for Employee Insurance (《員工保險管理辦法》), which stipulates that the human resources department will regularly check the latest regulations and policies issued by the relevant government authorities each year. We will pay social insurance and housing provident fund contributions for employees, and ensure that the calculation and payment methods are in compliance with the relevant laws and regulations.

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During the Track Record Period, the amount of shortfall of social insurance contribution was RMB6.1 million, RMB6.4 million, and RMB6.5 million, respectively. Accordingly, based on the unpaid social insurance contribution of RMB19.0 million for the Track Record Period, if we fail to make required payments within the prescribed period as required by the competent authorities, the potential maximum penalty could be RMB57.0 million, three times the outstanding amount of our social insurance contribution.

We have obtained written confirmations from competent authorities as stated above. According to the confirmations from competent authorities and our Directors, as well as the online public search conducted by our PRC Legal Advisors, during the Track Record Period, (i) no fines, recoveries, late payment fees, or any other administrative penalties, enforcement measures, or investigations by the competent authorities had been or would be imposed on us; (ii) there were no disputes or litigations regarding social insurance between the competent authorities and us; and (iii) the competent authorities had not received any employee complaints or arbitration cases indicating our violation of labor and social insurance laws, rules, and regulations.

During the Track Record Period, the amount of shortfall of housing provident fund contribution was RMB246 thousand, RMB180 thousand, and RMB49 thousand, respectively. Therefore, in respect of the unpaid amount of our housing provident fund contribution of RMB474 thousand for the Track Record Period, if we fail to make required payments within the prescribed period as required by the competent authorities, the potential maximum penalty could be an order from the PRC court to make full payment on the outstanding amount of RMB474 thousand.

We have obtained written confirmations from the CHPFAC and also consulted the HHPFAC on June 9, 2023. According to the confirmations and consultation, during the Track Record Period, we had not been subject to any administrative penalties relating to housing provident fund issues.

Our PRC Legal Advisors are of the view that the risk of any action to be taken by relevant government authorities demanding us to make up for our historical arrears of social insurance and housing provident fund is remote, based on the following reasons: as of the Latest Practicable Date, (i) there were no relevant regulatory policies requiring us to settle the unpaid social insurance and housing provident fund during the Track Record Period; (ii) we had not received any notice from relevant governmental authorities requesting the payment of any shortfall in social insurance and housing provident fund or the payment of fines; (iii) we had not engaged in any major employee complaints or any major labor disputes regarding social insurance and housing provident fund matters; and (iv) we had obtained confirmations from the local government authorities that we did not received any penalties related to social insurance and housing provident fund, which was also verified through online public search conducted by our PRC Legal Advisors and confirmed by our Directors. Our Directors believe that the risk of incurring material administrative penalties issued by the relevant government authorities in relation to social insurance and housing provident fund payments is remote. In addition, if any

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notice related to the payment of social insurance and housing provident fund is received from competent governmental authorities in the future, CSUDGCL undertakes that it will make up the required amount within the stipulated period.

Therefore, our Directors believe that our failure to fully pay social insurance and housing provident fund payments will not have an adverse impact on our financial condition and business operations.

Recruiting

We are dedicated to filling our talent pool with talented and well-suited employees. We have also built thorough sets of internal policies and procedures to direct each stage of our efforts as part of our attempts to hire the best in our industry.

We routinely review both our hiring practices and job descriptions. While we have identified the skills and qualities prospective candidates should possess for various management levels and positions, we also make an effort to hire applicants who share our work ethic and corporate culture. The following steps make up our basic hiring process:

- *Application for recruitment.* Departments in need will apply to recruit to fill job vacancies.
- *Issue job posting.* Our human resources department will then issue job postings with descriptions of our required qualifications on our own website and online job banks.
- *Screen and selection.* Our screening and selection processes primarily include (i) review and screening of resumes by the human resources department and the relevant recruiting department; (ii) video interviews or face-to-face interviews by the human resources department and the relevant recruiting department; and (iii) after the interviews, we will conduct a background check and qualification verification, such as educational background and credentials, working experience for the qualified candidates.
- *Offer.* Once the salary is set and the medical examination is completed, we will initiate the employment approval process.

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Training and Development

We consider our staff to be crucial to the caliber of our services and the satisfaction of our clients. We provide our employees with opportunities for career growth and training in the technical skills essential to our business as part of our ongoing efforts to keep and inspire talent.

The training programs are primarily classified into the following categories:

- *Induction training for newcomers:* An orientation training is offered to newcomers for them to familiarize themselves with general skills with respect to our business operation, introducing them to our corporate culture, coaching them on our teamwork model, and teaching them our service standards and procedures.
- *Routine trainings:* All employees are required to attend continuing skill trainings. We provide them with trainings tailored to the needs of their position and duties. We provide training for employees of the Company and Lighting Company in order to improve their skills in market development, legal compliance and quality management. For our employees of professional expertise, we have a training plan covering engineering management, tools operation, and lighting-related skills such as electricity, street lighting engineering construction and control system operation. Management skill training including project operation management, housing lease management, asset management, engineering management and contract management, will be provided for employees of Chengfa Commercial. In addition, we also provide training for employees of Parking Company to improve their standardized management skills and information technology skills.
- *Trainings for all employees:* We offer quality development training to strengthen teamwork and communication. We will also provide training in financial management, general management, product safety management and fire drills.

We also plan to participate in training sponsored by external organizations. For the financial personnel and project leaders of the Company, we will provide financial-related training and property industry-specific training respectively. For relevant employees of Chengfa Commercial, we have a training plan covering financial management and asset management. In addition, we will provide office software training, writing training, negotiation and management training for relevant employees.

We have also established a competitive compensation structure and a performance assessment system for motivating our employees to contribute to our growth. Our compensation structure comprises salary (including basic salary and performance-based salary), allowance, and welfare. We assess performance-based salaries with respect to key performance indicators including business, key tasks, routine work, attitude, and ability. According to the performance appraisal management measures, the performance coefficient and assessment cycle of different appraisal levels are distinct. Special incentives are given to

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organizations and individuals with excellent performance and teams that achieve better work performance. The results of the annual appraisal of employees can be used as a reference basis for promotion but are not decisive. Employee promotion needs to be comprehensively evaluated from the dimensions of morality, ability, diligence, performance, and incorruptibility, carried out through a dual-channel development mechanism comprising competitive recruitment and professional position grade evaluation.

We have adopted market-oriented talent retention mechanisms, including a multi-dimensional talent development system that caters to employees of different positions and at different stages of development, to foster their continuous growth and enable them to address the evolving needs of our developing business. We believe that our effective human resource system will enable us to retain competent employees who are essential to our ability to provide quality and diversified services, enhance our market position and achieve sustainable growth.

Employee Misconduct Incidents

We face risks from potential fraudulent activities, negligence, or other wrongdoings by our employees, subcontractors, or other external parties. These risks could lead to financial losses, penalties from government bodies, and damage to our reputation. For details, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Industry – We are exposed to risks associated with failing to detect and prevent fraud, corruption, negligence or other misconduct (accidental or otherwise) committed by our employees, subcontractors or third parties” in this document.

Set out below are incidents involving misconduct of our employees. In each of these incidents, we have adopted rectification measures to address the operational or internal control-related deficiencies. We believe that, such misconduct did not materially and adversely impact on our business operations and financial conditions.

Li Fang incident

On May 27, 2021 the executive director and authorized representative of Chengfa Commercial (previously known as Hengtong Commercial Management) and Chengtou Asset, Ms. Li Fang (“**Ms. Li**”) was subject to an investigation by the Changsha Kaifu District Discipline Inspection Commission (開福區紀律檢查委員會) and the Kaifu District Supervisory Commission (開福區監察委員會) for suspected violation of relevant laws and regulations (the “**Investigation**”). Ms. Li was removed from her directorship and management positions of the aforesaid subsidiaries of our Group in November 2021 and was dismissed from her employment with our Group in May 2022.

According to the judgment of the People’s Court of Kaifu District, Ms. Li was convicted of accepting bribes and sentenced to prison for four years with a fine of RMB300,000. She illegally accepted or demanded a total of approximately RMB1.4 million in cash and goods

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from 2018 to 2021, taking advantage of her positions within our Group and other state-owned enterprises, among which, the amount of illegal gains out of holding positions within our Group is approximately RMB0.7 million.

Two employees of our Group were involved in the Investigation. One of them violated the Bidding Law of the People’s Republic of China (《中華人民共和國招標投標法》) and relevant regulations by instructing the relevant agency to replace the documents of a bidder. With Ms. Li’s consent, such employee informed the bidder to reproduce its tender documents to supplement its past performance records, and the employee also instructed a tender agency to replace the bidder’s original tender documents, ultimately resulting in the bidder winning the tender. However, no evidence was found of this employee transferring benefits to the winning bidder throughout the investigation. According to the People’s Republic of China Public Officials Administrative Sanctions Law (《中華人民共和國公職人員政務處分法》) and the Regulations on Supervisory Authorities’ Oversight and Law Enforcement (《監察機關監督執法工作規定》), this employee was given an administrative warning and removed from the previous position as a manager of security and risk management department, and was later appointed as a manager of financial management department. In addition, in the early stages of the Investigation, another employee acted under the instructions of Ms. Li not to truthfully admit to the Party Committee of CSUD Group in assisting Ms. Li in returning gifts and cash to one of our customers, under the instructions of Ms. Li. This employee’s actions violated the Chinese Communist Party Disciplinary Regulations (《中國共產黨紀律處分條例》). Considering that this employee was cooperative during the investigation and clearly explained the facts in relation to the incident. Based on the Rules for the Supervision and Discipline Work of the Chinese Communist Party’s Disciplinary Inspection Organs (《中國共產黨紀律檢查機關監督執紀工作規則》), the Party Committee of CSUD Group gave this employee a reprimand and advice. Such employee served as an operation specialist before the incident and the employee’s position was not affected by the incident. Considering that the above-mentioned employees’ misconducts did not have any material adverse effect on our business operations and appropriate penalties had been imposed on them, our Directors decided to retain the two employees in our Group.

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As of the Latest Practicable Date, none of our Directors or senior management has been involved in the above-mentioned incident, or was subject to any litigation or investigation in relation to the incident. As of the Latest Practicable Date, our Group had not been subject to any litigation or penalty in relation to this incident.

We believe that the following underlying factors led to the incident mentioned above:

- insufficient internal control policies to guide the identification, complaint and countermeasures against corruption, bribery, fraud, and other employee misconduct;
- inadequate measures against the directors’ conflict of interest behaviors, inadequate principles and procedures for identifying, disclosing, preventing, and restraining conflict of interest;
- insufficient policies and procedures for interest claims, and insufficient trainings to the directors, senior management, and staff;
- our previous risk management operation guidelines were inadequate; and
- we did not establish an independent internal audit system, specify responsibilities and authority of relevant personnel, formulate an internal audit policy, or conduct internal audit work.

After the occurrence of this case, our Group has implemented the following policies and procedures to address potential bribery and corruption incidents:

- implementation of role separation in key areas and the establishment of internal controls for fund payment approval, project approval, personnel arrangement, and material procurement to reduce the risk of fraud;
- the party community working department (黨群工作部) is responsible for the anti-corruption work of our Group, including receiving whistle-blowing reports, conducting case investigations, drafting investigation reports, proposing opinions, and following up;
- established a whistle-blowing and complaint-handling process through written or email submissions, and our Group will conduct investigations for any suspected cases of bribery, corruption or other related misconduct or fraudulent activities. If misconduct is confirmed, our Group may take disciplinary actions as appropriate, report to the relevant regulatory authorities, and legal actions may be initiated to recover any losses incurred as a result of such misconduct;
- employees signed the integrity pledge and declared their conflicts of interest they may have;

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- formulated the Anti-fraud and Reporting and Complaint Management Measures (《反舞弊及舉報投訴管理辦法》), which stipulates the procedures for preventing, identifying, reporting, monitoring, handling procedures of fraud, bribery, money-laundering, corruption, irregularities and other misbehavior;
- formulated the Conflict of Interest Management System (《利益衝突管理制度》), which stipulates the processes and handling principles of the identification, disclosure, prevention and restraint of conflicts of interest, as well as the policies and procedures for the declaration of interests;
- conducted training to educate the director, senior management, and staff on conflict of interest;
- formulated the Risk Management Basic System (《風險管理基本制度》), which stipulates the identification, assessment, monitoring and control activities of risks in the operation and management process; and
- formulated the Internal Audit Management System (《內部審計管理制度》), which stipulates the principles, scope, personnel and working procedures of internal audit, stipulates that internal audit department put forward correction and handling opinions on illegal and misbehavior in operational activities, and give suggestions on improving management and perfecting governance of operational activities.

Other employee misconduct incidents

During the Track Record Period and up to the Latest Practicable Date, we had detected misconduct and negligent acts committed by our employees, including misconduct in relation to misappropriation of dormitory rental fees, lax employee discipline and misappropriation of parking fees by the employees of our subcontractor. After the occurrence of these cases, we have identified the liabilities of relevant responsible persons and imposed penalties accordingly. We conducted an internal review and have implemented internal control measures to control the risks and prevent the recurrence of similar incidents, including strengthening human resource management, improving business procedures and enhancing training and supervision on compliance. According to our PRC Legal Advisors, the relevant incidents do not constitute criminal activity and/or do not violate mandatory legal regulations. The mentioned misconduct had not caused any material adverse impact on our Group’s operations.

We believe that the following underlying factors led to the incidents mentioned above:

- we did not have an independent internal audit system in place with oversight responsibilities and authorities delineated, whilst we also did not formulate an internal audit policy and conduct any internal audit work;
- we did not circulate any employee handbook to regulate staff’s behaviors and conduct; and

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- we did not set adequate policies and procedures to oversee payment collections by third parties.

We also believe that the underlying factors leading to the incidents mentioned above are the lack of awareness of discipline and rules of the relevant employees, as well as the inadequate design of previous systems and processes, resulting in incomplete supervision. In preparation for the [REDACTED], we have engaged an independent internal control consultant to review our internal control environment based on an agreed scope covering controls and procedures in the aspects of company level and business process according to AATB1 issued by the HKICPA. Based on the recommendation of our internal control consultant, we have taken the following rectification measures in respect of the aforesaid incidents:

- we have formulated the Internal Audit Management System (《內部審計管理制度》). For details, please refer to the section headed “Business – EMPLOYEES – Employee Misconduct Incidents – Li Fang incident” in this document;
- we have circulated the employee handbook to regulate staff’s behaviors and conducts; and
- we have issued the Cash Receipt Management Implementation Rules (《現金收款管理實施細則》), which standardizes the principles, methods, accounting timing, and registration requirements when receiving cash from customers. Except for channels where individual customers can only pay in cash, all others should settle payments through our Group’s bank accounts or third-party payment platforms (such as WeChat, Alipay) registered under our Group’s name. Personal retention of cash from customers is strictly prohibited.

There is no further recommendation in relation to the internal controls of the above processes provided by the internal control consultant after the follow-up review. We believe we have taken the appropriate steps to prevent the occurrence of similar incidents through the measures described above.

To ensure that compliance is embedded into our everyday workflow and expectations for individual compliant behaviors are established across our organizations, we will regularly conduct internal compliance checks and inspections, adopt strict accountability internally, practice compliance matters with necessary counseling and conduct compliance training.

Our Directors are of the view, to which the Sole Sponsor concurs, that the employee misconduct incidents mentioned above do not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules based on the following: (i) according to our PRC Legal Advisors, in light of the criminal judgment of the People’s Court of Kaifu District, none of our Directors was involved in Ms. Li’s incident, or was subject to any litigation or criminal penalties in relation to the incident; (ii) according to the background checks and litigation searches conducted in respect of each of our Directors, there was no record showing that any of our Directors was involved in the other employee

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misconduct incidents mentioned above; (iii) each of our Directors had rendered a confirmation in writing confirming that he/ she was not involved in Ms. Li's incident and the other employee misconduct incidents mentioned above; and (iv) remedial internal control protocol and measures have been adopted in preventing the recurrence of similar incidents going forward.

Taking into account the factors that (i) none of the competent governmental authorities or regulatory authorities have imposed punishments or penalties on us as a result of such misconduct; (ii) no dispute or litigation has arisen between the relevant employees or any other third party and our Group due to such misconduct; (iii) no claim for indemnification or compensation has been made against our Group due to such misconduct; (iv) no dispute or litigation regarding the execution and performance of any contracts was involved in such misconduct; (v) the internal control consultant does not have a further recommendation in the internal controls after its follow-up review; and (vi) CSUDGCL will fully indemnify our Group for any relevant losses arising from the incidents mentioned above. As advised by the PRC Legal Advisors, our Directors are of the view that these incidents had not caused, and would not cause any material adverse impact on our Group's operational and financial performance or compliance status during and subsequent to the Track Record Period, and that our Group's enhanced internal control measures are effective in preventing the recurrence of similar incidents. On the basis of the above, particularly in light of the view of our Directors and the advice of our PRC Legal Advisors, the Sole Sponsor concurs that these incidents had not caused, and would not cause any material adverse impact on our Group's operational and financial performance or compliance status during and subsequent to the Track Record Period, and that our Group's enhanced internal control measures are effective in preventing the recurrence of similar incidents.

OUR CASH MANAGEMENT POLICY

We have a bank account and cash management policies in place to handle our cash inflows and outflows that is applicable to all of our subsidiaries and branches in the normal course of business. To reduce the risks associated with keeping cash, we often encourage our subsidiaries and branches to settle their transactions using bank transfers. Our employees are explicitly prohibited from taking and/or utilizing our funds for personal or other uses that are outside the scope of our normal business operations.

Cash flow transactions

Receipt of property management fees or other service fees from our customers

Cash handling policies and internal control measures

We typically have designated cashiers or customer service personnel for cash collection who verify the correctness of cash amount collected before issuing receipts. Each transaction must be accurately documented and be up for review by the appropriate supervisors. We require that all cash collections be recorded within 24 hours.

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Cash flow transactions

Opening and managing bank accounts of our subsidiaries and branches

Cash transfers to our bank account or the bank accounts of our subsidiaries and branches

Payments made to suppliers, service providers and third-party subcontractors of our subsidiaries and branches

Cash inventories and bank deposits

Cash handling policies and internal control measures

Our subsidiaries and branches shall adhere to our internal procedures in relation to the opening of bank accounts. Generally, they are required to complete an application form before opening any bank accounts. Our subsidiaries and branches usually need to reconcile and check their bank balances on a monthly basis.

We receive cash through methods such as electronic payment, smart POS payment, bank transfers, etc., and cash collected from these methods are directly deposited into the bank accounts of our subsidiaries. Our employees are typically required to timely file all proofs of payment.

Payments by our subsidiaries and branches to suppliers, service providers and subcontractors must be pre-approved by the responsible supervising personnel at a higher level. Once approved, such payments must be made straight from our subsidiaries' and branches bank accounts.

Normally, we do not enable our subsidiaries and branches to hold more than RMB2,000 in cash on hand. We require to deposit cash into the bank accounts of our subsidiaries and branches within the day excess amounts are received. We also assign accounting personnel to check cash balances and relevant records from time to time at unexpected moments.

INSURANCE

During the Track Record Period, we covered our operating employees with third-party employer liability insurance and employee accident insurance. Our subcontractors are responsible for compensating their own employees who sustain injuries to person or property while performing their services, and we expressly expect them to establish employment agreements with their own employees.

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We maintain insurance policies against major risks and liabilities arising from our business operations, primarily including (i) property insurance for damages to property owned by us or in our custody; (ii) facility and equipment insurance (e.g. vehicles); (iii) liability accident insurance; (iv) natural disasters insurance; (v) professional liability insurance; (vi) employee compensation insurance; and (vii) third-party liability insurance, etc. In addition, our executives have supplementary medical insurance, our subsidiaries have supplementary endowment insurance. Our social insurance is fully covered according to the PRC labor law.

We expressly require our third-party subcontractors to purchase insurance for their employees who provide services to our Group, including but not limited to social insurance, work-related injury insurance, and third-party liability insurance. As of the Latest Practicable Date, there was no unresolved insurance claim arising from workplace injury.

Our Directors believe that our existing insurance coverage is consistent with the industry norm and sufficient for our present operations. However, our insurance coverage may not adequately protect us against certain operating risks and other hazards, which may result in adverse effects on our business. For details, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Industry – Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter” in this document.

CERTIFICATES, LICENSES AND PERMITS

We are required to obtain and maintain various certificates, licenses and permits in relation to our operations. As advised by our PRC Legal Advisors, we obtained material certificates, licenses and permits from relevant authorities for our main business segments throughout the entire Track Record Period and as of Latest Practicable Date.

The following table sets forth the key licenses and permits required to operate our business during the Track Record Period:

Type of license or permit	Holder	Effective date/year	Expiration date/year
Filing certificate for security guard self-recruiting entity (自行招用保安員單位備證)	the Company	October 11, 2023	October 11, 2025
Filing certificate for security guard self-recruiting entity (自行招用保安員單位備證)	Chengfa Property	October 11, 2023	October 11, 2025

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Type of license or permit	Holder	Effective date/year	Expiration date/year
Municipal domestic waste operation sweeping, collection, transportation and disposal service license (城市生活垃圾經營性清掃、收集、運輸、處置服務許可證)	the Company	November 24, 2023	November 23, 2024
Refrigeration and air conditioning installation and maintenance enterprise certificate (制冷空調安裝維修企業資質證書)	the Company	2018	2028
General contracting on municipal public utility construction engineering certificate (Level 3) (市政公用工程施工總承包資質(叁級))	Landscaping Company	November 18, 2022	July 6, 2026
Construction labor qualification (施工勞務資質)	Landscaping Company	November 18, 2022	July 6, 2026
Professional contracting on architectural decorate project certificate (Level 2) (建築裝修裝飾工程專業承包資質(貳級))	Landscaping Company	November 15, 2022	June 22, 2026
Professional contracting on special engineering (structural reinforcement) certificate (特種工程(結構補強)專業承包資質)	Landscaping Company	November 15, 2022	June 22, 2026
Safety Production Permit (安全生產許可證)	Landscaping Company	August 25, 2021	August 25, 2024

PROPERTIES

As of the Latest Practicable Date, we did not possess properties in China, and we leased 15 properties in various locations with an aggregated GFA of approximately 3.4 thousand sq.m. for use as staff accommodation and office premises, among which all properties were leased from Independent Third Parties as of the Latest Practicable Date.

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As of the Latest Practicable Date, one leased property had not obtained title certificate, and a total of nine of the properties leased by us had not been registered for recordation of the lease. According to our PRC Legal Advisors, in the PRC law, the lack of registration of relevant property lease agreements does not affect the validity of such agreements or the rights of the domestic subsidiaries of the issuer under the lease agreements. However, the real estate regulatory authority may order the registration of such agreements within a specified time frame, and failure to register on time may result in the risk of fines, which will not cause material adverse effects. Our Directors confirm that neither our Company nor its subsidiaries were penalized by relevant authorities during the Track Record Period for failing to register leased properties.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We might occasionally be involved in legal, arbitral, or administrative actions in the regular course of our business. During the Track Record Period and up to the Latest Practicable Date, there were no legal, arbitration, or administrative proceedings pending or threatened against us or any of our Directors which could have a material adverse effect on our financial condition or results of operations.

Non-compliance

According to our PRC Legal Advisors we had not been subject to fines or legal action involving non-compliance with any PRC laws or regulations relating to our business which could have a material adverse effect on our business, and our Directors confirmed that we had complied with all relevant laws and regulations in the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date.

Social Insurance and Housing Provident Fund Contribution

According to the relevant PRC laws and regulations, we are required to make contributions to social insurance fund (including pension fund, medicine insurance, unemployment insurance, work-related injury insurance, and maternity insurance) and housing provident fund for the benefit of our employees. For details, please refer to the paragraph headed “– Employees – Social Insurance and Housing Provident Fund Contributions” on contributions to housing provident funds in this section above.

Number of Dispatched Staff Engaged Exceeding Regulatory Threshold

According to Article 4 of the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》), the employer shall strictly control the number of dispatched workers which shall not exceed 10% of the total number of its workers. During the Track Record Period, due to inadequate knowledge of the relevant policies, we did not fully comply with the Interim

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Provisions on Labor Dispatch (《勞務派遣暫行規定》). Furthermore, concerning the personnel needed for our Group’s business, as these positions of dispatched labor had relatively low technical requirements and high turnover, engaging them was the straightforward approach to fulfill our demand.

We have consulted the competent governmental authority regarding the circumstances under which employers would not be subject to fines or any other penalties relating to dispatched staff, and our PRC Legal Advisors are of the view that the risks of our Group being penalized by the labor administration department for the situation where the number of dispatched labor used in the past exceeded 10% of their total employment is remote, and the risk of being required by the labor administration department to pay social insurance for the dispatched labor is remote.

After figuring out the relevant laws and regulations, our Company, Landscaping Company, and Lighting Company immediately commenced rectification in respect of the dispatched labor issue, with the main rectification measure being to change our Group’s labor employment model based on business employment to a business cooperation model based on business attributes, i.e. business outsourcing. Our Company, Landscaping Company and Lighting Company signed the Business Outsourcing Contracts with the business outsourcing contractors in June 2023, and these contracts expressly outline that our Company, Landscaping Company, and Lighting Company will pay the service fees according to the completion of the outsourcing projects. The business outsourcing contractors will be responsible for independent supervision and management of the work of the relevant workers and bear the associated employment risk.

The CMBHRSS is the competent labor administration department of our Group and is empowered to supervise and manage their dispatched labor. In accordance with the relevant provisions of the Labor Law of the PRC (《中華人民共和國勞動法》) and the Labor Contract Law (《勞動合同法》) in respect of the duties of the administrative departments of labor and labor dispatch, as well as the administrative duties released on websites of governmental authorities, our PRC Legal Advisors are of the view that the aforementioned authority is the competent authority in respect of labor dispatch.

As of the end of May 2023, the number of dispatched labor of our Group exceeding the statutory ratio was as follows: the total number of workers of our Company was 1,268, of which 156 were employees and 1,112 were dispatched workers, with the ratio of dispatched labor being 87.7%; the total number of workers of Landscaping Company was 57, of which 25 were employees and 32 were dispatched workers, with the ratio of dispatched labor being 56.14%; the total number of workers of Lighting Company was 102, of which 11 were employees and 91 were dispatched workers, with the ratio of dispatched labor being 89.22%.

According to the Labor Contract Law (《勞動合同法》), if we were ordered by the labor administration department to make corrections for violating the dispatched labor provisions but failed to do so within the prescribed period, the maximum potential penalty would be a fine of

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RMB10,000 per person. Therefore, with 1,094 dispatched workers in our Group exceeding the statutory labor dispatch ratio, not making corrections within the prescribed period could lead to a potential maximum penalty of RMB10,000 per person based on this number.

We consulted the CMBHRSS on May 29, 2023 and obtained the confirmation that, (i) if the number of dispatched workers employed by an employer exceeds 10% of its total workforce, but the employer has either completed rectification or is in the process of rectification, with no instances of overdue non-compliance, the labor administration department will not impose fines or any other penalties on the employer; and (ii) the entity responsible for paying social insurance premiums is the party that enters into the labor contract with the employee. If a labor dispatch unit enters into a labor contract with an employee and covers the employee’s social insurance payment, and the employee files a complaint with the CMBHRSS demanding full payment of social insurance premiums, the CMBHRSS will only request the labor dispatch unit, a party to the labor contract with the employee, to make the supplementary payment.

As of the Latest Practicable Date, as confirmed by our Directors, (i) our Company, Landscaping Company, and Lighting Company had completed the rectification of the situation where the number of dispatched laborers used in the past exceeded 10% of their total employment, and there was no overdue non-compliance; and (ii) our Company, Landscaping Company, and Lighting Company had not entered into labor contracts with dispatched workers.

Based on the above, according to our PRC Legal Advisors, the risk of our Company, Landscaping Company, and Lighting Company being penalized by the labor administration department for the situation where the number of dispatched labor used in the past exceeded 10% of their total employment is remote, and the risk of being required by the labor administration department to pay social insurance for the dispatched labor is remote.

To prevent recurrence of similar non-compliance, we have formulated and issued the Regulations on the Administration of Labor Dispatch (《勞務派遣用工管理規定》), which specifies that the number of dispatched labor shall not exceed 10% of the total number of workers, and also stipulates the duties, using process and management of dispatched labor. In addition, we supervise the management of dispatched labor by means of a monthly report on personnel matters.

Failure to Register Certain Lease Agreements

As of the Latest Practicable Date, our Group leased a total of 15 properties, out of which nine were not registered. Given the nature of our business and the presence of a well-established property leasing market in the vicinity, we could easily transition to new properties within a short period when necessary, without incurring significant costs or losses. Our failure to file the lease agreements for these leased properties with the local housing administration authorities as required was largely due to the lack of cooperation from the landlords in registering the relevant lease agreements, a circumstance that was beyond our control.

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According to the Measures for the Administration of Merchandized Property Leasing (《商品房屋租賃管理辦法》), if we were ordered by the department of construction (real estate) of the government to rectify for failing to complete property leasing registration while failed to do so within a stipulate period, we would be fined ranging from RMB1,000 to RMB10,000. Accordingly, the maximum potential fine to be imposed on us would be RMB90,000. During the Track Record Period, we did not receive any notification from any department.

We plan to take all reasonable steps to facilitate the registration of lease agreements, and we are proactively engaging in the communication with lessors of unregistered properties to facilitate the registration of these lease agreements. After the expiry of the relevant agreements, we intend not to continue leasing unregistered properties. Our Directors do not foresee any practical difficulty in identifying alternative premises for the lease agreements that have not been filed. We have formulated and issued the Measures for the Management of Housing Lease (Trial Implementation) (《房屋租賃管理辦法(試行)》), which stipulates that when leasing properties, we shall communicate with the lessor in advance about the registration of the leased property and stipulate the registration requirement in the contract. After entering into the contract, the parties shall complete the registration in accordance with the requirements of the relevant laws and regulations and the agreement of the contract. We have also established a regular reminder mechanism and updates the management records monthly. Our Directors believe that such non-filing will not have a material impact on our business operations.

Failure to File for Operation and Fee Registrations

As of the Latest Practicable Date, Parking Company operated a total of 141 parking lots, 126 among which completed the registration of operating public parking lots, and the construction of four of the parking lots was uncompleted and did not need to be registered. We will complete the registration of operating public parking lots after the completion and acceptance of these four parking lots. For the other unregistered 11 parking lots, the Traffic Police Department in Wangcheng district of Changsha confirmed that registration was not necessary for parking lots located in Wangcheng district, thereby exempting the registration for five parking lots, while the other six were in the process of registration. The reason for delay is the lack of cooperation from the owners of these six parking lots in filing the registration.

According to the Measures for the Administration of Motor Vehicle Parking Lots in Changsha (《長沙市機動車停車場管理辦法》), if a unit fails to register with and report to the traffic management department of the public security organ for public parking lots, it shall be ordered to make corrections by the traffic management department of the public security organ and may be fined RMB1,000. Accordingly, the maximum potential fine to be imposed on Parking Company would be RMB6,000.

We have committed to liaise with the property owners and actively communicate with them regarding the unregistered parking lots, in order to collaboratively complete the registration process. We have formulated and issued the Operation Management System (Trial Implementation) (《運營管理制度(試行)》), which stipulates that we shall communicate with

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the owner and conduct prior research for the parking lots registration and complete registrations in accordance with the relevant laws and regulations. We have also established an recording system to manage registrations.

RISK MANAGEMENT AND INTERNAL CONTROL

Our future performance of operation may be impacted by the risks related to our business, some of which are diversifiable risks, while the others are systematic risks. Please refer to the section headed “Risk Factors – Risks Relating to Our Business and Industry” for more details of the major risks identified by our management in this document. We have implemented various risk management policies and measures to identify, assess, manage and monitor risks arising from our operations. Risks identified by our management team, internal and external reporting mechanism, remedial measures and contingency management have been codified in our policies. These policies and procedures are essential to the achievement of sound governance and the healthy growth of our business performance. In particular, we have adopted, among other things, the following risk management measures:

- our Directors and senior management attended a training session on February 8, 2023 in relation to the relevant requirements of the Listing Rules and duties of directors of companies [REDACTED] in Hong Kong;
- establishing an audit committee under the Board to monitor the integrity of our financial statements and review financial reporting judgments contained in our annual and interim reports. Our audit committee consists of three Directors, namely Ms. Chan Ka Lai Vanessa, Mr. Tse Chi Wai and Mr. Yu Xiao. Ms. Chan Ka Lai Vanessa is the chairlady of the audit committee and the independent non-executive Director with appropriate professional qualifications. For details of the qualifications and experiences of these members, please refer to the section headed “Directors, Supervisors and Senior Management”;
- adopting adequate internal control policies to ensure the continuing compliance with the Listing Rules, including but not limited to the detection and administration of notifiable and connected transactions, horizontal competition and other disclosure matters;
- providing regular anti-corruption and anti-bribery compliance training for senior management and employees in order to cultivate a good compliance culture, such as to carry out clean and anti-corruption propaganda when new employees entered, and to hold regular lectures. At the same time, we require all senior management, middle-level management to sign the letter of commitment for integrity; and
- our human resources department is responsible for monitoring compliance with our internal rules and procedures by our employees to ensure that we comply with the relevant regulatory requirements and the applicable laws so as to reduce our legal risks.

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In preparation for the [REDACTED], we engaged an independent internal control consultant to review our internal control system, based on an agreed scope covering controls and procedures in the aspects of company level and business process, such as environmental control, information and communication, sales and collection management, procurement and payment management, financial reporting and disclosure controls, cash and treasury management, human resources management, tax management, and purchase of insurance policies. We have adopted the recommendations made by the internal control consultant, who has also completed the follow-up review on our internal control system with regard to those actions taken by us. Taking into consideration of the above, our Directors are of the view that our enhanced internal control measures are adequate and effective for our current business environment.